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## Small Business Administration: Hype or help?

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By Sandra Roberts Bell

# HELP *or* HYPE?

***The SBA has been a blessing to many, but some say it still hasn't fully lived up to its promises.***

For years, the U.S. Small Business Administration has had a reputation as a non-responsive bureaucracy ensnarled in red tape. It was said it was easier to sell homeowner's insurance to a homeless person than it was to get a loan through the agency, which was created to provide financial, technical and management assistance to small businesses.

In recent years, however, the SBA has introduced a variety of new loan programs designed to reduce the amount of paperwork and streamline procedures, allowing for greater access to borrowers.

One nationwide program the SBA has had some success with is its low documentation loan program, LowDoc, which is meant to require less paperwork.

The program, in which the SBA guarantees loans for up to $150,000, promises to have a quick turnaround, though applicants must still meet the bank's requirements.

Barbara W. Victrum, owner of Dreams Florist at 1733 Candler Road, is singing the agency's praises. Within a few weeks of applying, her $85,000 loan was approved by the SBA in conjunction with Citizens Trust Bank.

"This is a dream that I've always had to own my own building," says Victrum, who had been working out of her home when she visited the Atlanta Empowerment Zone's *One Stop Capital* Shop and was given a book describing SBA loans. When her accountant suggested she try Citizens Trust, she followed through and it paid off. She closed on her loan the day after Valentine's day.

Victrum's smooth experience is an example of the new image that the SBA is trying to sell to potential borrowers.

Still, minority business associations, such as the Atlanta Business League, wonder what good the SBA is (the agency doesn't actually make direct loans but guarantees them) if borrowers still have to go through a bank to get the money.

SBA's assistant district director for Capital Access, Dwight Reynolds, says that might be a blessing in disguise. If SBA were making loans directly to businesses that needed them, instead of guaranteeing them, the number and dollar value of loans would go down dramatically, he says.

"If we were making a direct loan, for example for $100, it would cost the whole $100 plus administrative costs," he says. "But when we guarantee a loan, it only costs us $2 for every $100 we guarantee."

According to Reynolds, the Clinton Administration has had an almost three-year emphasis on increasing SBA lending. In Georgia, lending has increased dramatically, with a 32 percent rise, from 100 to 132 in 1999 alone.

"We [Georgia] had the largest number of loans to African-Americans of any

Phillip McCollum

**When dreams come true:** An $85,000 SBA loan helped Barbara Victrum move Dreams Florist out of her home and into her own shop on Candler Road.

district in the country," Reynolds says. "Of course we will never be fully satisfied with the number and amount of lending." The 132 loans made in Georgia, during fiscal year 1999, translated into $40 million, according to Reynolds.

The SBA also responds to the criticism about direct lending by pointing out that, through its intermediaries, such as the Greater Atlanta Small Business Project, it is in effect making direct loans.

Intermediaries are generally companies with a history of providing technical assistance and lending to minorities. The SBA allows them to borrow funds. These intermediaries then take the SBA funds and loan them to minority businesses.

GRASP director of financial services, Timothy Scott says that since 1993, GRASP has made 41 loans totaling $625,000. Most of the loans were microloans, which are limited to $25,000 per borrower.

"We can make allowances for startups, unsatisfactory credit if there were extenuating circumstances and provide technical assistance to the borrower," he explains. The assistance can take many forms, from entrepreneurial training to assistance in developing a business plan or loan package.

Barbara Whitlow, owner of Lows Enterprises, a manufacturer of electronic components, is not among the SBA's critics. She says she would not have been able to go into business 16 years ago without an SBA loan.

"Banks didn't want to loan to manufacturers and I was a woman," she explains. "I went to SBA directly and I had the money in less than two weeks."

Whitlow adds that she's been able to restructure her loan as her business grew.

"SBA worked with me and I really appreciate it," she says. Her small business loan officer, Richard Kriess, who is one of the few remaining loan officers at the SBA District Atlanta office from the days of direct lending, helped her release the lien on her home and allowed her to extend her payment terms.

Whitlow says because commercial banks are not as sensitive to the needs of Blacks, it's crucial for SBA to make direct loans.

From the early 1970s to the mid-1980s, the SBA did issue direct loans under its Equal Opportunity Loan program. However, due to attacks by the Reagan administration, which threatened to totally abolish the agency, the program was restructured and the agency practically stopped issuing those kinds of loans. Indeed, the EOL program remains on the books but is rarely used.

While others may criticize the SBA for not making more loans, GRASP Executive Director Maurice Coakley feels it's not necessary.

"Sooner or later minority businesses, if they are going to grow and thrive, must get into a relationship with a bank," he says.

Citizens Trust Bank — SBA's only preferred minority lender — shares Coakley's sentiments. A preferred lender is an institution that SBA has deemed certified to approve SBA loans without sending the paperwork to SBA in advance.

Citizens Trust president, Jim Young, says preferred lenders are good news for borrowers because banks like his can now expedite the lending process.

"We're closer to ground zero with minority business than other banks and we thought this was an important service to be able to offer especially to start-ups or requests that were borderline," Young explains.

He says that the SBA provides up to a 75 percent guarantee on the loans, but borrowers should not mistake that for meaning they only need to come up with 25 percent in collateral.

***We [Georgia] had the largest number of loans to African-Americans of any district in the country. Of course we will never be fully satisfied with the number and amount of lending."***
***— Dwight Reynolds***

Phillip McCollum

**No complaints:** Barbara Whitlow says she wouldn't be in business without the SBA's help.

"The entire loan has to be secured with collateral," he says. "If it goes into liquidation, SBA expects to get 75 percent of the collateral liquidation."

What the guarantee does, according to Derek Grayson, assistant vice president of lending at Citizens Trust, is allow the bank to mitigate against a business' weaknesses, weaknesses that would ordinarily make a borrower too high a risk.

Dexter Odom, owner of Milestone Learning Centers at 2939 Midway Road in Avondale and 20 Fairview-Comings in Covington, says he wouldn't have been able to purchase both facilities without the assistance of the SBA. The learning center was acquired via Citizens Trust and the SBA guarantee, under what SBA calls its 7(a) program. The loan amount was $400,000.

The facility in Covington, which his wife, Madryn runs, was acquired via the Community Bank of Georgia, under SBA's 504 program, where the borrower has to come up with 10 percent and the rest through a certified development company, a non-banking entity, which sells bonds to make the loan. That loan amount was $800,000.

"I wouldn't have gotten the loan if it hadn't been for the SBA guarantee," Odom admits.

While SBA's critics do not dispute the fact that the programs are doing some good for those it reaches, an amount that's slowly increasing, observers still contend the SBA would do better by offering more direct loans to Blacks, who, as a group, still don't have equal access to capital and financing because of lingering discrimination and racist lending patterns. AT

Phillip McCollum

**Cash assist:** The Odoms borrowed more than $1million from the SBA to help them open their learning centers.

## Quick REFERENCE

### Key contacts

**Atlanta One Stop Capital Shop**
675 Ponce De Leon
Atlanta, GA 30303
The One Stop Capital Shop is a clearinghouse, providing free access to resources and information, as well as loan packaging services. Provides business development and loan counseling.
Contact: JoAnn Hill, operations manager
404-853-7675

**GRASP Enterprises**
55 Marietta Street, NW
Suite 2000
Atlanta, GA 30303
GRASP is an SBA intermediary that makes loans and provides technical assistance.
Contact: Timothy Scott director of Financial Services
404-659-5955

**Citizens Trust Bank of Atlanta**
75 Piedmont Avenue
Atlanta, GA 30301
Citizens Trust is an SBA preferred lender that can approve for SBA and provide 75 percent guarantee, in addition to full range of consumer and commercial banking programs.
Contact: Derek Grayson, Assistant Vice President
404-659-5959

**U.S. Small Business Administration**
1720 Peachtree Street
Atlanta, GA 30367
SBA provides 7(a) loans, which include Micro-lending, Guaranteed, Pre-Qualification, Cap-lines (line of credits), and 504 loans. Also provided is counseling and training.
Contact: Dwight Reynolds
404-331-0100