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MARINE MIDLAND BANK - NEW YORK
AND
MINORITY LOANS
A PRELIMINARY ANALYSIS
BY
HAROLD K. BROWN
JUNE 10, 1971

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ESTABLISHING A MINORITY LOAN PROGRAM

A REPORT ON

MARINE MIDLAND BANK N.Y. - SBA GUARANTEED LOANS TO

MINORITY OWNED BUSINESSES

FOR MARINE MIDLAND BANK - NEW YORK
140 BROADWAY
NEW YORK, NEW YORK

BY

HAROLD K. BROWN
ASSISTANT COMMERCIAL BANKING OFFICER

MARINE MIDLAND BANK - NEW YORK

JUNE 10, 1971

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INTRODUCTION

This report is the result of a study initiated by Marine Midland Bank - New York of its twenty-six loans which were made by the Bank in cooperation with the Small business Administration (SBA) who guaranteed ninety percent of the amount of each loan. These loans were made to minority owned businesses as part of Marine Midland's commitment to establish more minority owned businesses as well as to strengthen those presently operating.

The purpose of this study is to evaluate the bank's procedure used thus far in making these loans, and through the gathering of pertinent information, reach conclusions in the form of recommendations for setting up a program to aid minority businesses with bank loans.

The study consisted of (a) examining all the loans that were made with SBA guarantees; (b) visits to each company's place of operation where the writer discussed the loan with the borrower; (c) discussions with SBA personnel, community organizations and other banks. In addition to the above, various books, magazines and articles dealing with topics of Black Capitalism, Black Entrepreneurs, Minority Loans and How to Operate a Small Business, were read by the writer to increase his knowledge and insight into the new and special area of making loans to minority owned businesses.

This report, while its contents may apply in full or in part to other banks was specifically written to apply to Marine Midland Bank - New York. The recommendations which appear in this report, therefore, specifically apply to Marine Midland.

The writer wishes to acknowledge his appreciation to Marine Midland Bank for the opportunity to conduct this study, and for the confidence that was expressed in giving the writer "free rein" to conduct the study in the way he considered to be most constructive and productive. The writer also expresses his appreciation for

the cooperation of the departments of Branch Administration and Industrial Finance who provided much of the data on which this report is based.

INVESTIGATION AND CONCLUSIONS

The study was begun by obtaining as much information as possible concerning the 26 loans that were made by the bank through the SBA guaranty program. This was accomplished through studying the loan files, and talks with our bank personnel, SBA staff, and the borrowers themselves. After this investigation was completed, the writer reached certain conclusions based on the information received. These conclusions will be expressed briefly here but will be explained in more detail throughout this report.

Our record in minority lending to date is poor - 10 loans out of 26 (38%) have failed. The reason for this poor record can be explained by the following observations which were made by the writer as he undertook this study.

1. The bank's commitment to lending to minority owned businesses was not clear to middle and lower management. This resulted in confusion and lack of any action to develop a successful program.
2. The loans were considered as "hand-outs", resulting in superficial analyses prior to extending the loans.
3. There was no consideration given to the future growth of the borrower. It appeared that the loan was thought of as a one-time deal.
4. No calls were made on 24 of the 26 borrowers by any bank representative prior to extending the loans, and no calls were made on any of the borrowers after the loans were made.
5. The loans contained too little working capital to allow the borrower enough time to get his business operating.
6. Borrowers were offered no management assistance after the loans were made.

7. The department that was given the responsibility for the maintenance of the loans inherited a "stepchild". It was just more work added to an already busy schedule with no consideration given to additional personnel.
8. Loans of much better quality can and should be made.
9. The borrowers were weak in the knowledge of managing the business. Marketing and financial planning was non-existent.
10. All but two of the loans were made in 1969. (Evidently an attempt to meet the $1,000,000 pledge by the bank.)
11. The pledge of $1,000,000 was never actually reached. The loans reached a high point of $558,000.
12. Three of the 26 loans were not made to minority owned businesses.

SECTION ONE

EXAMINATION OF THE 26 LOANS

SECTION ONE: EXAMINATION OF THE 26 LOANS

An examination of the loans which our bank extended to minority owned businesses under the SBA 90% guaranty plan should increase our understanding of a minority loan program as we examine these loans within the context of the second section of this report. The identification and evaluation of the loss experience of these loans should provide additional insight that should prove useful in keeping future losses within a tolerable limit.

THE LOANS:

Twenty six loans were made from 1969 to the present (Appendix A). The first two loans were made in January 1969, with an additional 21 being made during that year. Two loans were made in 1970 and one in 1971. Of these 26 loans, numbers 1,4,5,6,8,10,12,15,16, and 17 have failed. (See Appendix B). The total amount of the loans that failed is $225,000, which represents 40% of the $558,000 total amount of the 26 loans. Two of these loans, numbers 10 and 26, are not minority owned businesses though they are 90% guaranteed by the SBA, and number 15 paid off the full amount of its loan ($80,000) from financing received from another source seven months after the loan was made. If we excluded number 15 from the analysis, the aggregate amount of the loans that failed would be reduced by $80,000 from $225,000 to $145,000. This would reduce the dollar amount of loans that failed from 40% to 26%. However, to include the above three loans in the analysis would in the writer's judgement reveal a more accurate picture of the bank's experience in this area of lending. Therefore, we shall include those three companies on the basis that loans were made to them within the same context of thinking and framework as the other loans. Even though the company, which payed off its loan within seven months, and did not default in payment as did those who failed, it still must be considered a loan that was made to a minority owned company and a combination of circumstances resulted in the company not being able to continue with the bank.

THE TYPE:

It is commonly stated that the bulk of minority owned businesses are of the "small service type". As we take a look at the loans made by our bank to minority owned businesses, we see in Appendix C that 14 of the 26 loans that were made fall into the "small service" category, while the remaining 13 fall into the "small retail" category. A small retail or service business is defined by the Small Business Administration as having an annual sales volume of $1 Million to $5 Million. A look at Appendix C shows that annual sales for the 26 loans (projected for new businesses) range from $2,500 to $120,000.

We can conclude from this analysis that all of the 26 loans were made to very small businesses that fall in the retail and service categories. This is an important point to examine when setting up a minority loan program because for minorities to share equally in our economic system in terms of opportunities, they are going to have to begin to own manufacturing and large retail and service companies. A Minority Loan program should decide before it begins operations, what policy it should follow regarding the type of loans it plans to make.

THE LOCATION:

It is shown in Appendix C that the 26 loans were made over a very wide geographical area with no consideration being given to how these loans would be serviced. It should be pointed out here that the cost of servicing these loans through visits and the provision of management assistance, would be much higher as opposed to the cost of servicing those loans if they were located closer to the persons responsible for servicing them. Aside from the cost, the loans would receive much better servicing if they were not so far away.

When establishing a Minority Loan program, the question must be asked whether a bank should restrict its loans to the areas where it has branch offices.

Appendix C shows that we made 10 of the 26 loans to comapnies located in Brooklyn and one to a business in Tarrytown where we do not have offices. Therefore, a practice has developed which indicates that the loans were made on the basis that location is not a critical factor or that it was not considered.

THE DOLLAR AMOUNTS:

The writer could find no correlation between the loans that failed and the dollar amounts and working capital of those loans. This can be illustrated by taking number 6 (Rayad, Inc.) who failed with a $20,000 loan and $4,800 of working capital, and compare it with number 3 (Ellis Ambulance) who has not failed and is presently operating at a profit on a loan of $15,000 with $3,200 of working capital. A comparison of the loans that failed (Appendix B) with those still in operation will reveal similar examples. We must conclude then that the dollar amount of the loan has not proved to be a critical factor. Therefore, any thought that a company receiving a large loan has a better chance of success than one receiving a small loan is not substantiated by the bank's experience. However, a careful look at Appendix C will show that the amount of working capital provided in most of the loans was minimal. Almost all of the companies were underfinanced right from the beginning in terms of working capital. By providing the borrower with a larger amount of working capital, the bank would have allowed the operation of the business additional time to build up enough sales to finance the operations internally.

After considering the type of loans, the location and the dollar amounts, we can see that the bank could have improved the portfolio had these considerations been applied. However, these considerations would not in themselves guarantee a successful program of lending to minority owned businesses. There is one other very important consideration - Management. This is the subject of the next topic of this report and will be given additional attention later.

THE MANAGEMENT:

Managing a minority owned business is basically the same as managing any business. The primary difference between the two is the scarcity of persons to manage these minority owned businesses. But, we should be careful not to confuse scarcity with non-existence.

When examining the 26 loans shown in Appendix D, the writer could not identify any significant differences with respect to the type of business, annual sales, the amount of loan and the amount of working capital which could have caused certain loans to fail. If anything, the writer would have predicted that most of them would have failed. This prediction would have been based very heavily on the fact that the business lacked business management skills. A person might be a great auto repair man, but if he has no business management skills, he cannot be expected to manage an auto repair shop with much success. The writer found in examining these loans that the Small Business Administration's loan officer's reports evaluated management skill in terms of the number of years spent in the field. The number of years spent in the field might well indicate the degree of knowledge the prospective borrower might have concerning the aspects of the particular field, but it indicates nothing in the writer's opinion regarding the management ability of that person. The question is sure to arise, "What do you do if these prospective borrowers don't have business management skills (which most of them don't)?" The answer is you don't make the loan until you are reasonably sure that the business will have the guidance of someone knowledgeable in business practices. If a prospective borrower does not bring that ingredient as part of his package, then he must obtain it prior to approval of the loan. It is then up to the bank to evaluate the loan request and decide whether or not it would make the loan if there were adequate management. If the answer is yes, the bank, with the permission of the prospective borrower, should take appropriate steps to assist the borrower in finding the needed management. This necessitates the bank's development of business managerial resources from minority groups.

CONCLUSION:

To conclude this section, the writer feels that after examining the 26 loans, we must conclude that 10 failures is not too bad a record based on the manner in which these loans were made. Very little, if any, consideration was given to: (1) Determining the actual dollar needs of the prospective borrower; (2) his lack of management skills; (3) the type or location of his business; (4) the possibility of management assistance; or (5) the possibility of future financing to aid in expansion. Therefore, the failure of the 10 loans cannot be traced to any one factor. The reason for such a high percentage of failures (38%) is a combination of those just mentioned. Fortunately, the number of loans made was not large. The total amount of the 26 loans made over the 3-year period is $558,000. Our exposure, taking into consideration the 90% SBA guaranty, was $55,800. The total amount of the 10 loans that failed is $225,000 or 40% of the total original amount of the 26 loans made. Our exposure of $55,800 resulted in the bank having to write off $13,000. To compare our experience in minority loans with that of our regular lending program, the minority loan loss of $40% is hardly comparable to the bank's regular loan loss of less than 1%. The point is we should strive to improve our experience with minority loans by 39%. The writer feels this can be done, and offers the recommendations found in the third section of this report as the tools to accomplish it.

SECTION TWO

THE FRAMEWORK FOR ESTABLISHING A MINORITY LOAN PROGRAM

SECTION TWO: THE FRAMEWORK FOR ESTABLISHING A MINORITY LOAN PROGRAM

Before the pieces of a minority loan program are attempted to be fit together, the framework or perimeter guidelines should be established. The loans which were made to minority owned businesses were handled for the most part by one person without any real guidelines. This has resulted in a poor record, and at best a very slow start in accomplishing the objectives of the minority loan program.

COMMITMENT:

The first part of the framework is the commitment that is given to the idea of establishing a minority loan program. This commitment is the attitude expressed by the top management of the bank and is the key to establishing a successful program. The importance of this commitment cannot be over-emphasized. It sets the tone and unlocks the door for those persons in the bank who want to contribute, to be able to do so as part of his function as a banker. For those who are not so inclined, the clear commitment from top management will at least require some degree of cooperation when they are called upon. This commitment should be in writing and disseminated to all the officers of the bank.

Marine Midland's commitment to assist minority owned businesses was one sincerely made by those entrusted with the authority to do so. This commitment which was made without unnecessary fanfare, appears to have been received with a positive reaction by bank personnel. The commitment has resulted in opportunities for minority persons to own and operate a business and to compete as entrepreneurs. While the commitment has been successful in accomplishing the above, its effectiveness could be optimized by a communique that is written directly to the bank's officers explaining the bank's purpose, objectives and general guidelines for setting up a program. It is reasonable to expect that such a communique will trigger the expression of concern and cooperation by many of the bank's employees. With this

having been accomplished, the first step in forming the framework for a minority loan program will have been completed.

PURPOSE:

The next step is to develop the Purpose. The purpose of a minority loan program is found to mean different things to different people. Some believe it is a program to prevent riots by saying to the minority citizens that the bank now wants to help you. Others believe that it is worth losing a few thousand dollars to maintain the good image banks have always enjoyed. But some of us at Marine Midland Bank - New York believe that the bank is sincerely interested in correcting the unquestionable wrongs of our country's history.

Therefore, the second step of forming the framework for a minority loan program is to establish a clear purpose, void of fear, paternalism or gimmicks. The purpose of such a program must be to sincerely establish the machinery that will function to help increase the ownership of businesses by minority persons while helping to strengthen those that presently exist. This purpose is clearly established for us when we recognize that only 1% of the businesses in the United States are owned by minority persons.

TYPES OF LOANS:

It is commonly known that most businesses owned by Black persons fall into the small service type category. This is stated offically by the U. S. Bureau of Labor Statistics in its joint report with the Bureau of the Census on The Social and Economic Status of Negroes in the United States, 1969.

Since minorities have been confined to the ownership of small service oriented businesses, the question is raised, "Should a minority loan program increase the number of this type of minority business, or should the program be directed toward bringing minorities into the mainstream of the American economic scene by helping to establish minority owned businesses in other than the small service types?" While this question may seem elementary and the answer quite

obvious, it appears that theprograms of various banks were set up without taking into consideration this vital question. For if one answers the question with this statement, "Of course we should help to establish minority businesses in other than small service types", then, the minority loan program would set its course in a direction that would lead away from the "mom and pop" stores which have constituted the bulk of minority owned businesses in this country. This type of program calls for much more imagination on the part of the bank, for example; recruiting (seeking out potential businesses), and more sophistication in the selection and maintenance of these businesses would be important parts of the program. (The three topics of recruiting, selection and maintenace will be discussed in more detail later).

LOCATION OF LOANS:

After studying the loans made by the bank to minority businesses, from a practical point of view it appears that the location of these loans should be given some consideration. It was interesting to the writer that of the 26 SBA loans on our books, 11 of them (42%) were not in areas where Marine Midland Bank - New York has branch offices. As Appendix C shows, the 26 loans were scattered from Coney Island to Tarrytown and from Manhattan to Long Island. From the standpoint of maintenance of these loans, distance alone would place a hardship on the person designated to keep watch over the operation of the companies (if such a person was designated). Of our 21 branch offices, 12 are located in Manhattan. Yet only six of the 26 loans were made to businesses in the borough of Manhattan. After the bank's loan program has been established for some time, it is reasonable to imagine that loans would be spread over such a wide area. But, it also appears reasonable to think that his should only happen when a large number of loans are on the books.

Because these minority loans were for the most part made to businesses whose ownership was very lacking in business management and experience, they needed a lot of "hand-holding". It would take a sizeable staff to provide the necessary assistance

to these businesses which would call for visits to be made to those locations spread over such a wide area. It appears that initially, the minority loan program should give careful consideration to the location of its prospective borrowers. Planning of this nature would permit the bank to control the loans, as opposed to an indiscriminate extension of loans which can easily result in a lack of control.

DOLLAR AMOUNT OF LOANS:

Assuming that the answer to the question pertaining to the type of minority businesses to be established is that businesses other than the small service type should be established, consideration then should be given to the amount of these loans.

We know that different types of businesses require different amounts of capital. But very few businesses will be able to get started, operate and grow beyond the "small business" stage with a loan of $20,000. Even if the business is already in operation, to get it from the "small business" stage to increased growth, it is going to require a total amount much larger than most of us have been thinking about. The bank's 26 loans average $21,400. This amount by itself cannot be viewed as good or bad. It depends on how much the businesses needed at the time of borrowing. The amount only becomes important when it is realized that there was no consideration given to the provision of future amounts to effect growth. It appears that the attitude was that this "risk" loan (and indeed in most cases it was a "high risk") would be given a minimum of what it needs (and sometimes it was given less) and then our responsibility would be fulfilled. A minority loan program must realize that its responsibility really begins after the loan is put on the books. Although extensive analysis of the minority loan should be made prior to reaching a decision to approve or reject it, that part is less difficult than watching over the business to see to it that it survives and grows.

While Marine Midland's 26 loans averaged $21,400 it was substantially larger than the $14,000 average of another New York City Bank (who is a leader in the minority loan program) on its first $1,000,000 of loans. The amounts of these loans made to minority owned businesses is believed to reflect the thinking that as many loans as possible should be made, failing to give due consideration to the quality of the loan.

QUALITY LOANS VS. QUANTITY:

In keeping with the idea that the Minority Loan Program is established to increase the number of minority owned businesses as well as to strengthen those in existence, it would seem that our objective should be to make a large number of loans. The natural tendency is to want to make a great number of loans to minority businesses and move fast to increase the percentage of minority businesses. However desirous this may be, it is doubtful that enough money could ever be raised to accomplish this task as quickly as we would like. Besides, making a large number of loans at the risk of a complete analysis of the quality of the loan, would in the long run defeat the intended purpose. A "quantity" loan, because the objective is to make many loans at the expense of quality, will lack general business skills and will most probably find itself in a short period of time in need of additional financing. On the other hand a "quality" loan is one that will have a higher probability of growth and survival. It will, however, probably require a larger amount of financing initially because of the company's higher aspirations. A "quality" loan, because the company's personnel is more equipped with business skills, will most likely be able to exist for a longer period of time without subsequent borrowing.

At this point a definition of "quality loan" should be given. A "quality" minority loan is one that has (1) knowledgeable and experienced management; (2) an adequate market for his product or service; (3) an adequate product or service to offer the customer; and (4) enough working capital to operate the

business until it is able to generate enough profit to operate on its own. The probability of success for this type of loan greatly exceeds the type made on the basis of quantity.

This leads us to the question of how a Minority Loan Program should be evaluated. In the final analysis, every Minority Loan Program will be evaluated on the basis of what progress it has made in reducing the tensions between majority and minority citizens. Much of this progress will be determined by the number of successful businesses that are produced. The overemphasis of making a large number of loans at the expense of quality, will only result in an increase of tensions.

It was mentioned that one of the ingredients of a quality loan is knowledgeable and experienced management. While the bank can supply the money, it is quite another matter to provide management. However, the bank can make sure that the loans it makes are to businesses that possess knowledgeable management. Otherwise, the loan should not be made. The Minority Loan Program should assume a positive attitude with high expectations for the success of the business. It is reasonable to ask if competent minority management is available. It is available. It only has to be found. The important point is that the level of minority business management should be and can be raised. A program of liberal funds to competent management should serve as the incentive for minority businesses to seek management knowledgeable in the affairs of business. Experienced management will be very difficult to obtain due to minorities only recently having management opportunities. However, increasing numbers of minority persons are graduating from business schools and accepting positions in the business world. This is a source from which minority businesses should draw. Banks could help to organize minority management companies and help finance them so that they can provide assistance to other minority businesses. This source is an important one to consider because it does not depend on the help of volunteers and it assists minorities in developing their concept of helping each other.

MANAGEMENT ASSISTANCE:

Being able to provide these businesses with management assistance will undoubtedly be the program's most difficult problem. While there are organizations set up to provide this service, there were none found by the writer that could be considered as adequately providing that assistance. The Small Business Administration established S C O R E (Service Corps of Retired Executives) and A C E (Active Corps of Executives) to provide management assistance to small businesses. These two organizations have found it difficult to get the type of involvement from retired and active businessmen that is needed to adequately service this tremendous need. The SBA is now attempting to solve this problem by contracting with private companies who can provide this management assistance. Some of the organizations who provide management assistance to minority owned businesses are:

ICBO (International Council for Business Opportunity)

Capital Formation Corporation

Bedford Stuyvesant Restoration Center

Business School Consulting Groups:

(1) Harvard University

(2) Columbia University

(3) New York University

GEOMETRIC VS. LINEAR CONCEPT:

An important concept to keep in mind when establishing a minority loan program is that one loan to a minority owned business has a geometric effect on the total minority community. When one minority owned business becomes successful, other persons in the community see this, and the "Bandwagon" concept begins.

The "Bandwagon" concept is when an activity is viewed as being successful and causes others to join in that success by participating in that same activity. Therefore, if one minority owned business becomes successful, not only one additional minority business might get started; it is more than likely that more than one business will be started as a result. If we follow the progression of this concept, we can see that one successful minority business can cause the starting of many other minority businesses.

The linear concept of one successful minority business causing one other minority business to be formed, which causes again one other minority business to form is not likely to be the way it happens in the minority community.

The "Bandwagon" concept is related to aspirations, which are related to opportunities. This concept has for a long time been practiced in the Black community. For years many black youngsters with high aspirations have only aspired to become a teacher, doctor or lawyer because these were the only positions open to them - as evidenced by the fact that these were the only high positions they saw occupied by Black people. The concept is also seen in housing integration. When a black person moved into an all-white neighborhood, within a short period of time there were many other Blacks attempting to move into that same neighborhood. We also see this concept being applied today in business. Now that blacks are obtaining executive positions in various corporations, we now see an increasing number of Blacks attending graduate business schools and aspiring to become business executives. Hence, it would appear that we can expect a geometric reaction in a minority loan program rather than a linear one.

We must remember, however, that the geometric concept also works in reverse. Therefore, if a minority owned business fails, the potential damage to the program's objective to increase the number of minority owned businesses as well as to the community itself, is geometrically frightening.

The above remarks emphasize the importance of seeing to it that a minority owned business has every opportunity for success. Careful planning of the minority loan program, taking into consideration the subjects discussed in this report, would increase the possibility of the program achieving optimum success.

SAN DIEGO STATE UNIVERSITY 1897

SECTION THREE

RECOMMENDATIONS

SECTION THREE: RECOMMENDATIONS

This section of the report will express in the form of recommendations what the writer feels are essential in setting up a Minority Loan Program. The recommendations are made with consideration given to our bank's size and the limited number of branch offices.

COMMITMENT:

It is essential that a written communique from the Chairman of the Board be disseminated to all officers and supervisory employees of the bank which states the bank's position regarding the Minority Loan Program. The writer's conversations with employees who are responsible for the Minority Lending Programs for other banks, have made it unmistakably clear that this recommendation is the key to the success of this program. A sample of such a communique which the writer feels would be appropriate, is offered as Appendix E.

NAME AND PURPOSE:

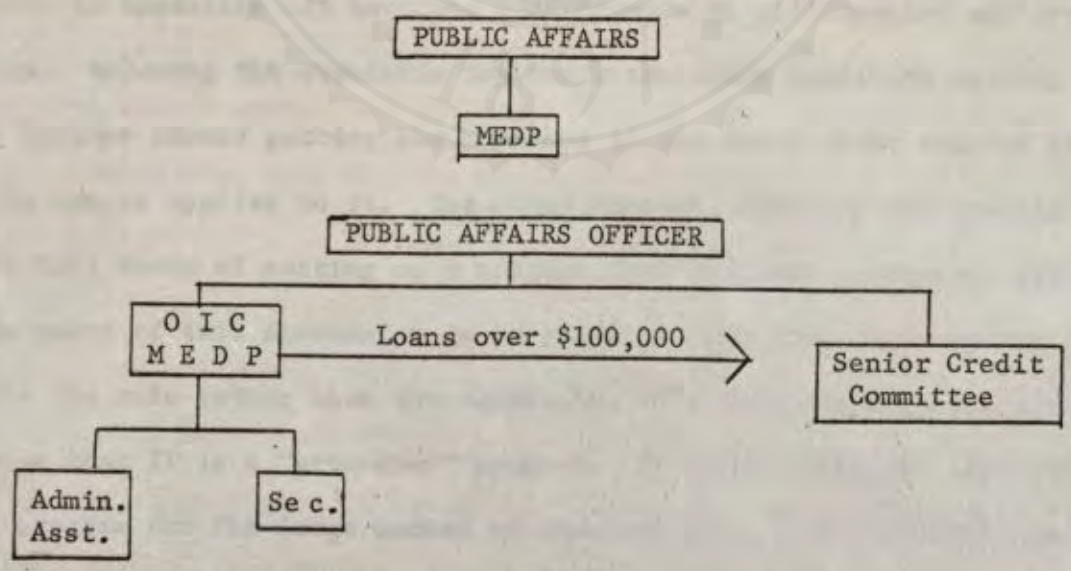
The name of this program should be the Minority Economic Development Program (MEDP). This name was chosen after examining the names given to other minority lending programs such as Community Development Loans, Business Opportunity Loans, and Community Economic Development Program. It is the writer's feeling that the name of the program should come as close as possible to describing the purpose of the program.

The purpose of this program is to help members of ethnic minority groups develop their economic position in our society through participation in the ownership of businesses. This assistance will be provided by (1) extending loans through a relaxation of customary credit standards to qualified borrowers, and (2) extending guidance and counsel to the management of these companies.

STRUCTURE:

The Minority Loan Program should be structured so as to place it on a level equal to that which is expressed by the bank through its Chief Executive officer. This means that the program should be structured as a department of its own with appropriately titled and salaried personnel. The department should be headed by a person with a title of at least Assistant Vice President. This program should be placed under the responsibility of an officer of the bank's public affairs. The reason for this is two-fold. (1) The person in charge of public affairs is the person in the bank who would most likely have the most exposure to community problems and thereby being our most informed and sensitive person in minority - majority group relations; (2) This program is not a regular lending program and therefore should be given a high degree of autonomy in its operations. By being placed under Public Affairs, it would be apart from the regular lending program which most likely would prevent confusion and a restriction of that autonomy.

PROPOSED ORGANIZATION CHART



LOCATION OF THE MINORITY ECONOMIC DEVELOPMENT PROGRAM:

The MEDP should be housed in the Main Office. Because of the limited number of the bank's branch offices, the MEDP should be a centralized operation.

MEDP LENDING AUTHORITY:

The MEDP should be authorized to approve loans up to the non-guaranteed amount of $100,000 on its own lending authority. Loans in addition to that amount should be approved by a senior credit officer or committee who would be assigned to review these loans for recommendation.

RECRUITMENT:

The MEDP should include the recruiting of minority owned businesses who are in need of capital. This should be an aggressive program to find the type of company who stands a good chance for success. The word "good" has been used in preference to the word "reasonable" because the former implies high standards.

STANDARDS FOR AN MEDP LOAN:

It is popular in present times to believe that standards for loan requests from minority owned businesses should be lowered. The writer agrees with the intent of that statement, but not with the wording. It is the writer's feeling that these standards should be "relaxed" not "lowered". This is not merely a difference in semantics, it involves a difference in philosophies and program structure. Relaxing the standards implies a temporary condition calling for certain actions toward getting the business to the point where regular credit standards can be applied to it. The other concept, lowering the standards seems to fall short of setting up a program that includes corrective actions.

The point of this discussion is to emphasize the idea that quality loans should be the rule rather than the exception. The MEDP should never give the impression that it is a "give-away" program. It should earn the reputation of being a program for the large number of minority persons who through hard work and preparation, deserve the consideration of this program.

CONDITIONS ATTACHED TO LOAN:

Every loan request that is approved should have within the company's management:

1. A knowledge of the critical factors for success in that particular business.

2. An understanding of basic business skills.

3. A contingency plan for rapid growth or failure.

WORKING CAPITAL:

Loans should be extended only after a complete analysis of the capital needs of the company has been conducted, assuring that there is enough working capital included in the loan to provide the borrower with ample operating capital to build up sales before having to meet the loan payments. Deferment of payments for 90 days or more would help to accomplish the above.

VISITING THE BUSINESS:

The bank should not approve a loan until someone representing the bank has visited the location of the business. It is very important that after the loan is made, there be close contact maintained with the borrower through telephone conversations and visits to the place of operations.

MANAGEMENT ASSISTANCE: (The most critical problem)

The bank should establish a program to assist these businesses with management advice when needed. The bank should develop its resources either internally or externally to accomplish this. Management Associates and bank officers could possibly be recruited to aid the MEDP staff to provide this assistance. The other alternative is to contract with a minority management company who would keep a close watch on these companies for the bank. This latter approach might possibly be less expensive than the former, but the bank's direct involvement would be reduced.

LOAN CEILING:

There should not be a ceiling on the dollar amount of loans for the MEDP. Instead, a guidance amount should be used. This strengthens the quality of the commitment and eliminates the possibility of projecting a "let's take a look" attitude toward the program.

GUARANTY:

The attitude toward these loans should be one of full commitment to the full amount of the loan. Overdependence on the SBA 90% guarantee can result in something less than the recommended full commitment as well as a laissez faire attitude toward the loans themselves.

LOCATION:

The loans should be extended to companies in the Manhattan area primarily, and on a highly selected basis in the other boroughs. This should be done initially to give the program time to develop the necessary experience before spreading the loans over a wide area.

3-DAY AGREEMENT:

The bank should participate in the three day program with the Small Business Administration.

CONCLUSION:

Based on the time alloted for this study and the amount of information available, a more exhaustive report was beyond the writer's recources. However, the writer feels that the information provided in this report will adequately serve the purpose as a beginning to a more in-depth study of the art of minority lending.

Because of the above, the writer feels that there are areas discussed in this report that require additional investigation and analysis. Some of these areas are;

1. Providing technical assistance
2. Recruiting the "quality loan"
3. Structuring the minority loan program
4. Involving bank personnel and
5. Finding and evaluating the reasons for failure.

In addition, there are other areas which were not discussed in this report that also require investigation. Some of these are:

1. The type of personnel needed for this program
2. The possibility of the necessity for a training program for the persons assigned to work in this program and
3. The coordination of this program with other bank programs in New York City.

Finally, but certainly not the least of importance, is setting up a procedure for continuous evaluation of the effectiveness of the minority loan program.

APPENDICES

APPENDIX A

LOANS MADE BY MARINE MIDLAND BANK - NEW YORK ON SBA GUARANTY

	NAME	LOAN AMOUNT	DATE
(1)	SAM POLLACK	$ 14,000.00	1/31/69
(2)	RALPH & DEE FOOD MARKET	20,000.00	1/31/69
(3)	ELLIS AMBULANCE SERVICE	15,000.00	2/3/69
(4)	ARTE'S DELI	10,000.00	2/5/69
(5)	JOHN'S AUTO BODY	10,000.00	2/7/69
(6)	RAYAD, INC.	20,000.00	2/14/69
(7)	WILEVI ENTERPRISES	25,000.00	2/14/69
(8)	NICKEY PAINTING	10,000.00	2/17/69
(9)	ST. ALBANS PRINTING CO.	15,000.00	2/26/69
(10)	PARKWAY KENNELS	15,000.00	3/10/69
(11)	J & P MEATS	15,000.00	3/27/69
(12)	ERNEST STEWART	19,000.00	4/2/69
(13)	MILLER & IVY DAVID	25,000.00	4/9/69
(14)	KEITH LLOYD CUNNINGHAM	25,000.00	4/11/69
(15)	OPTIMUM COMPUTER SYSTEMS INC.	80,000.00	4/17/69
(16)	MAC'S SOUNDS INC.	25,000.00	4/29/69
(17)	TEDDY BEAR CLEANERS	22,000.00	4/30/69
(18)	GEORGE E. VINCENT FUNERAL	25,000.00	5/16/69
(19)	DAVID U. EVERETT	11,000.00	5/19/69
(20)	SIDNEY C. THOMAS	35,000.00	6/30/69
(21)	MYRTLE AUTO PARTS	11,000.00	7/30/69
(22)	G & L COLOR LABS	21,800.00	8/20/69
(23)	BENJAMIN DAVIDOW	5,000.00	10/30/69
(24)	JUNO CLEANERS	44,000.00	7/17/70

Continuation of APPENDIX A

NAME	LOAN AMOUNT	DATE
(25) RANDOLPH BLAIR	$ 26,000.00	12/11/70
(26) MERCURY PHOTO ENGRAVING	15,000.00	3/2/71
TOTAL LOAN AMOUNT	$ 558,800.00	

APPENDIX B

LOANS THAT FAILED

NAME	LOAN AMOUNT	DATE
SAM POLLACK	$ 14,000.00	1/31/69
ARTE'S DELI	10,000.00	2/5/69
JOHN'S AUTO BODY	10,000.00	2/7/69
RAYAD, INC.	20,000.00	2/14/69
NICKEY PAINTING	10,000.00	2/17/69
PARKWAY KENNELS	15,000.00	3/10/69
ERNEST STEWART	19,000.00	4/2/69
OPTIMUM COMPUTER SYSTEMS INC.	80,000.00	4/17/69
MAC'S SOUNDS INC.	25,000.00	4/29/69
TEDDY BEAR CLEANERS	22,000.00	4/30/69
TOTAL LOAN AMOUNT	$225,000.00	

APPENDIX C

LOANS BY AREA

BROOKLYN ----------	10
MANHATTAN ---------	6
LONG ISLAND -------	1
TARRYTOWN ---------	1
BRONX ----------	2
QUEENS ----------	6

APPENDIX D

NO.	NAME	TYPE OF BUSINESS	ANNUAL SALES/OR PROJECTION	AMOUNT OF LOAN	AMT. OF WORK. CAP.	YEARS IN INDUSTRY	MMG. EXPERIENCE	BUSINES COURSES
1.	Sam Pollack	Retail	$ 50,000	$14,000	$ 6,500	8	--	N/I
2.	Ralph & Dee Food Market	Retail	120,000(P)	20,000	2,000	25	Yes	N/I
3.	Ellis Ambulance Service	Service	11,000	15,000	3,200	5	--	N/I
4.	Arte's Deli, Inc.	Retail	50,000	10,000	3,600	11	--	N/I
5.	John's Auto Body	Service	32,000	10,000	1,300	25	--	N/I
6.	Rayad, Inc.	Service	83,000	20,000	4,800	N/A	--	N/I
7.	Wilevi Enterprises Inc.	Retail	65,000	25,000	9,800	N/A	Yes	N/I
8.	Nickey Painting	Retail	27,000	10,000	None W/C inven	10	Yes	N/I
9.	St. Albans Printing Co.	Service	28,000	15,000	3,000	N/A	--	N/I
10.	Parkway Kennels	Retail	58,000 (8 mos.)	15,000	7,600	N/A	--	N/I
11.	J & P Meats	Retail	171,000	15,000	N/A	8	--	N/I
12.	Ernest Stewart (Grocery)	Retail	N/A	19,000	None	7	--	N/I
13.	Miller & Ivy David	Retail	21,000	25,000	2,600	N/A	--	N/I
14.	Keith Lloyd Cunningham	Service	22,000(P)	25,000	N/A	N/A	--	N/I
15.	Optimum Computer Systems Inc.	Service	--	80,000	N/A	N/A	--	N/I

(P) PROJECTED (N/I) NONE INDICATED (N/A) NOT AVAILABLE

NO.	NAME	TYPE OF BUSINESS	ANNUAL SALES/OR PROJECTION	AMOUNT OF LOAN	AMT. OF WORK. CAP.	YEARS IN INDUSTRY	MMG. EXPERIENCE	BUSINE COURSES
16.	Mac's Sounds Inc.	Service	$ 2,500	$25,000	Included in Supplies & start-up	11	--	N/I
17.	Teddy Bear Cleaners	Service	44,000	22,000	$ 4,500	N/A	--	N/I
18.	George E. Vincent Funeral	Service	48,000	25,000	5,000	5	--	N/I
19.	David U. Everett	Service	20,000(P)	11,000	2,500	9	--	N/I
20.	Sidney C. Thomas Fashions	Retail	150,000(P)	35,000		25	--	N/I
21.	Myrtle Auto Parts	Retail	48,000(P)	11,000	3,000	15	--	N/I
22.	G & L Color Labs	Service	41,000	21,800	5,000	--	--	N/I
23.	Benjamin Davidow	Retail	18,000(P)	5,000	3,000	3	--	N/I
24.	Juno Cleaners	Service	77,000	44,000	1,840	--	--	N/I
25.	Randolph Blair	Service	20,000(P)	26,000	1,700	--	--	N/I
26.	Mercury Photo Engraving	Service	292,000	15,000	None	Yes	--	N/I

PROPOSED STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

APPENDIX E

MINORITY LOAN PROGRAM

In recognition of the fact that minority owned businesses only comprise 1% of all the businesses in the U.S. and in order to fulfill our belief that every citizen has the responsibility to do what he can to help solve today's social problems, Marine Midland Bank - New York is increasing its activities as a corporate citizen in the area of extending loans to minority owned businesses.

This policy is being established with the understanding that minority lending requires imagination and sensitivity beyond the normal requirements expected of lending officers. This policy is also established with the belief that minority lending can become a profitable program if it is geared in that direction.

Therefore, Marine Midland Bank - New York has established a Minority Economic Development Program (MEDP) to concentrate in the area of making loans to minority owned businesses. Rather than set a dollar amount, we are pledging to do all we can to provide funds and management assistance to these businesses. We therefore, are establishing a guidance amount of $ _____ for this program. The Bank firmly believes that lowering credit standards is not necessary to accomplish our objective, however; relaxing the standards for a period of time will permit the management of these businesses to develop their talents to operate a profitable business.

This program will be directed by Mr. _____ and will be located on the _____ floor of our Main Office. The program will function under the newly established Public Affairs Department. All personnel are to direct persons interested in a minority business loan to _____ and his staff. Your assistance and cooperation in this program is needed and will be greatly appreciated.

Chief Executive Officer

APPENDIX F

PROGRAMS AT OTHER BANKS

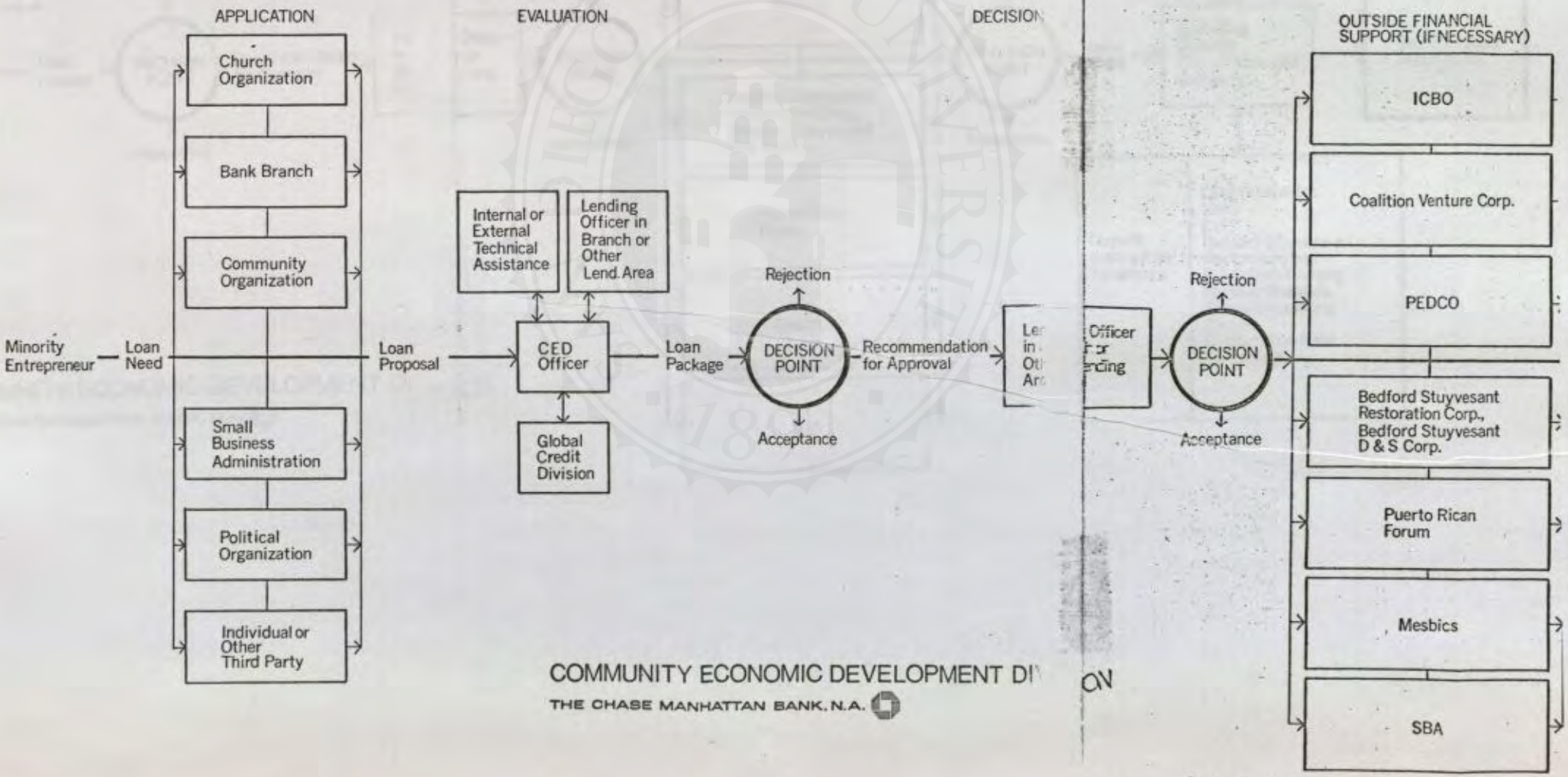
Before setting up a program to make loans to minority owned businesses, it should prove useful to take a look at the programs now in existence at other New York banks. The selection of these particular programs was based on their relative success in being able to establish a good loan-loss record.

CHASE MANHATTAN BANK

Chase Manhattan Bank established a Community Economic Development Division in 1969 receiving full endorsement of the Executive Office via an Urban Affairs Policy Statement dated January 14, 1970. The CED Division was set up as a "special lending program aimed at aiding the economic development of disadvantaged areas of the New York City Metropolitan area". Much of its activity is devoted to the financing and counselling of minority entrepreneurs. The CED staff consists of four officers, an administrative assistant and a secretary. The staff gives direction and technical assistance to the bank's lending areas who are ultimately responsible for the loans. Because of Chase's large number of branch offices, the CED program was established as a decentralized operation with the lending areas actually making the loans and assuming the responsibility for those loans. The staff of the CED program attempts to provide the lending officer with analytical assistance and follow-up through the use of credit analyists from the Credit Department. These credit analysts are assigned to the loans with the understanding that they will remain with the loans throughout the duration of their employment with Chase.

The CED Division is not organized to approve loans. However, it concurs in writing with the lending officer's decision to make the loan under the CED program. This loan is then labeled a "CED loan" and prevents a stigma from being attached to the lending officer should the loan result in a loss.

The writer was impressed with the enthusiasm and determination of Chase's staff. However, Chase's program is much the same as other banks in processing a prospective borrower's application. (See attached chart). The difference is in



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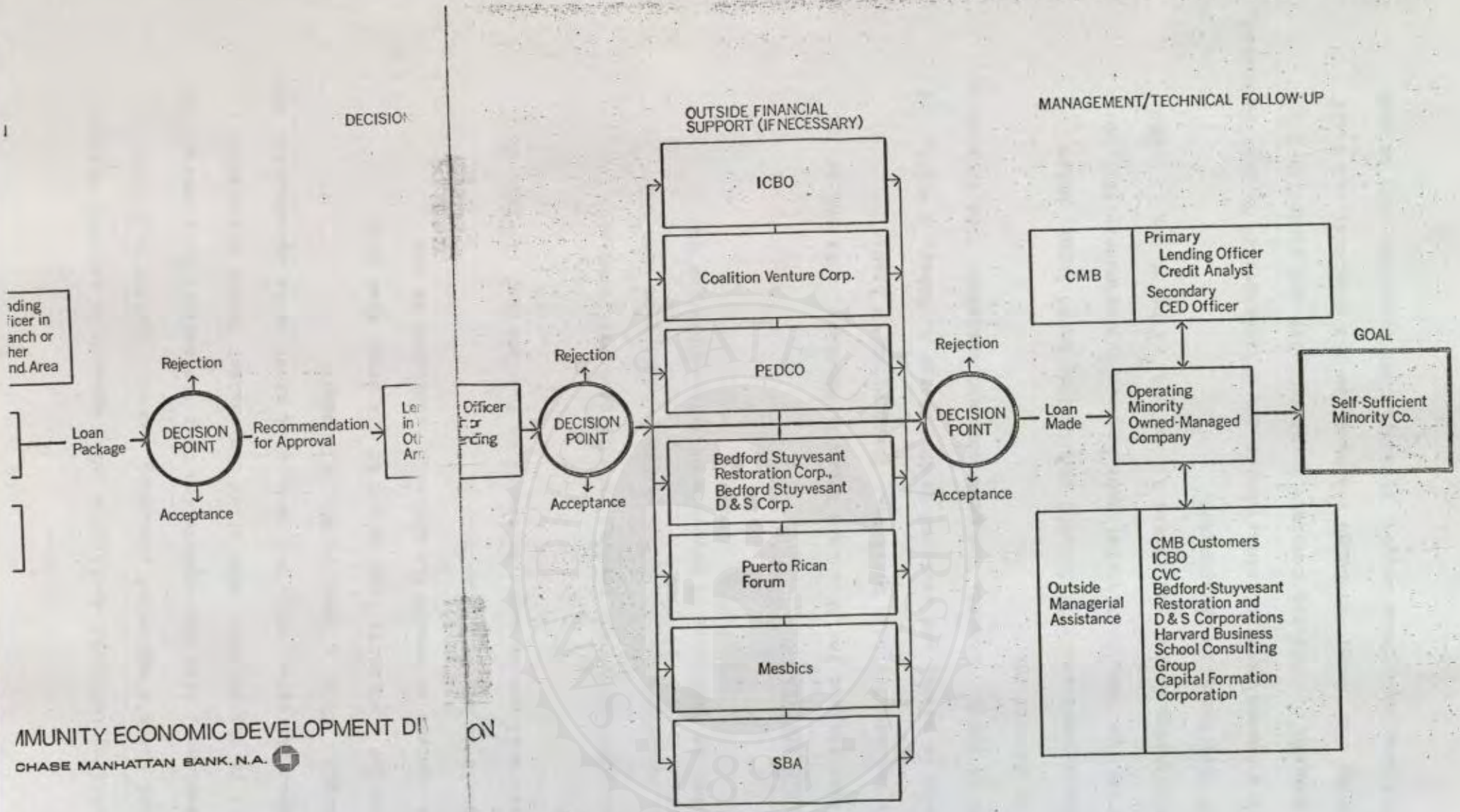
THE CHASE MANHATTAN BANK, N.A.



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CHASE MANHATTAN BANK, N.A.

their method of providing technical assistance (also appears in attached chart). the writer feels that Chase's method of assigning a credit analyst to a case (a minority owned business) with the expectation that the analyst will provide the necessary assistance to the borrower even after the analyst leaves the credit department and pursues his career with the bank, will prove to be unsuccessful and will have to be changed. This is based on the following:

1. The concern for a minority loan is not of the depth that will permit the analyst to devote the necessary attention to the loan unless it is his full-time duty.
2. The analysts will not be eager to travel to the "ghetto" to visit the businesses.
3. It will be difficult for the analyst (who is probably young and relatively inexperienced) to obtain the type of rapport with the borrower that is necessary to overcome certain suspicions and distrust.

NATIONAL BANK OF NORTH AMERICA

The minority loan program for this bank began in November, 1969 and is called the Business Opportunity Loan Division. The program is headed by Mr. Robert L. Cox who is black, and assisted by Mr. George A. Seher, a white, and Mr. Ken Jackson who is black. Messrs. Cox and Moran are Assistant Vice Presidents while Mr. Jackson is non-titled.

The program has approximately $1,500,000 outstanding in 85 loans, which consists of 60 SBA and the remainder installment loans. Approximately $250,000 of the $500,000 outstanding is not guaranteed by the SBA. Five of the 85 loans have failed, two of them being SBA guaranteed.

The program is a centralized location, having its offices located in West Hempstead, Long Island. The program's staff has complete responsibility and authority for making and maintaining the loans. Although the bank has 115 branches, the staff feels that until the program becomes larger, a centralized operation will be more effective.

Mr. Cox, the Director of this program, has had limited experience in credit, coming from the operations side of the bank. However, his experience in working with the Black community was regarded as a critical factor and that along with his banking experience qualified him for this position. The bank added the credit arm to this program by assigning Mr. Seher, a white person sensitive to the problems and aspirations of minorities, to assist Mr. Cox while he increases his knowledge and experience in credit.

The program functions under the Bank's Urban Affairs Department which was organized earlier in 1969 to provide more effective coordination of the Bank's program of assistance to minority groups. The staff reports directly to the person in charge of the Bank's Public Affairs and Corporate Development.

The writer was impressed with this program and the staff responsible for its implementation. The National Bank of North America has an impressive loan-loss record of 5.9% overall, and 3.3% of SBA guaranteed loans. This success can be attributed for the most part to the Bank's having established a program and staff to handle these loans before any of these loans were actually made.

APPENDIX G

OUTSIDE SOURCES OF FINANCING

- SBA (Guarantees 90% of total amount of loans up to $350,000)
- ICBO (Guarantees 50% of loans. No maximum amount specified. Also provides equity financing.)
- PEDCO
- BanCap
- OTHER MESBICS
- OTHER BANKS (Participation)