

perspectives

Federal Reserve Bank of Dallas

BANKING & COMMUNITY PERSPECTIVES

2003, ISSUE 1

THE SBA 50 YEARS OF SMALL BUSINESS FINANCING

1,344,000.00	-
463,258.00	+
4,631.00	+
326,973.00	-
1,379,432.00	+
1,398,552.00	+
3,167,123.00	+
13,754.00	+
168,532.00	-
964,321.00	+
31,687.00	-

Small Businesses but Big Numbers

Policymakers and corporate captains have long echoed Calvin Coolidge's line that the chief business of the American people is business. Saying our chief business is small business might be more accurate, given the numbers. More than 99 percent of the country's 22.9 million workers are employed by businesses with fewer than 500 on the payroll, the official definition of "small."

A growing number of people are leaving their mainstream careers, opting instead to be their own boss. Whether driven by necessity or ambition, making the decision is tough. Financing a small business can be even tougher.

For the past 50 years, the Small Business Administration has been fulfilling its congressional mandate to "aid, counsel, assist and protect...the interests of small business concerns." A big part of fulfilling that mandate has been expanding access to credit for small, independent enterprises.

The SBA helped almost 435,000 small businesses get more than \$94 billion in financing over fiscal years 1991–2000. Last year alone, the agency backed more than \$12.3 billion in loans. Its current portfolio consists of about 219,000 loans worth more than \$45 billion, making it the single largest backer of U.S. businesses in the country.

This issue of *Perspectives* marks the SBA's 50th anniversary with an interview with agency administrator Hector V. Barreto and a story on a Houstonian who has grown his business with financing that includes an SBA loan.

While commercial banks and the SBA are among the major financing resources for small businesses, lesser-known resources are also available. You can learn more about some of them in this issue.

Small business development is an important component of community development everywhere. And financing a small business can be challenging. For more information on this and related issues, go to the SBA's web site, www.sba.gov.



Gloria Vasquez Brown
Vice President
Public Affairs Department
Federal Reserve Bank of Dallas

THE SBA AT 50

Q&A with Hector V. Barreto

The Small Business Administration has been serving America's entrepreneurs since its creation in 1953 as an independent federal agency. The SBA supports small businesses in four primary areas: advocacy, management, procurement and financial assistance. The agency is best known for its financial assistance, delivered through business and disaster loan programs, investment programs and bonding for contractors.

The SBA does not make direct loans. Instead, it backs loans with a guarantee that eliminates some of the risk to its lending partners, which include community development organizations and financial and microlending institutions.

Perspectives asked SBA Administrator Hector V. Barreto about the importance of small businesses to the U.S. economy and the SBA's role in helping them succeed.

Why are small businesses important to the U.S. economy?

Small businesses in America continue to flourish and play a significant role in the overall economy. American small businesses represent more than 99.7 percent of all employers and employ more than half of all private-sector workers. They pay 44.5 percent of the total U.S. payroll and generate 60 to 80 percent of net new jobs annually.

In addition, small businesses:

- Create more than 50 percent of non-farm private gross domestic product.
- Produce 13 to 14 times more patents per employee than large firms. These



Hector Barreto, Administrator,
U.S. Small Business Administration

patents are twice as likely as large-firm patents to be among the 1 percent most cited.

- Employ 39 percent of high-tech workers, such as scientists, engineers and computer operators.
- Supplied 22.8 percent of the total value of federal prime contracts (about \$50 billion) in fiscal year 2001.
- Made up 97 percent of all identified exporters and produced 29 percent of the known export value in fiscal year 2001.

Small businesses also face many of the same obstacles all businesses do: excessive taxes, onerous regulation, rising health care costs and economic uncertainty. But entrepreneurs are resilient and dedicated. That is why America's entrepreneurial spirit is alive and well.

Describe the relationship between the SBA and financial institutions. How vital is this partnership?

We work closely with our resource partners—the banks and credit unions that make up our nationwide network of SBA lenders—to meet the needs of America's entrepreneurs. Ours is a mutually beneficial relationship. I often speak at

lender conferences, roundtables and other forums, and I am heartened by the dedication of our lenders. In the end, we're all interested in the same thing: reaching more small business men and women and making their dreams come true.

Since its founding in 1953, the SBA has backed approximately \$170 billion in loans. We've also provided technical assistance to millions of small businesses. Just last year we assisted over 1.5 million small businesses. We helped launch such companies as America Online, Apple Computer, Callaway Golf Co., Compaq Computer Corp., Federal Express Corp., Intel Corp. and Outback Steakhouse.

One of my proudest accomplishments thus far has been the successful expansion and enhancement of our SBAExpress program. SBAExpress streamlines the approval process to allow us—along with our lending partners—to offer a quicker turnaround on loan applications while reaching more businesses. Without the hard work and commitment of our resource partners, SBAExpress could never have achieved the success we have seen. We are grateful for this success and expect it to continue.

Since being confirmed as SBA administrator in July 2001, what steps or initiatives have you taken to promote small business growth?

I continue to look to improve SBA's image by stepping up our outreach efforts. Profiling SBA in publications such as *Perspectives* will help get SBA's message out to entrepreneurs. I have traveled the country from coast to coast over the past year and a half to do just that. Also, we are undertaking an aggressive marketing and outreach effort, including dramatic improvements to our web site.

Along with Hewlett-Packard Co. and the U.S. Chamber of Commerce, we have

launched a series of Business Matchmaking events throughout the country that pair small businesses with federal, state and local government agencies and private companies that purchase products and services. These events are not simply an opportunity to trade business cards, as with traditional trade shows. Instead, they offer a real chance for small businesses to meet with public and private organizations to identify procurement opportunities.

The federal government alone spends more than \$200 billion annually for products and services. Of this amount, 23 percent must go to small businesses. That's \$46 billion up for grabs. Business Matchmaking events make contracting between the federal government, prime contractors and small businesses easier and more efficient.

What other programs does the SBA offer to assist small business creation or growth?

Lending programs may be our most familiar resource for small businesses, but the SBA offers a number of services to assist entrepreneurs looking to start or grow a small business. Through our district offices; our help line, 1-800-U-ASK-SBA; and our web site, www.sba.gov, we offer a range of technical assistance programs. We provide business counseling, help formulate business plans and identify other opportunities to help businesses succeed.

Our partners in the SCORE Association (Service Corps of Retired Executives) and Small Business Development Centers (SBDCs) provide a valuable source of information and counseling for entrepreneurs. SCORE volunteers provide free counseling and business expertise in support of small businesses. In 2002, SCORE assisted 384,423 entrepreneurs nationwide. Counseling and workshops are offered at 389 chapter offices across the country.

Current and prospective small business owners can also receive assistance through community-based SBDCs. The SBDC program enhances economic development through a collaborative effort of the private sector, government entities, and colleges and universities. There are currently 58 SBDCs operating in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam and Samoa.

Through our Office of the National Ombudsman (ONO), we hold regulatory hearings to identify the challenges some businesses encounter when it comes to government regulations. The ONO's mission is to foster a business-friendly federal regulatory enforcement environment. The ONO receives complaints from small businesses, investigates those complaints and then helps to achieve equitable settlements.

The SBA also offers assistance for qualifying businesses that are faced with a disaster. From catastrophes such as floods, hurricanes and tornados to the horrific attacks of September 11 or even businesses coping with the temporary loss of an employee due to a military reserve or National Guard activation, the SBA can help. Our disaster loans have attractive provisions, including a 30-year term and a 4 percent interest rate, and are available for up to \$1.5 million.

What advice would you give someone who is interested in starting a small business?

First, consider the reasons you are thinking of starting your own business. Evaluate your business idea and examine your personal goals. Take time to determine what business is right for you.

Hector V. Barreto

SBA administrator since July 2001, Barreto directs the delivery of financial and business development programs to America's entrepreneurs and oversees a loan portfolio worth more than \$45 billion. A former California insurance and securities executive and business owner, Barreto also chaired the Latin Business Association in Los Angeles and founded a small business institute/incubator. Before being appointed SBA administrator, Barreto served as vice chairman of the U.S. Hispanic Chamber of Commerce. *Hispanic Business* magazine has recognized Barreto as one of America's "100 Most Influential Hispanics."

Once you have identified your goals, follow these critical steps:

- Develop a comprehensive business plan.
- Secure financing and measure any associated risks.
- Contact your local SBA office, visit our web site or call 1-800-U-ASK-SBA for one-on-one business counseling.

Also, consider some common mistakes and pitfalls to starting a business. For instance, some people don't realize just how much effort goes into running a business. They may think it would be great to be their own boss, but the commitment is a serious one. It will take a lot of dedication and investment of time, money and sweat to pay off.

But remember, when an entrepreneur succeeds, he or she can realize the American dream. ■

SBA Serves Up Backing for Restaurant Owner

Cesar Rodriguez opened his first Doneraki restaurant in Houston 30 years ago with \$600, a combination of an IRS tax refund and money from his mother and brother. Money was so tight that Rodriguez, who had immigrated from Mexico in 1971, handmade the chairs for the restaurant during breaks from one of his three jobs.

Doneraki has become a Houston institution since that first restaurant opened at 76th Street and Avenue E. But Rodriguez almost closed its doors a few weeks after the opening, when he learned that the city health department required him to have a \$2,000 grease trap. Lacking the money for the equipment, he went to the building owner to turn in his keys. She, however, insisted on lending him the money so he could keep his doors open. Rodriguez had faced—and overcome—his first financing obstacle since going into business.

Research shows that like Rodriguez, many small business owners start their enterprises with personal savings, credit cards, and loans from family and friends. Entrepreneurs often can't obtain financing from traditional commercial lenders for many reasons, including poor or insufficient credit.



This is where the Small Business Administration comes in. Among its programs is the Certified Development Company (CDC) Program—commonly called the 504 loan program—which enables growing businesses to secure long-term, fixed-rate financing for major assets such as land and buildings. Down payments are low, and interest rates are below market. One job must be created or retained for every \$35,000 of 504 funding or the business must meet at least one of seven public policy goals, which include rural development, export expansion, minority development and business-district revitalization.

Rodriguez recently opened his fourth Doneraki restaurant with the help of a 504 loan for \$546,000 from Capital Certified Development Corp., a statewide nonprofit organization licensed by the SBA to make 504 loans. Capital CDC is headquartered in Austin and has representatives in El Paso and Houston.

The 10,500-square-foot restaurant fulfills the job-creation goal of the 504 program, creating 60 full-time and 12 part-time positions. And it's a colorful addition to the recently renovated Gulfgate Center in Houston's East End. The restaurant is

done hacienda style, with a bright red tile roof and wrought iron accents. Inside are a fountain that replicates one in Tlaquepaque, near Guadalajara, and a colorful rendering of a Diego Rivera mural.

Financing for the \$2.1 million project came from several sources in addition to Capital CDC, including loans from Banco Popular and Houston Small Business Development Corp., a tenant improvement allowance from landlord Houston Gulfgate Partners LP and owner equity. Rodriguez established a relationship with Banco Popular, a subsidiary of Puerto Rico-based Popular Inc., several years ago when he took out his first bank loan after 20 years in business. The bank has the first lien on the restaurant and the CDC has the second.

"It is not easy to find credit for Hispanics, and Banco Popular has been looking for this market's business," Rodriguez says.

Banco Popular Senior Vice President Mike Carr says that while helping a customer was the main reason for making the loan, the bank also wanted a role in revitalizing Houston's East End. Capital CDC's participation was key since the SBA partner provided a loan to cover a significant part of the total project cost. The CDC's

involvement also enabled the bank to extend the loan term to 25 years, rather than 10 to 15. And although restaurant failure rates are high, Banco Popular looked at the deal as an expansion of an existing business, not financing a new business.

Rodriguez represents the face of small business entrepreneurs. Through creativity and hard work, he has turned his dreams into a thriving restaurant business. The SBA has helped many businesses and business owners like Rodriguez for half a century. And as Doneraki restaurant and the SBA celebrate milestone anniversaries, both are proof of how dedication and determination can equal success. ■

—Jackie Hoyer

FAST FACTS

Cesar Rodriguez has operated Doneraki in Houston for 30 years. He recently opened his fourth location in Gulfgate Center in Houston's East End. The 10,500-square-foot stand-alone building is the first of his restaurants to be built from the ground up. It took two years and \$2.1 million to complete the project.

Financing Details

Banco Popular	\$644,778
Capital CDC—SBA 504	546,000
Houston Small Business Development Corp.	250,000
Houston Gulfgate Partners LP	360,000
Doneraki Restaurants Inc.	330,000
Total	\$2,130,778
Building, improvements	\$1,788,037
Fixtures, furniture, equipment	250,000
Soft costs	25,000
Professional fees	17,741
Interest on interim loan	50,000
Total	\$2,130,778

Eleventh District Small

Commercial banks and the SBA are the most well-known resources for small businesses seeking financing. This guide, which is not all-inclusive, offers additional resources for qualifying entrepreneurs.

TEXAS

ACCION Texas

www.acciontexas.org

Provides group and individual loans to microentrepreneurs who lack access to capital from commercial sources. Loans of \$500–\$25,000; collateral required. **Serves Texas.**

Contact:
Mario Riojas, 888-215-2373,
ext. 1130

Austin Community Development Corp.

www.austincdc.org

Offers financing and technical assistance to small businesses. Basic growth loans of \$20,000–\$200,000; TMF loans of \$50,000–\$300,000. Terms up to 15 years. **Serves Greater Austin.**

Contact:
Pamela Cunningham, 512-472-8087
auscdc@austincdc.org

BiGAUSTIN

www.bigaustrin.org

Lends to start-ups and existing businesses. Up to \$35,000 for existing businesses and up to \$15,000 for start-ups. Loan terms up to five years. Interest rates 11%–13%. **Serves Bastrop, Bell, Blanco, Burnet, Gillespie, Hays, Lampasas, Lee, Llano, Mason, McCullough, San Saba, Travis, Williamson counties.**

Contact:
Ligia Tervino, 512-928-8010
infor@bigaustin.org

Capital Certified Development Corp.

www.capitalcdc.com

Provides SBA 504 loans. Maximum loan of \$1 million; terms and interest rates vary. **Serves Texas.**

Contact:
Austin, 512-327-9229
Admin@capitalcdc.com
El Paso, 915-857-3139
cruzmontoya@capitalcdc.com
Houston, 936-931-2022
harryleach@capitalcdc.com

CEN-TEX Certified Development Corp.

www.grandcentraltx.org

Provides loans for business and industrial acquisition, construction, conversion, expansion, repair, modernization, land, machinery, equipment and furniture. Loans of \$750,000–\$20 million. Terms up to 30 years on land, building and permanent fixtures; up to 15 years on machinery and equipment.

Serves Central Texas.

Contact:
888-718-0180
junegriffy@austintx.net

Community Development Loan Fund

www.cdlf.net

Provides tandem loans to assist the development of small, minority- and women-owned businesses. Loans may be used for working capital, inventory, equipment and owner-occupied commercial real estate. Loans of \$25,000–\$200,000. Terms of six months to five years. Rates are *Wall Street Journal* prime plus 4%–6%. **Serves Bexar, Bandera, Kendall, Comal, Guadalupe, Wilson, Atascosa, Medina counties.**

Contact:
Sue Schaefer, 210-738-0312

Corporation for Economic Development

www.cedhc.com

Offers the Small Business Development Loan Fund, microloans and the SBA 504 loan program. Rates, terms and loan amounts vary. **Serves Brazoria, Fort Bend, Galveston, Harris, Liberty, Montgomery, Waller counties.**

Contact:
713-840-8804 or 281-590-5600
info@cedhc.com

ETCOG Chapman Revolving Loan Fund

www.etcog.org

Lends to corporations, partnerships, sole proprietorships and nonprofits. Loans of \$35,000–\$250,000. **Serves Camp, Gregg, Harrison, Marion, Panola, Rusk, Upshur, Wood counties.**

Contact:
903-984-8641
luke.kimbrough@etcog.org

Houston Small Business Development Corp.

www.hsbdc.org

Provides microenterprise loans to businesses in early stages of development and to stabilize and expand existing businesses. Microenterprise loans of \$5,000–\$45,000; terms up to five years; fixed interest of 10%–14%. Small business loans for \$45,000–\$2 million; terms of five to 15 years; below-market interest rates on a case-by-case basis. **Serves Houston.**

Contact:
713-845-2400

Permian Basin Business Development Center

www.communitycapital.org

Provides loans to start-up and existing small businesses through the Mexican American Network of Odessa Small Business Loan Program. Loans up to \$25,000. **Serves Odessa and Permian Basin area.**

Contact:
Iris Correa, 915-335-0250

Rural Development and Finance Corp.

www.rdfc.org

Provides business and industry loans, intermediary relending loans and microloans. Loans can be used for working capital, inventory, supplies and equipment. Microloans up to \$35,000.

Business Financing Guide

Terms up to six years for loans over \$7,500; up to three years for loans under \$7,500. Business and industry loan amounts, rates and terms negotiable. Intermediary relending loans of \$10,000–\$250,000. **Serves Cameron, Starr, Hidalgo, Willacy, Maverick, Dimmit, Webb, Zapata, Zavala counties.**

Contact:
Sylvia Santos, 210-212-4552

San Antonio Local Development Co.

www.saldc.com
Offers SBA 504 loans, SBA microloans, EDA Revolving Loan Fund and HUD Enterprise Community Loan Programs. Rates, terms and loan amounts vary, based on type and program. **Serves Atascosa, Bandera, Bexar, Comal, Frio, Gillespie, Guadalupe, Karnes, Kendall, Kerr, Medina, Wilson counties.**

Contact:
Ed Sommers, 210-206-5626

Southeast Texas Economic Development Foundation Inc.

www.setedf.org
Markets, services, processes and closes SBA 504 loans. Fixed rates; 10-year term for equipment and 20-year term for land and buildings. **Serves Jefferson and Orange counties.**

Contact:
Mary Jean Johnston, 409-838-6581

Southern Dallas Development Corp.

www.sddc.org
Provides five financial assistance programs for new and expanding businesses, including the Texas Mezzanine Fund. Rates, terms and loan amounts vary. **Serves parts of Dallas.**

Contact:
Theresa Lee, 214-948-7800

Texas Certified Development Company Inc.

www.txcdc.com
Specializes in fixed-rate commercial real estate and equipment loans. Also originates, closes and services SBA 504 loans. Loans of \$250,000–\$5 million. **Serves Austin, Corpus Christi, Dallas, Houston, Laredo, San Antonio.**

Contact:
Ernest Perales, 512-433-1175
loans@txcdc.com

Texas Mezzanine Fund

www.tmfund.com
Provides loans to small minority- and women-owned businesses in tandem with traditional lenders, community development corporations and certified development financial institutions. Loans of \$50,000–\$500,000; terms vary based on loan use; fixed interest rates of 8%–13%. **Serves Texas.**

Contact:
214-943-5900
kcross@tmfund.com

Tyler Economic Development Council

www.tedc.org
Provides working capital and loans for equipment and machinery and purchase and development of land and buildings. Loans of \$50,000–\$200,000 for up to 25 years. **Serves Smith County.**

Contact:
Phyllis Schneider, 903-593-2004

William Mann, Jr. Community Development Corp.

Provides loans for working capital, equity, real estate and business acquisition. Loans up to \$100,000. **Serves Tarrant County.**

Contact:
Alicia Fannon, 817-871-6267

LOUISIANA

BizCapital

www.biz-capital.com
Lends capital to small to medium-sized companies. Specializes in asset acquisitions, start-ups, working capital and business expansion. Also makes SBA and USDA (business and industrial) loans. SBA loans, \$100,000–\$1.3 million; USDA (B&I) loans, \$1 million–\$6 million; well-secured real estate loans, \$500,000–\$3.5 million; mezzanine loans, \$100,000–\$1 million. Rates are *Wall Street Journal* prime plus 1%–2.75%; mezzanine loans may be higher. **Serves Louisiana.**

Contact:
John Brocato, 504-832-1993
brocato@biz-capital.com

Gulf Coast Business and Industrial Development Corp.

www.louisianapartnership.com
Provides mezzanine or growth capital to existing small businesses. Minimum investment of \$50,000–\$250,000.

Serves Louisiana.
Contact:
Cornelius Lewis, 225-922-7717

Louisiana Community Development Capital Fund BIDCO Inc.

www.communitycapital.org
Provides start-up capital, working capital and gap financing for contracts or other short-term receivables, capital for asset acquisition, and loans or guarantees to obtain bank financing. Loans of \$5,000–\$150,000 for up to 15 years.

Serves Louisiana.
Contact:
Gloria London, 225-924-4116
glo3783601@aol.com

Red River Valley BIDCO Inc.

www.cdconline.org
Provides loan funds for business, industry and job creation. Maximum loans of \$1 million. **Serves northern Louisiana.**

Contact:
M. D. LeComte, 318-632-2022

NEW MEXICO

ACCION New Mexico

www.accionnewmexico.org
Offers loans to self-employed individuals with limited or no access to traditional business credit. Loans of \$200–\$50,000. **Serves New Mexico.**

Contact:
Marisa Barrera, 505-243-8844,
800-508-7624

Women's Economic Self-Sufficiency Team (WESST Corp.)

www.wesst.org
Operates a revolving loan fund that provides small business loans up to \$5,000. **Serves New Mexico.**

Contact:
505-241-4759

New Mexico Community Development Loan Fund

www.nmcdlf.org
Provides loans for new and existing small businesses. Proceeds can be used for equipment, inventory, building renovations and operating capital. Amounts vary; terms up to seven years. Interest rates generally 8%–10%.

Serves New Mexico.
Contact:
505-243-3196
nmcdlfgn@aol.com

**SBA Offices
Serving the Eleventh
Federal Reserve District**

Texas

Dallas

Regional and District Office
4300 Amon Carter Blvd.
Suite 114
Fort Worth, TX 76155
817-684-5500

El Paso

District Office
10737 Gateway West
El Paso, TX 79935
915-633-7001

Harlingen

District Office
222 E. Van Buren St.
Suite 500
Harlingen, TX 78550
956-427-8533

Houston

District Office
8701 S. Gessner Dr.
Suite 1200
Houston, TX 77074
713-773-6500

Lubbock

District Office
1205 Texas Ave.
Room 408
Lubbock, TX 79401
806-472-4622

San Antonio

District Office
17319 San Pedro
Suite 200
San Antonio, TX 78232
210-403-5900

Corpus Christi

Branch Office
3649 Leopard St.
Suite 411
Corpus Christi, TX 78408
361-879-0017

Louisiana

New Orleans

District Office
365 Canal St.
Suite 2820
New Orleans, LA 70130
504-589-6685

New Mexico

Albuquerque

District Office
625 Silver S.W.
Suite 320
Albuquerque, NM 87102
505-346-7909

perspectives 2003, Issue 1

www.dallasfed.org

Federal Reserve Bank of Dallas

Community Affairs Office
P.O. Box 655906
Dallas, TX 75265-5906

Gloria Vasquez Brown

Vice President, Public Affairs
gloria.v.brown@dal.frb.org

Diana Mendoza

Community Affairs Specialist
diana.mendoza@dal.frb.org

Jason Sweat

Community Affairs Specialist
jason.sweat@dal.frb.org

Editor: Monica Reeves

Designer: Gene Autry
Issue Editor: Karen Riley

September 2003

The views expressed are those of the authors and should not be attributed to the Federal Reserve Bank of Dallas or the Federal Reserve System. Articles may be reprinted if the source is credited and a copy is provided to the Community Affairs Office.

Karen Riley

Community Affairs Specialist
karen.riley@dal.frb.org

Jackie Hoyer

Houston Branch,
Sr. Community Affairs Advisor
jackie.hoyer@dal.frb.org

Federal Reserve Bank of Dallas
P.O. Box 655906
Dallas, TX 75265-5906

ADDRESS SERVICE REQUESTED

PSRST STD
U.S. POSTAGE
PAID
DALLAS, TEXAS
PERMIT NO. 151