

Perspectives

Good Fortune

Team Effort by Bank, Multibank CDC and MESBIC Helps Chinese Food Producer Thrive

When Gene Chung opened an egg roll production business in 1987, expansion was the last thing on his mind. All he wanted was for his business, Chung's Gourmet Foods, to make it through the first year—the time when new businesses attempt to build the foundation for a profitable future.

"I didn't have much experience in the food business," says Chung, who previously worked in the acoustic engineering department of General Motors Corp. and owned and operated a laundry business. "But I felt like there was a real market for our product."

Chung says less than six years after he opened his company, which is located in Houston's low- to moderate-income Third Ward, it was growing faster than he ever imagined. So fast, in fact, that the business couldn't keep up with demand.

"We started with five employees and by 1993 we had 200," Chung says. "Our success made us think about plans for the future."

Chung says those plans included introducing a new product line, Oriental entrees, and hiring additional employees. With a growing customer base and a strong market share, Chung felt expansion would make it easy to increase revenue. The challenge, he says, was obtaining the financing he needed for growth.

"We didn't know how we were going to get more money," says Chung, who had originally financed his company with money from an individual investor. "But we were looking for a way to capitalize on our growth."

Chung, who had negotiated a real estate purchase with First Interstate Bank of Texas in 1990, returned to the

Gene Chung was able to expand his egg roll production business after receiving a loan arranged by Alliance Financial of Houston.

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Public & Private Partnership

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bank for a \$1.5 million loan.

But because Chung's Gourmet Foods was growing faster than its capital would accommodate, the company didn't qualify. The problem is common with new, fast-growing companies, says Frank Yonish, a vice president in business banking with First Interstate.

"This company was established and profitable," says Yonish, who already managed Chung's real estate loan. "We wanted to help him any way we could."

Yonish contacted Alliance Financial of Houston. Alliance provides financing for small, minority-owned and woman-owned businesses through two funds—MESBIC Financial Corporation of

Houston and the Greater Houston Small Business Equity Fund Inc., a multibank community development corporation (CDC).

Yonish was familiar with Alliance because First Interstate had recently sponsored a training session for all of its commercial lenders. The session, which was conducted by Alliance, informed Yonish about new strategies that could assist Chung.

"I thought this would be a way to give Dr. Chung the help he needed and allow the company to improve its capital position," Yonish explains. "This training session I attended gave me some really good ideas about the financing resources MESBIC and the multibank CDC could provide."

Combined, the programs provided Chung with \$500,000 in subordinated debt with flexible repayment terms.

First Interstate added \$1.65 million to consolidate the company's existing equipment loans and pay for new equipment purchases. The bank also

"What we do is provide a credit enhancement that makes banks feel more assured the loan will be repayed," says Attilio F. Galli, president and chief executive officer of Alliance Financial. "By utilizing our products and services, banks can make a stronger loan."

provided an additional \$1.5 million as a revolving line of credit.

"This type of financing package met all of the customer's needs," Yonish says. "It turned out to be a real benefit for everyone involved. But without Alliance, this wouldn't have been possible."

Established in 1993, Alliance Financial has supported the development of nine companies in the Houston area. The flexibility of the funds it administers provides businesses debt or equity financing that otherwise might not be available.

Alliance—through the multibank CDC and MESBIC—provides banks a



Frank Yonish and Linnet F. Deily of First Interstate Bank and Attilio F. Galli of Alliance Financial worked together to provide Chung's Gourmet Foods with financing that would allow the company to expand.

Fast Facts

Alliance Financial of Houston

Purpose:

Alliance Financial of Houston Inc. is a private, nonprofit company whose mission is to assist small businesses and stimulate economic growth in the greater Houston metropolitan area.

Available Financing Programs:

Greater Houston Small Business Equity Fund Inc.— The fund was organized through the cooperative efforts of Houston-area banks and corporations to supply an additional source of equity for successful small businesses with opportunities to expand. It provides short- and long-term debt and equity financing. At least 80 percent of the investments will be made in minority- and/or woman-owned small businesses. The remainder may be made in small businesses capable of generating jobs for low- and moderate-income individuals.

MESBIC Financial Corporation of Houston—MESBIC is a for-profit corporation operating as a specialized small business investment company. It provides long-term debt and equity financing for minority- and woman-owned small businesses.

Small Business Eligibility Requirements:

Operating for at least one year; net worth of less than \$6 million and annual earnings averaging less than \$2 million; history of profitability; greater Houston area; competent management; growth potential; and willingness to have Alliance representation on its board of directors.

Financing Package for Chung's Gourmet Foods:

First Interstate Bank of Texas N.A.	
Revolving line of credit	\$1,500,000
First Interstate Bank of Texas N.A.	
Equipment term financing	\$1,650,000
MESBIC and Greater Houston Small Business Equity Fund Inc.	
Subordinated debt	\$ 500,000
	<hr/>
Total Loan Package	\$3,650,000

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vehicle to make equity investments that benefit the community.

"What we do is provide a credit enhancement that makes banks feel more assured the loan will be repayed," says Attilio F. Galli, president and chief executive officer of Alliance Financial. "By utilizing our products and services, banks can make a stronger loan."

Evidence of the success of using this type of partnership is Chung's Gourmet Foods. Since receiving the loan that financed the company's expansion in December 1993, Chung's sales have increased approximately 30 percent. Recognized recently as one of Houston's fastest-growing companies, the business expects to improve upon its 1994 sales of \$16.1 million. The company recently hired an additional 90 employees.

"The future looks great," says Chung, who was a finalist for a 1994 national entrepreneur of the year award. "The bank did an excellent job of working with Alliance to make this possible."

Linnet F. Deily, First Interstate Bank of Texas chairman, president and CEO, and an Alliance board member, says Chung's investment package is the perfect model of how a multibank CDC can benefit a customer in need.

"I can't think of a more perfect example of how a bank can leverage its investment in a CDC for the benefit of the bank, the borrower, the CDC and the community," Deily says. "Not to mention the business's 340 employees." ▼

R EPORT

In the past, supermarket customers left the store with staples needed for breakfast, lunch and dinner. Now, shoppers can also leave with loans. Banks are using full-service, supermarket-based branches to take their services to the customer, rather than waiting for the customer to visit them.

"I view a supermarket branch as a community outreach effort," says Frank Rosello, assistant vice president and banking center manager for Bank One, Texas, in Dallas. "People are busy, and they benefit from the convenience of banking and shopping in the same place."

Lettuce and Loans

Banks Reach Out to Communities Through Supermarket-Based Branches

- survey indicates 10,000 to 20,000 people visit a given supermarket each week, and 75 percent are not customers of the bank in the supermarket. First-time customers make up 60 to 65 percent of the Fiesta branch customer base.
- "People visit the supermarket just

many store customers had never used a bank's services and instead relied on cash or check-cashing facilities.

"Getting out into the aisles and educating them about our full-service bank is the challenge," he says. "An initial obstacle has been that people think we only provide check-cashing services. They don't know they can open a savings account, invest in a CD or apply for a loan."

Lisa Salter, assistant vice president and in-store branch administrator for Central Bank in Monroe, Louisiana, agrees. "We've found it's easy to attract customers who want to open an account, but getting the customer to consider us for a loan is more difficult."

Salter says Central Bank views the store as the bank's lobby, and so the branches employ retail-oriented giveaways and promotions similar to those used by the store. In a best-case scenario, the branches would like to have such efficient service that a customer could apply for a loan when he arrives at the supermarket, shop and have the loan approved by the time he checks out.

Since opening its first branch in the Super 1 Foods store in a low- to moderate-income area of Monroe in 1990, Central Bank has opened eight additional supermarket branches.

One tool Bank One's Fiesta branch used to create loan volume was refinancing customers' loans that had originated through high-interest finance companies. The branch achieved a 96 percent loan-to-deposit ratio at the end of its first year. "Refinancing these loans allowed us to provide the customer with a loan at a lower interest rate and lower payments—and we've reached a new customer," Rosello says. ▼



Bank branches in supermarkets mean shoppers can apply for a loan when they go to buy milk.

The flexible hours of a supermarket bank branch—usually 10 a.m. to 8 p.m. weekdays and 10 a.m. to 4 p.m. on Saturdays—are also a plus. "Many people are unable to visit a regular bank because they can't get there by 3 p.m.," says Rosello, who managed Bank One's first Dallas supermarket branch in a Fiesta Food Store.

An International Bank Technologies

- over two times a week. That gives us incredible exposure to potential customers," Rosello says. "Supermarket branches also provide us with the opportunity to reach customers who in the past have not felt comfortable approaching a traditional bank."
- The Fiesta that houses Bank One's branch is in a low- to moderate-income neighborhood. Rosello learned that

R ESOURCE

It's a classic catch-22. A customer comes into your financial institution with a great idea for a business. She needs just a little more capital to get it up and running. But she can't qualify for a loan because she doesn't have enough experience running a business—and she won't be able to get more experience running a business if she can't qualify for a loan.

As a lender, you know she could be a much larger customer on down the line, but traditional underwriting standards won't allow you to move forward with any type of commercial funding package. The solution? It might be a micro-enterprise loan program, one of the nation's most rapidly growing vehicles for supporting entrepreneurship.

In essence, micro-enterprise loan programs provide entrepreneurs with access to credit and technical assistance for developing business skills. The programs assist those who want to start a new business, as well as established one- to four-person enterprises that are seeking capital to expand. Loan amounts range from \$250 to \$25,000, with interest rates ranging from 8 to 18 percent and term lengths from three months to six years.

There are few micro-enterprise loan programs administered directly by a single lending institution, but the programs often receive funding or lines of credit from lending institutions, along with grants from foundations and funds through the Small Business Administration (SBA). In addition, lending institutions have established micro-enterprise loan programs in partnership with other lenders and nonprofit community organizations to reduce administrative costs and exposure to risk.

The Big Business of Small Loans

Micro-enterprise loan programs provide innovative lending solution

There are two basic types of loan programs: individual and peer group. WESST Corp. (Women's Economic Self-Sufficiency Team) in Albuquerque, New Mexico, has been extending micro-enterprise loans since 1988.

The group's services are available to anyone who is a resident of the state, has a business plan and collateral, and is willing to present a funding request in person before the organization's loan committee. About 80 percent of the 250 loans WESST Corp. has extended have gone to people living in rural areas of the state. Agnes Noonan is the organization's executive director.

"Generally speaking, the costs are too high and the returns too low for traditional lenders to enter the area of micro-enterprise lending on their own," she says. "But micro-enterprises are the fastest growing segment of the economy, and it may benefit lenders to consider other ways to participate in the growth that's taking place."

Since extending its first loan six years ago with funding from the Sisters of Charity's Seton Enablement Fund in Ohio, WESST Corp. has received grants and in-kind services from several lending institutions, including Bank of America, Sunwest Bank and First Security Bank, as well as a long-term

loan from the SBA's Microloan Demonstration Program.

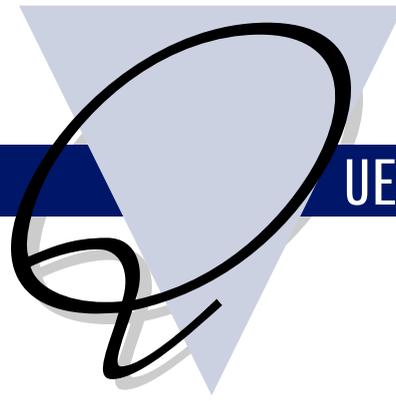
Of the micro-enterprise loan programs geared toward peer group lending, perhaps the best known is ACCION, founded more than 20 years ago as a means of developing lending in Latin America. In a peer group lending format, all loan approval, amount and repayment decisions are made by a group of four to eight members who form a basis of support, as well as pressure, to succeed. Last year, San Antonio became the site for a regional ACCION center, and the response has exceeded expectations.



Kathy Martinez, whose company, Custom Creations, makes personalized bulletin boards, used her ACCION loan to establish a merchant account system for credit card purchases.

"We originally thought we could extend \$80,000 in loans in our first year," says Al Martinez-Fonts, Jr., president of the San Antonio ACCION board and president of Texas Commerce Bank, San Antonio. "But after just seven months, we had already extended \$110,000 in loans, and by year-end we

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Through community development corporations, banks may make equity and debt investments designed primarily to promote community welfare. Such efforts facilitate the economic rehabilitation and development of low-income areas primarily through investments in affordable housing and small businesses. The William Mann, Jr. Community Development Corp. is a Fort Worth-based multibank CDC chartered in May 1994.

What are the CDC's investment goals and objectives?

The member banks of the William Mann, Jr. CDC have invested \$850,000 in equity capital to provide debt financing to small businesses. Fifty percent of the CDC's investments are targeted to the southeast sector of Fort Worth, a primarily low- to moderate-income community that has been historically underserved by banks. The balance of the funds may be used in any low- to moderate-income neighborhood in Fort Worth. Our mission is to assist small, minority- and woman-owned businesses, with a focus on providing job opportunities for low- and moderate-income people. We started with a goal of making at least five loans and retaining or employing 10 individuals through these loans during the first year.

After talking to well-established CDCs, we decided to initially offer only subordinated debt financing. Until we are comfortable and well-educated about the CDC process, it seems to be the simplest process. As we become more comfortable, we will begin to look at larger businesses or fledgling businesses that need additional capital, then branch out and take an equity position. We also hope to offer lines of credit to businesses, but now we are

Forming a Community Development Corporation

A discussion with Glenn Forbes, vice president, Bank One, Texas N.A. and interim director, William Mann, Jr. Community Development Corp.

- strictly providing term loans.
- At present, the maximum loan to one entity is \$100,000. Initially, our average loan or average investment will be \$15,000 to \$50,000. Our plan is that whatever dollars we lend will be leveraged on a four-to-one basis with an investor bank. We want to encourage our investor banks to do as much as possible in the particular loan relationship, rather than rely fully upon the CDC.

Who are the partners in the CDC?

- We currently have nine investor banks: Bank of America; Bank One, Texas N.A.; Central Bank & Trust; Comerica Bank-Texas; First Interstate Bank, Texas; NationsBank; Overton Bank & Trust; Texas Commerce Bank; and Summit Bancshares. Our nonbank partner is the city of Fort Worth.

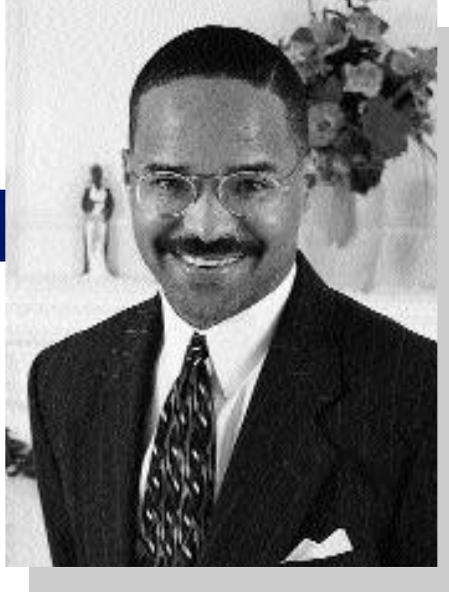
- Eight banks provided \$100,000 in equity capital; one contributed \$50,000. The city of Fort Worth contributed \$100,000 in Community Develop-

ment Block Grant funds to support administrative expenses. We hope to receive city funds for three years, but because it is city funding, we have to appeal to the city council annually.

The Fort Worth Metropolitan Black Chamber of Commerce and local businessman William Mann, Jr., who died in 1993, were instrumental in initiating the CDC. The Metropolitan Black Chamber, along with the Asian, Hispanic, American Indian and Greater Fort Worth chambers, are partners. We also have a partnership with the Fort Worth Economic Development Corp., which administers a revolving loan program for the city and provides SBA financing for businesses, and the Business Assistance Center, which provides small businesses with technical and managerial assistance. We have a diverse partnership and board to ensure we maintain a good understanding of the community's needs.

How is the CDC staffed?

Currently, I serve as interim director on loan from Bank One. We have a candidate for permanent director, and once a director is hired, part-time assistants will be provided from the investor institutions. We also have been fortunate to receive assistance from an investor bank, Overton Bank & Trust, that provides loan operations support for the CDC to enable us to expedite turnaround on loan requests. This institution's support allows us to generate management reports, loan reports, billings and so on. In addition, NationsBank provided furniture and some equipment we needed to set up shop, and Bank One located a facility to house the CDC that is ideally suited to serve our market.



What marketing strategies is the CDC using?

Each loan officer at the member institutions has a placard on his desk that says "Participating member of the William Mann, Jr. CDC." The banks are an integral part of the CDC's marketing efforts because they are the first point of contact for potential customers.

Educating participating lenders about the CDC is essential. We've put on a number of presentations and workshops for our lenders so they understand the CDC's guidelines.

By learning more about the CDC, lenders will be better able to recognize potential customers and how to use the CDC to make loans. Education increases banks' commitment to the CDC. Banks have to believe in the CDC and actively support it to ensure its success. We want to prevent a situation in which the community says the CDC will never work because banks are not utilizing it to assist customers.

We also have been actively educating neighborhood, economic development and community organizations. We've made presentations to the Fort Worth Community Development Council, chambers of commerce and business owners to explain what the CDC can offer.

We are seeking out those organizations that interact with the community and would know about economic development opportunities.

We developed a brochure, which the chambers distribute, that contains basic guidelines about how the CDC is governed. In addition, students from Texas Christian University are studying the CDC as a marketing project, and they are preparing a marketing plan and a new, expanded brochure for us.

"Each loan officer at the member institutions has a placard on his desk that says 'Participating member of the William Mann, Jr. CDC.'"

Does the CDC provide technical assistance to its customers before and after the investment?

Our role is to provide technical assistance before the investment. To reduce confusion, we have positioned ourselves as the financing arm. If someone needs technical or managerial assistance, we match them with a partner whose primary focus is on providing that type of assistance.

The information we request when considering a loan is similar to the information the banks request. We don't want banks to ask the customer for 10 documents, and then the CDC ask them for 15 additional documents. This would create confusion for customers. We employ the KIS method—Keep It Simple.

Has the CDC set up a system to monitor its own performance?

Yes. Because we are funded in part by the city, we are required to provide monthly reports to keep city offi-

cials abreast of our activities so they can justify their investment. They want to know we are meeting our goals and objectives. The CDC board meets monthly, and we also present the report to them. We discuss referrals from the CDC to the banks or referrals from the banks to the CDC, presentations we've made and opportunities in the market we might want to fund.

Once an investment is made, it is incumbent upon the CDC to monitor it. We have an agreement between the customer, the bank and the CDC that states that the CDC has the authority to call the customer's financial institution to obtain additional information.

What advice do you have for banks and communities interested in creating a CDC?

Forming a CDC is an excellent idea, but you must first determine if you are committed to making it work for the benefit of businesses and communities rather than doing it to benefit your CRA rating. If the commitment is not there, you probably have opened yourself up to more criticism than you would otherwise receive. In the CDC's organization, involve as much of the community as possible. We put together a one-time task force of 30 representatives that included community leaders, business organizations and small business owners to discuss the concept and determine if a CDC was feasible and needed.

We also used a consultant, but there are other options. I recommend considering whether a consultant is needed, based on your market and the CDC's vision, goals and objectives. There are enough CDCs in Texas that collectively could provide organization-

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will probably hit the \$200,000 mark.”
Martinez-Fonts says the success of loans going out has been matched by the success of repayments coming in. Of the 80 loans extended, he says, there have been no defaults and only 12 instances of a late payment—and that’s with no grace period.”

Among the financial institutions and organizations that have provided credit or funds for the San Antonio ACCION center are Texas Commerce Bank, First Interstate Bank, Frost National Bank, Broadway National Bank, USAA Federal Savings Bank, the Levi Strauss Foundation and Southwestern Bell Corp.

“The value of micro-enterprise lending is that it fills a real need in the community—a need that, without micro-enterprise loans, would be filled by sources of credit that can charge up to 290 percent interest,” says Martinez-Fonts. “I think the lending community realizes there have to be better alternatives, and I believe micro-enterprise lending is among the best.” ▼

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al information to minimize the need to use a consultant. I recommend calling CDCs to get their input. No CDC operates in exactly the same way, but you can get a good understanding about the basic framework by talking to other CDCs. Many will even share documentation that is not related to customer confidentiality.

We chose, for the most part, to be equal partners. That’s not the same for all CDCs. As we go forward, we will let banks that want to be stronger investors do so. We would then reevaluate how those board members’ roles would dif-

DID YOU KNOW . . . ?

*Amendments Streamline
Community Development
Investment Approval Process*

On January 9, 1995, amendments to Federal Reserve Board Regulations H and Y became effective.

These amendments allow certain state member banks and bank holding companies to make equity investments designed primarily to promote community development and the public welfare without prior regulatory approval, provided established requirements are met.

Additional information regarding these investments is included in Notice 95-04 from the Federal Reserve Bank of Dallas. For a copy of this notice, contact the Dallas Fed’s Public Affairs Department at (800) 333-4460, ext. 5254.

fer from those of board members whose banks or organizations are lesser investors because of capital constraints or size of the institution or corporation.

Another issue is to have bankers sitting at the board table who feel they can step out of the arena of being a banker and wear a different, more creative hat. Initially, executives at the institutions serve on the board, but a year down the road we may bring in managers from small business divisions or retail divisions who have more direct contact with the businesses the CDC is trying to serve. ▼

Greer Appointed to Federal Reserve Advisory Council

The Board of Governors of the Federal Reserve System has appointed Robert G. Greer to its Consumer Advisory Council.

Greer is the chairman of Tanglewood Bank in Houston and a past president of the Texas Bankers Association and past director of the Dallas Fed.

The Consumer Advisory Council is made up of 30 members who represent consumers, lending institutions and other sectors.

Members, who are appointed for three-year terms, meet three times annually to inform the Board of Governors of consumer concerns.

Perspectives

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