

## “Small Business - Big Opportunity”

DALLAS, TEXAS • NOVEMBER 30, 2011

On November 30, 2011, the Travelers Institute<sup>SM</sup> held its fifth in a national series of small business symposia, “Small Business – Big Opportunity.” Co-hosted with and held at the Federal Reserve Bank of Dallas, the event convened regional small businesses, bankers and governmental officials to discuss the business environment in Texas (which is ranked third in the nation for business-friendliness by the Small Business and Entrepreneurship Council) and to better understand the most pressing issues for small businesses. Panelists identified barriers to access to capital, while offering tips for obtaining small business loans, risk management techniques and business continuity planning advice.

The panel was moderated by Joan Woodward, Travelers Executive Vice President of Public Policy and head of the Travelers Institute. Participants included:

- Herbert Austin, District Director for Dallas/Fort Worth, Small Business Administration (SBA)
- Kim Bittle, Regional Vice President, Travelers Select Accounts
- Raymond Cervantes, Acting Regional Director, U.S. Dept. of Commerce/Minority Business Development Agency (MBDA)
- Victor Elmore, CEO & President, Texas Mezzanine Fund, Inc. (TMF)
- Ana Hernandez, Vice President, Commercial Banking, BB&T, and President of the Hispanic Bankers Association of Texas
- Alfreda B. Norman, Vice President of Community Development, Federal Reserve Bank of Dallas
- Elizabeth Sobel Blum, Community Development Research Associate, Federal Reserve Bank of Dallas

- D’Ann Petersen, Business Economist, Federal Reserve

Joan Woodward kicked off the discussion by highlighting the fact that as one of the largest insurers of small business in the U.S., Travelers believes small businesses are an economic engine of the United States and the sector is a driver for creating and sustaining jobs. She went on to say that the company can see firsthand how many small businesses are struggling in today’s economy, and that the company’s goal is to help small businesses thrive and not just survive. The Travelers Institute is hosting the “Small Business – Big Opportunity” symposia series to raise awareness of the challenges small businesses are facing, and to propose solutions to these challenges.

Alfreda B. Norman welcomed attendees on behalf of the Federal Reserve Bank of Dallas. She shared that the Federal Reserve Bank of Dallas’ Community Development Office promotes community and economic development and fair and impartial access to credit by facilitating partnerships, organizing and hosting conferences, and conducting research. She spoke about their specific areas of focus, which include small business/microenterprise development, community development investment and financing, fair lending, personal financial education, affordable housing, and healthy communities.

Elizabeth Sobel Blum, of the Dallas Fed’s Community Development Office, pointed out that the day’s discussion would focus on established small businesses that are interested in growing and creating jobs. Sobel Blum also noted that the symposium is part of the Dallas Fed’s continuing conversation on small business and entrepreneurship, and highlighted its online Small Business and Entrepreneurship Resource Center.



L to R: Raymond Cervantes, Herbert Austin, Ana Hernandez, Joan Woodward, Alfreda B. Norman, and Victor Elmore



Alfreda B. Norman, Federal Reserve Bank of Dallas

D'Ann Petersen gave an overview of the economic outlook for the Dallas / Fort Worth region. She highlighted that although Texas entered into the recession later than most states, economic conditions within the state continue to pose challenges. While Texas' job growth outpaces that of the U.S., as a whole, the state still isn't adding jobs fast enough to bring the unemployment rate down. She also pointed out that the oil and gas sector is the leading industry for growth in the Texas economy today, while the government and manufacturing sectors have slowed. Finally, she shared the Dallas Fed forecast of moderate job growth between about 1.5 and 2 percent for Texas in 2012.

Victor Elmore defined gap financing and the work of the Texas Mezzanine Fund (TMF) for the audience. In addition to traditional transactions, the organization also supplies the needed funding, usually in a range between \$50,000 to an upper limit of \$750,000 per transaction, to close the gap in what traditional lenders are willing to loan small businesses. Like many alternative lenders, TMF is focused on economic development over profit and sustaining businesses in underserved communities. They work to facilitate access to capital and work with businesses to adjust the terms of their loan as needed. This customization of loans has led to the success of the TMF, where only \$2 million out of a total of more than \$54 million lent in the 13 years has been in default, despite the fact the business model is designed to accept more risk than traditional lenders. Elmore advised the audience to be cautious when looking for alternative funding and consult with their attorneys and accountants. He shared that gap funders tend to be friendly to small businesses and aren't looking for a piece of the business, while venture capitalists and angel investors will want to receive an equity position, participation on the business's board of directors (or similar group), and involvement in certain management decisions in return for providing funding.

Ana Hernandez, in her role in Commercial Banking with BB&T, specializes in assisting businesses that produce between \$1 million and \$50 million in sales. She spoke to the audience about the importance of getting small businesses to understand the "Four Cs

of Credit" to be bankable. The "Four Cs of Credit": cash flow, collateral, character and capitalization, all play an important role to qualify for a loan. She emphasized the importance of the character of the business's owners in today's lending environment plays a much more important role. Hernandez urges all small businesses to understand their business financials and pay careful attention to their leverage. She compared financials to a report card, and emphasized the importance in evaluating business financials regularly and not viewing financials as something a business must do for the bank. She also spoke about the importance of access to working capital, and shared that in her experience, businesses with strong balance sheets are the businesses that survived the recession. Hernandez concluded by discussing her efforts as President of the Dallas / Fort Worth Hispanic Bankers Association and the need for professional development programs and attracting Hispanic students into careers in finance.

Herbert Austin discussed how the SBA, through its lending program, incentivizes banks to loan to small businesses by providing a guarantee on the loan. The SBA has no loan minimums and guarantees funds up to \$5 million. He shared that despite the economic climate, 2011 has been a record year of lending for the SBA, providing more than \$882 million in Texas and \$30.6 billion across the country. Austin spoke about how, as part of the American Reinvestment and Recovery Act of 2009, the SBA loan guarantee was increased to 90 percent and fees to businesses were waived. The first day the change took effect, they loaned \$1 billion. Currently the SBA guarantee has reverted back to the pre-stimulus level of 75 to 85 percent for the loan. Austin pointed out that one unexpected benefit of the temporary 90 percent guarantee was that it brought approximately 1,500 banks into the SBA lending program, and most have stayed in the program to date. Austin also talked about the SBA's focus on getting small businesses bankable. They provide free services through Small Business Development Centers and SCORE chapters where small businesses can get paired with mentors and assistance with business plans and how to access financing. He urged businesses seeking to grow to



Attendees listen to the Small Business – Big Opportunity symposium at the Dallas Fed.



look beyond the U.S. and consider exporting their products, and he advised that the SBA is available for guidance in the process. Austin also told the audience about the disaster lending program the SBA has available for communities that are impacted by natural disasters. They issue both business and personal loans up to \$2 million at interest rates as low as three percent which can be paid back over 30 years for federally declared disaster areas or those areas the SBA designates as such.

Continuing the conversation about disasters, Kim Bittle of Travelers spoke about how many small businesses don't have plans in place in the event of a disaster. She reminded the audience about the importance of business continuity planning as it relates to not just natural disasters, but also to business interruptions, such as a theft or a key employee leaving, which impact individual businesses. Travelers survey data has shown that 45 percent of small businesses have no business continuity plan in place. She advised the audience to use their insurance agents as a resource for building the plan.



D'Ann Peterson, Federal Reserve Bank of Dallas

During the question and answer period, audience member Bill Cox, Vice President of the Carey Cox Company, a North Texas-based commercial real estate brokerage firm, spoke about the uncertainty small businesses face today. A small business as well, Cox's company works with more than 50 small businesses in the region. His advice to fellow small business owners is to build strong relationships with a source of capital, whether with a bank or an alternative lender. In his experience, he has found that businesses without these relationships won't get the funds they need over the long-term. His company has been able to add employees and grow the business, but he shared that he still goes home every night wondering if it's going to continue.

Woodward also polled the audience for their thoughts on the proposed payroll tax cut for employers. One audience member shared that the proposal isn't enticing if the cut remains for just one or two years. He would not hire an employee knowing more taxes were imminent. He also spoke about the burden that licensing puts on his businesses, likening it to a constant tax increase.

Panelists agreed about the importance of more small businesses becoming traditionally bankable and raising awareness of the resources available to assist with financials, planning and funding. The challenge the current economic uncertainty presents was acknowledged, but business owners were encouraged to look into procurement and exporting for growth opportunities. Attendees were urged to keep the conversation going and continue to identify possible solutions to current small business challenges.



Bill Cox, Carey Cox Company

Raymond Cervantes spoke about how the Minority Business Development Agency (MBDA) helps minority-owned small businesses with financing, procurement and marketing. Cervantes stated that during fiscal year 2010, MBDA assisted minority businesses with more than \$3.9 billion in financing and procurement opportunities, which in turn created more than 6,200 jobs. He went on to say that as outlined in the 2010 report "Disparities in Capital Access between Minority and Non-Minority-Owned Businesses," minorities have long had problems getting loans, specifically proving they can qualify for the funding and have the experience and the resources to keep the company running. Cervantes views these issues as now having an impact on all small businesses. He urged small business owners to leverage the tools MBDA provides to businesses to help them analyze their business and look at their competitors, as well as how to identify contracting opportunities in all industries and international trade.



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