

Big effort for small business

The Dallas Morning News

Sunday, July 10, 1994

Dallas company helps develop SBA's GreenLine

Ask Jim Mayer what he learned from work with the Small Business Administration in designing its new GreenLine loan program and he quickly talks about setting parameters.

"You really have to set limits on how much time you have to offer," the Dallas businessman says.

"From November to January, we worked on this almost full time. If we had been billing, that would have amounted to \$80,000-plus at this point. Plus out-of-pocket expenses of \$12,000 to \$13,000.



GARY JACOBSON
EXECUTIVE BRIEFING

"For a company barely hitting \$1 million in revenue, that's a big contribution."

Mr. Mayer, president of DiversiCorp Inc., is equally quick to point out that he thinks the results were worth the effort. It's not often that a small company gets a chance to play a big role in developing a new government program. The government listened to his suggestions and implemented many of them.

"Sometimes we can change something that's wrong, and it doesn't always have to be through the legislative process," he says. "I think it's a good philosophy for companies to offer pro bono services where they are able and where it's appropriate."

Mr. Mayer's firm advises struggling companies in turnaround situations. It also offers collateral management programs for lenders. In plain language, that means companies get short-term financing, when they need it, using assets such as inventories and receivables as collateral. Mr. Mayer's company monitors the collateral for the lender.

Unusual move

The SBA's GreenLine program, which will soon be launched nationally, works on a similar basis. It provides a revolving line of credit that expands and contracts to match the cash needs of young companies. It allows for third parties to monitor collateral.

"This is a very important program for us," says SBA associate administrator John Cox. "Lines of credit for small business are few and far between."

The most likely candidates for the GreenLine program are companies with less than \$15 million in annual revenue that need between \$100,000 and \$300,000 in revolving credit. The program provides a five-year commitment for the credit.

In its first full year, Mr. Cox expects the program to do about \$1 billion in loans (fiscal year 1995), or about one-ninth of the SBA total. The SBA doesn't loan money directly to small businesses. It guarantees loans made by banks and other lenders.

Such a lending program is unusual for the SBA, where fixed-payment, fixed-term loans are the norm. Sloan Coleman, a regulatory specialist with the agency, says the SBA tried a revolving credit program in the late 1960s and early 1970s but the losses were unacceptable and it had to be canceled.

"The monitoring and servicing requirements for lending were not well defined then," Mr. Coleman says.

Learning experience

Possibly because of that earlier experience, tests of the new GreenLine program in some regions of the country offered loans that looked more like revolving term loans. They catered more to a lender's peace of mind than a growing company's needs.



The Dallas Morning News: William Snyder

DiversiCorp president Jim Mayer says it's not often that a small company gets a chance to play a big role in developing a government program — and he thinks the results were worth the effort.

"It (the SBA's GreenLine program) is a nightmare of operational difficulties. ... I just wish I had earlier input."

— Wayne Frederick,
Houston collateral
service operator

Mr. Mayer, whose first contact with the SBA about this program was in late 1992, describes the initial GreenLine effort as a "wreck waiting for a junkyard." He says the difference in it and his approach is roughly similar to the difference between a car loan — a set amount repaid in fixed monthly payments — and a credit-card balance that may expand, contract and expand again.

Companies need flexibility. The initial GreenLine program offered little.

"I think it's a good program, and there's a real need for it," says Katherine Marien, president of Allied Capital Lending Corp. in Washington, D.C. "Traditional lenders usually don't want to look at anything under \$1 million."

Getting serious

Mr. Cox says the SBA had a panel of about a dozen advisers from around the U.S. on the GreenLine program. Mr. Coleman says Mr. Mayer was the principal contributor. "There may be some tweaking that still needs to be done, but I think we got a winner," Mr. Coleman says.

Mr. Mayer first met with SBA Administrator Erskine Bowles last July. His involvement began in earnest on a Saturday last October during an all-day meeting with two SBA officials, including Mr. Cox.

Bureaucrats working on a Saturday! From early in the morning until late in the afternoon!

Mr. Mayer says he knew then that the agency, which has been plagued by image problems, was serious about getting a program that worked. Over the next couple months, Mr. Mayer says that he and others at his company virtually redeveloped the entire program.

Points of criticism

Not everyone is happy with the new GreenLine. Wayne Frederick, who runs a collateral service

company based in Houston, thinks the new GreenLine is cumbersome and potentially too costly for the borrower because of the fees to the third-party monitors. "It's a nightmare of operational difficulties," he says.

Mr. Frederick says Mr. Mayer was an effective lobbyist with the SBA. "I just wish I had earlier input," he says.

Mr. Mayer says most companies using the new Greenline will pay between 1 percent and 3 percent a year in fees. The interest rate is capped at 2.25 percentage points over prime.

"Even if they max out, that means most companies would pay 5.25 points over prime," Mr. Mayer says. "That's what they are paying for loans from commercial finance companies. A lot of companies are paying many times that to factoring companies."

Finding the market

Mr. Cox divides companies into three groups, according to credit risk. Companies in the bottom group don't qualify for revolving loans. Companies in the top group are good risks and already get some kind of revolving credit. They don't need the SBA.

The SBA's target is the middle group, three- to five-year-old companies that are growing but haven't established enough of a track record yet to attract bank financing.

In addition to setting parameters, Mr. Mayer offers this advice to business leaders contemplating service to government:

- Understand what you have to offer.
- Know when you should offer it.
- Ask yourself if you are able to complete the task without getting any direct commercial benefit.
- Develop a thick skin so you can take the inevitable criticism.
- Know that the effort will always take longer than you think. "I thought by the end of March it would be a done deal," Mr. Mayer says.

Mr. Mayer acknowledges that his firm has gained some prestige from its involvement in shaping the GreenLine program — and will probably gain some indirect benefit since it is in the business.

"Clearly, when we were working on the program we had to take the position of an unbiased party," Mr. Mayer says. "Some people said how much this benefited us. We couldn't see it."

He says he would get involved with advising the government again, but next time he will limit his time commitment.

Gary Jacobson is Executive Business Editor of The Dallas Morning News.