Remarks Presented to
Federal Reserve Bank of San Francisco
In Support of the
NationsBank/Bank of America Merger

Donald R. Lawhorne
President & CEO
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July 10, 1998
Presentation to Federal Reserve Bank of San Francisco
On Behalf of NationsBank/Bank of America
By Don Lawhorne
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Good afternoon. I am Don Lawhorne, President and CEO of MESBIC Ventures Holding Company, and a Co-Founder and Managing Director of Pacesetter Growth Fund, L.P. Pacesetter is a $46.5 million private equity fund. MVHC is the owner of two of the nation's oldest SSBICs, which were each established in 1970. MVHC has over $64 million in assets with a portfolio of over 50 thriving small businesses. These funds provide equity capital to growing businesses owned and managed by mostly Hispanic-American and African-American entrepreneurs.

In light of time restraints, I am submitting my remarks in writing for the record. I will use this brief time to present the highlights from my formal remarks.

The strategic and economic rationales for the proposed merger of NationsBank and Bank of America are well founded in light of growing competitive pressures triggered by the global market place and perhaps, more importantly, today's fast growing digital economy. It is well known today that our nation has entered a new industrial revolution where technology will change how we work, how we shop, and how we handle financial transactions. These changes will be more radical than any other time in the history of our country.

The digital economy and global market will further fuel consumer expectations for excellent services and competitive products. This will require extraordinary capabilities of the nation's banking system which will be best served through nationwide branch banking. This "merger of equals" is essential to our nation's own competitiveness by serving a highly diverse customer base in 29 states and 38 countries.

We are all familiar with the Fortune 500 companies who dominate the business presence in virtually every major city. We have grown accustomed to how the stock market has played a major role in creating wealth for millions of Americans through stock ownership programs such as 401k's. We see reports of initial public offerings almost daily where company founders and their financial backers achieve phenomenal returns on their equity investments. Today's highly competitive fast growing companies have the best chance of being tomorrow's Fortune 500 employers. These companies are fueled by equity capital furnished by mostly institutional investors such as banks, insurance companies, and pension funds.

I am here to support the NationsBank/Bank of America merger because it will provide access to larger amounts of equity capital for the nation's most underserved equity market: firms owned and led by minority entrepreneurs.
NationsBank entered the Texas market by acquiring one of the state’s oldest financial institutions. In 1992, it announced an unprecedented goal to provide $10 billion over ten years for community development lending and investment.

At that time, NationsBank selected MESBIC Ventures as its national benchmark for providing equity financing and management assistance to create competitive small businesses owned and managed by Hispanic-American, African-American, Asian-American, Asian-Indian, and Native-American entrepreneurs. After much due diligence, our selection began with an initial equity investment of $2 million and had the personal endorsement of Ken Lewis, president of NationsBank; Cathy Bessant, NationsBank’s chief community investment officer; and the Texas executive team. This initial commitment went beyond dollars to include active Board representation by Cathy Bessant (1991-1996) and now Deborah Cannon, NationsBank executive vice president based in Dallas, Texas.

NationsBank’s financial commitment and top level executive involvement set the stage for building MESBIC Ventures into what it is today—the nation’s largest, most successful equity-oriented SSBIC in the nation. The NationsBank financial commitment did not end with $2 million.

In 1997, we launched Pacesetter Growth Fund, L.P., a $46.5 million unregulated private equity fund. NationsBank made a $5 million commitment to the new fund, making it the largest single bank limited partner. Again, Ken Lewis personally approved the local team’s recommendation which was championed by Tim Arnould, southwest/midwest region president, and Deborah Cannon, MESBIC Board member and NationsBank executive vice president.

Because of NationsBank’s leadership, vision, and unwavering commitment to our underserved niche, we have provided over $100 million of equity-type financing to over 100 minority-owned firms throughout the Southwest, particularly Texas and California, during this decade. As we like to say in Texas: “NationsBank walks its talk!”

Let me illustrate just how underserved this market is and how this merger will help. Just a few short years ago, the Small Business Administration (SBA) was contacted by the major automobile manufacturers regarding what they saw as a major problem in its supplier ranks caused by global competitive pressures. They had projected by the year 2000 that their smallest suppliers would have to have at least $200-300 million in annual sales to be competitive. This would lead to numerous consolidations of suppliers caused by dramatic downsizing of supplier ranks where substantially fewer are chosen to do substantially more. In some cases, the automakers would drop from 1,500 suppliers to 500 or less within a relatively short period of time—often one year or less. This was being done as part of a world-wide focus on total quality management where it has been proven that fewer, larger players mean better quality, better service, and more innovation, much like the proposed merger before this committee today.
This industry analysis pointed out an unintended consequence: very few minority-owned firms would make the cut. The automakers saw one single barrier holding back minority firms from benefiting in this global trend: access to equity capital to ensure minority-owned firms would have the opportunity to build highly competitive and much larger enterprises needed in the new millennium.

Since 1993, there has been an estimated $100 billion placed in private equity partnerships here in the U.S. That's the good news—plenty of equity capital is available. The bad news is less than 1% of this capital went to funds focused on providing equity capital to build larger, more competitive firms owned and led by minority entrepreneurs. While pension funds, through alternative investment, provide most of the private equity to partnerships, banks are major players in numerous private equity funds throughout the country.

U.S. Congressional leaders, such as Maxine Waters (D-CA), William J. Jefferson (D-LA), and Esteban Edward Torres (D-CA), have been instrumental in helping to attract new private capital from banks and pension funds to alleviate this problem. The SBA has revitalized its SBIC program. Today, approximately ten funds have benefited from their efforts—far less than the need. And, we believe divestitures and consolidations can be the single most important source for building and creating larger minority business enterprises (MBEs) during the balance of this decade. We must have larger amounts of equity capital.

How will this merger help address this horribly underserved niche? Again, I speak from experience: NationsBank has 20:20 vision when it comes to serving its markets. As I mentioned earlier, barely five years ago they made a $10 billion commitment to underserved niches, including low income housing; small business lending; and equity investments aimed at building larger, more competitive small businesses including those owned by minority entrepreneurs. The NationsBank/Bank of America merger includes a 10-year, $350 billion commitment for community development lending and investment. This quantum leap commitment is backed by a leadership team who will walk their talk! This team will exceed their commitment, especially in underserved niches. I say this from having had NationsBank as a major partner in our progress each day over the past decade. They initially committed $2 million and later added $5 million to our new private equity fund.

Highly effective community investment for NationsBank is not just a financial commitment. It is a mosaic that spans the entire spectrum of a community's financial needs. NationsBank has mastered the art of community investment. It begins with their ensuring access to services through retail outlets in the highly diverse markets they serve. They are a leader in low income housing, revitalizing neighborhoods and partnering with community groups. Their small business continuum has micro-lending at one extreme, then various levels of small business lending in the middle, and equity capital at the other end to build highly competitive firms for tomorrow's opportunity.

As a leading evangelist for our niche, I want tomorrow’s Fortune 500 companies to include Siméus Foods International, Inc. (SFI), the nation's second largest food processing company. This highly competitive company is led by Dumas M. Siméus, former president and CEO of
TLC Beatrice International, the nation's largest black-owned company. Siméus wants to build a billion dollar international company.

Percy Berger, NationsBank executive vice president, shares Mr. Siméus' vision and recently invited Montgomery Securities to assist SFI with a very promising acquisition that would double his revenues. It will require more equity capital.

NationsBank played a similar role by taking a major stake in a sizable syndication for Radio One, the nation's largest African-American owned broadcast company. I want to see Radio One, led by Cathy Hughes, join the Fortune 500 ranks at the turn of the century. It will require more equity capital.

Let me add a few words about Bank of America. Like NationsBank, Bank of America entered the Texas market through acquisitions of other financial institutions in the early nineties. They, too, made a commitment to community development and investment. We were fortunate enough to have been picked by Bank of America Texas' executive team as a major player in their community investment plans and received a substantial equity commitment that made Bank of America Texas our third largest bank shareholder and key supporter for our niche.

Tom Hay, senior credit officer in Texas, serves on the MESBIC Board and provides ready access to Bank of America resources for our portfolio clients. In addition to Bank of America's direct financial involvement in our MESBIC, our firm's national stature and investment focus has allowed our niche to benefit further from Bank of America's involvement through Opportunity Capital, an Oakland, California-based SSBIC.

Bank of America is a founding shareholder of Opportunity Capital I, one of the nation's oldest SSBICs established in 1970. Since then, this fund has become one of the nation's most active providers of equity capital, along with Opportunity Capital II and Opportunity Capital III. Bank of America's total commitment for Opportunity Capital exceeds $25 million. We are co-investors in several financings, including SFI and Radio One, with Opportunity Capital and its exceptional management team led by Peter Thompson, CEO.

So I believe Dave Coulter, chairman and CEO of Bank of America, when he says that his "...enthusiasm and excitement for banking comes from providing opportunities to millions of individuals, families, and companies, large and small. Playing the role that we do in their success, and watching it ripple through their communities, is what banking should be all about." (Excerpts from remarks at Bank of America's Annual Shareholder Meeting, May 21, 1998). And, I believe Hugh McColl when he says, "...the greater our financial resources, the greater our investment will be in the future of the communities we serve." $350 billion says it all!

The combination of these two banks will be better for all consumers and all businesses, large and small. These two extraordinary, well-led companies will be the benchmark for banking in the new millennium. And the $350 billion commitment to community lending and
investment is unprecedented and will provide a major breakthrough for the historically underserved markets with $180 billion for small business lending, including equity capital for minority and non-minority business; $115 billion allocated for lower income housing; $25 billion for economical initiatives, such as community development corporations; and $30 billion for consumer loans for borrowers at or below 80% of median income.

Hugh McColl is right when he told the California Bankers’ Association this past May that, “…this merger will allow even greater access to capital, the fuel that keeps the economy running.” Equally important, it will make substantially more equity capital available for funds providing equity financings to minority-owned businesses.

In closing, minority business development is an economic imperative with important social consequences only occurring from the outcome of highly competitive, profit-making, growing firms owned by minority entrepreneurs. This requires access to capital.

This paradigm shift has been triggered by two major forces. First, after nearly twenty years of government and private sector initiatives, most minority businesses, particularly those owned by African-Americans and Hispanic-Americans, remain very small with well under $1 million in annual sales. This has become even more troublesome against the realities of Workforce 2000 and the growing economic disparities between the majority community and minority communities. This is most acute for African-Americans and Hispanic-Americans, who make up the vast majority of America’s minority population. Secondly, the new economy will require that minority-owned firms become larger, much larger to compete in the global economy.

Research by Tim Bates in his book, “Banking on Black Business,” emphasizes that the nation’s efforts to change the plight of the truly disadvantaged must be aimed at building growing firms no matter where they are located. As with all other business studies, jobs come from growing, competitive firms. Growth requires equity capital.

Thank you very much for allowing me to share my views on why this merger is important for the 21st century.
DONALD R. LAWHORNE

Donald R. Lawhorne is President and CEO of MESBIC Ventures Holding Company (MVHC) and a Co-Founder and Managing Director of Pacesetter Growth Fund, L.P. (Pacesetter).

Pacesetter is a $46.5 million private equity fund. MVHC is the owner of two of the nation's oldest SSBICs, which were each established in 1970. MVHC has over $64 million in assets with a portfolio of over 50 thriving small businesses. These funds provide equity capital to growing businesses owned and managed by mostly Hispanic-American and African-American entrepreneurs. These two funds combined represent nearly $110 million in venture capital.

An experienced speaker, Lawhorne has 16 years of venture capital experience, three years as an entrepreneur in distribution and manufacturing, five years as a college teacher and administrator, and several years of engineering and manufacturing experience.

Mr. Lawhorne has received numerous awards for small business initiatives from various groups and is a past recipient of the Entrepreneur of the Year Finalist Award, sponsored by Ernst & Young and Inc. Magazine. Mr. Lawhorne is the first individual to serve a three-year term as Chairman of the National Association of Investment Companies (NAIC), the trade association for the nation's SSBICs. He is a former member of the Small Business Administration's prestigious SBIC and SSBIC Investment Advisory Councils.

He has testified before the small business committees of the U.S. Senate and U.S. House of Representatives regarding how to improve access to equity capital for the nation's most underserved market—minority-owned companies. He also chaired the SBIC Council's Regulatory Committee and received the NAIC Paradigm of Excellence Award for distinguished leadership and outstanding work, on behalf of the SSBIC industry.

He earned his MBA from Pepperdine University and BBA from Southern Methodist University.

MESBIC VENTURES HOLDING COMPANY
MVHC creates Texas' largest black-owned food manufacturing company

DALLAS—MESBIC Ventures Holding Company (MVHC) announced it has closed a $55 million transaction for Dumas M. Siméus, former president and chief operating officer of TLC Beatrice International, a $2 billion food maker and distributor with operations in 25 countries.

MVHC served as lead investor in Siméus' acquisition of Portion-Trol Foods Inc., a 140,000-square-foot food processing plant based in Mansfield, Texas with over $100 million in annual sales. According to Don Lawhorne, MVHC's president and chief executive officer, "This transaction represents what we do best: provide equity capital and investment leadership to create fast growth companies owned and led by mostly Hispanic-Americans and Black-Americans."

The company, called Siméus Foods International (SFI), will make a variety of food products such as sausages, steaks, soups, cheese sticks, onion rings and related value-added items used throughout the restaurant industry. This venture makes SFI the largest black-owned manufacturing company in Texas and the second largest foodmaker in the country behind TLC Beatrice International.

According to Lawhorne, "SFI will create a much needed paradigm shift for Texas where current expectations and commitments for Hispanic-American and African-American company builders are often limited — usually very small, socially driven, and totally void of the principles of wealth creation."

Siméus added, "My primary job is to deliver extraordinary results for all SFI stockholders, including customers, teammates, suppliers and investors. My goal is build a $1 billion international food processing company based here in Texas."

Other large Texas-based MVHC investments include Houston-based Ninfa's, a 50-unit Hispanic-owned upscale Mexican restaurant chain; H-R Industries Inc., the state's largest Hispanic-owned printed circuit board manufacturer located in Richardson, Texas; McDonald Technologies International Inc., the state's largest Asian/Indian-owned contract manufacturer; and Hermana Inc., the state's largest Hispanic-owned airport concession operator.

MVHC has 100 percent ownership in three Specialized Small Business Investment Companies (SSBICs); MESBIC Ventures, Inc. (MVI), Alliance Enterprise Corporation (AEC), and Tower Ventures Inc. (TVI). All three are licensed under Section 301(d) of the Small Business Investment Act of 1958. On a consolidated basis, the Company has assets that exceed $45 million and ranks in the top five of the nation's nearly 80 SSBICs.
Business in the '90s

WHERE THE MONEY ISN'T

Minority-owned firms often struggle to get venture financing. Syncom wants to change that.

By JEFFREY A. TANNENBAUM

IX YEARS AGO, when Amador S. Bustos was looking to buy his first radio station, the San Jose, Calif., station manager predictably was rejected by several banks. After all, he had never owned a business before, and he was Mexican-born in a financial world where barriers to capital are highest for blacks and Hispanics.

But a strange thing happened when he came across Syncom, a Silver Spring, Md., venture-capital group that specializes in financing start-ups run by minority entrepreneurs. Not only did Syncom find money for Mr. Bustos, but the investor group also made his business plan more ambitious. So Mr. Bustos's Z-Spanish Radio Network Inc., Sacramento, Calif., began by taking over three California radio stations and providing each with the same Hispanic-oriented content, delivered by satellite.

Having picked up the tempo at Syncom's urging, Z-Spanish now owns 21 radio stations in four states and supplies programming to 29 others. "Often, they've had more of a vision for the business than I've had," says Mr. Bustos, whose enterprise Syncom values at about $100 million.

Now, Syncom is hoping to show a similarly aggressive vision in its own fund raising. It hopes to raise a $300 million fund, the largest venture-capital pool ever earmarked for minority companies. That's pretty ambitious stuff for a firm whose two existing limited-partnership funds together raised initial capital of $53 million.

Playing by Capitalist Rules

But Syncom has proved that it can succeed in arguably the toughest piece of the venture-capital marketplace: minority firms investing in minority businesses. Indeed, the $300 million goal isn't rattling some of the firms' backers. "Syncom, we feel, is a brand," says JoAnn H. Price, a partner in Fairview Capital Partners Inc., Farmington, Conn., which has invested $18 million with Syncom. The partners, she says, "have a reputation."

The partners aim to prove to institutional investors that venture-capital investments in minority-owned companies can be just as profitable as mainstream venture-capital investments, if not more so. "I can change the world," declares 55-year-old Herbert P. Wilkins Sr., Syncom's senior partner.

Their motives, of course, aren't solely altruistic: on top of management fees, the partners get 20% of profits realized by the funds. But that's part of the point: Syncom wants to succeed in a capitalist society by playing by capitalist rules.

Indeed, the partners chafe at the mention of investment as an act of charity. Consider, for example, the $63 million New York City Investment Fund, founded by world-class financier Henry Kravis. One purpose of the fund is to seed companies of minority entrepreneurs. But investors don't look for a gain: Some 45% of the fund was raised as outright charity; management pledges to use "best efforts" to return the other 55% in 15 years, without any interest or capital gains; if underlying investments are profitable, the money will be put into further investments.

Mr. Wilkins of Syncom, among others,
Life & Casualty Insurance Co. and Travelers Insurance Co., to kick in $500,000 each. Mr. Wilkins recalls excruciating negotiations that seemed way out of proportion to the amount of money involved. "We called that the hoops deal," he says, "because we had to jump through hoops."

To help create investment opportunities, the two managers traveled to legislative hearings in several large cities, where they lobbied for minority participation in the then nascent cable-television industry. "The rap always is: These minority people have never done any of this before," Mr. Jones says. "We had to show that not only was the money there, but the expertise was also there."

When minority investors did win a franchise, they often turned to Messrs. Wilkins and Jones for financial help.

"They were a godsend," he says. J. Barry Washington, a black entrepreneur who won a cable TV franchise in Newark, N.J., in 1980. Syncom provided financing during a crucial period, and helped find larger investors. All told, Mr. Washington raised $9.5 million.

But even Mr. Washington's story is emblematic of the capital shortage that minority entrepreneurs and their backers often face. Syncom lacked the deep pockets or clout with larger investors to keep funding Mr. Washington's growing company, Communications & Multimedia Corp., which was still unprofitable.

In a bid, Mr. Washington sold the cable system in 1986 for $33 million. While that gave investors a big profit—Syncom more than tripled its $625,000 investment—it was far less than they could have made by holding on to the system. Just six years later, Cable & Vision Systems Corp. paid $78 million for Gateway Cable, Connections' successor.

Stuck in Same Level

For Syncom, the pattern of could-have-beens would persist. "We've created value in numerous cases, but even after doing everything right, we've had to leave a lot of money on the table because we don't have the capital to take our deals to the next level," Mr. Jones says.

Still, Syncom was performing much better than most other investment companies that relied wholly or heavily on the Mesbics program. One reason was specialization in niches in the booming media field, such as inner-city radio and cable TV. In contrast, most Mesbics dabbled in many areas. And while many other Mesbics tried to go it alone, Syncom became adept at syndicating its deals, which raised more money and spread the risk.

The formula that Messrs. Wilkins and Jones developed was twofold: Use rigorous screening methods to find the right deals, and then give entrepreneurs sound advice to help ensure that investments succeed.

One early client was a radio executive who was seeking money to buy a Washington, District of Columbia, station, says, "I was terrified; both of them are very, very businesslike and no-nonsense. I realized I had a serious task in front of me to prove I was credit worthy." Although she had been running a radio station, Ms. Hughes had never owned a business.

At the first meeting with Messrs. Wilkins and Jones, Ms. Hughes recalls, "they asked me if I had a business plan. I said my plan was to be successful in business. They thought I was joking." Over the next several months, the two men helped Ms. Hughes develop a detailed written plan, "probably the size of a New York telephone directory," she says.

Eventually, Syncom helped finance the startup of Ms. Hughes's company, Almic Broadcasting Inc., later renamed Radio One Inc. When Almic got into trouble early on, Mr. Jones, who says "there's a lot of psychology involved in venture finance," gave pep talks. "We told her the only way she could fail was if she let herself fail," Mr. Jones says. "She bought into that and decided not to fail."

Ms. Hughes says the sometimes acerbic Mr. Wilkins, whose good humor can turn caustic quickly, provided "tough love" and minced no words; the gentler Mr. Jones soothed the pain.

The good cop/bad cop routine worked. Today, Radio One and a sister company, Radio One of Atlanta Inc., own 11 stations in four markets, employ more than 300 and say annual revenue exceeds $10 million. That's good news for Syncom, which invested $270,000 and values the stake it still holds at about $14 million. (A Syncom fund also has a $1 million investment in the sister company.)

Aiming High

If the Syncom managers were more skillful than those at many other Mesbics, they were also much more ambitious. And in 1980, they became the first Mesbic operators to raise a much larger pool of money.

On the basis of Syncom's successful investments in Mr. Washington's company and others, Messrs. Wilkins and Jones tried to raise $70 million for their first limited-partnership fund, Syndicated Communications Ventures Partners II L.P. This would be a leap forward, since Syncom up to that point had total capital of only $14 million.

Mr. Wilkins says he, Mr. Jones and a third partner for Syncom II, Duane C. McKnight, paid calls on institutional investors. The original company, he told pension-fund managers, was bringing in 20% annual returns. "The minority market is so underserved that we can take the cream," he continued. "We can get the best deals, almost without competition."

Seven investors--including Edison International's Southern California Edison pension fund, which committed $10 million--bought in, and Syncom II attracted $35 million, half the sum they were seeking.

Now, Syncom could break free of the confining Mesbic structure, which, among other things, held down the pay for Mesbic managers. Just as important, Syncom's bosses now could espouse their philosophy of undiluted capitalism without getting resistance.

Relying on Track Record

According to Dr. Bates of Wayne State, the SBA traditionally has focused on help-
feels that efforts such as Mr. Kravis’s help reinforce the notion that investing in minority enterprises has to be a money-losing proposition. “I call this kind of capital ‘sorry capital,’ money that people put up when they feel sorry for minorities,” Mr. Wilkins says. “That undermines minorities because recipients don’t need to develop real business discipline. That’s foreign to the American system.”

Kathryn S. Wylde, president of the Kravis-founded fund, says she thinks Mr. Wilkins is wrong. “We will be applying strict business tests to our investments,” Ms. Wylde says. She adds, however, that many of the fund’s investments will be smaller and riskier than those usually favored by venture-capital firms.

Capitalist discipline is certainly paying off for Syncom and its clients. Many of the more than five dozen entrepreneurs that Syncom has helped finance are creating new minority wealth and jobs.

One client, WorldSpace Corp., in which Syncom invested $500,000 at a critical point, expects to be a global enterprise, having since raised nearly $1 billion from foreign investors for a digital-radio network it is building. Though its network isn’t yet operational, WorldSpace, based in Washington, already employs more than 200 people.

In raising money for a start-up, “you’re almost like a trapeze artist, going from one bar to the other,” says Ethiopian-born Noah Samara, WorldSpace’s founder. “Each piece of money is critical to get you to the next stage.” Mr. Samara says Syncom’s funding came in just when the company’s initial $1 million stake, from other sources, was running out. “We were at a stage where we couldn’t go to a bank or to major investment houses,” he adds.

As minority business owners seek capital, their hopes often hinge on such firms as Syncom. While minority-controlled investment companies nationwide have nearly $1.4 billion in estimated assets under management, that’s still less than 3% of the $44 billion raised last year alone by all private equity firms, according to Private Equity Analyst, a Wellesley, Mass., newsletter. And how much more flows into minority-oriented funds will depend on the returns registered by the companies in the next few years.

“There aren’t enough real track records out there yet to attract a lot of investment into minority venture-capital firms,” says Stanley Pratt, a managing partner in Boston for Abbott Capital Management L.L.C., a New York-based money-management firm that works with about a dozen pension funds.

The minority-venture-capital industry got its start in the U.S. only a generation ago. But its short history is littered with failures. To spur investments in minority enterprises, the Nixon administration in 1969 created the Minority Enterprise Small Business Investment Company, or Mesbic, program, which spawned scores of minority-oriented investment firms. Big companies, such as General Motors Corp., seeded some Mesbies, but most were formed by investors with less than $1 million in funding—and sometimes as little as $150,000.

But of 114 Mesbies licensed by 1980 (others sprang up later), only 32 survived into 1994, according to a study by Timothy Bates, a Wayne State University economist in Detroit; the Small Business Administration says it doesn’t quarrel with those numbers.

Most Mesbies were undercapitalized and thus unable to hire good managers to oversee investments. Worse, some Mesbies were never serious about investing. Instead, they borrowed money cheaply from the SBA, deposited it into banks at higher interest rates and pocketed the spread, Dr. Bates says.

Faced with these problems, changing political attitudes and budgetary pressures, Congress in 1990 ended all special breaks for the Mesbies, by then called Specialized Small Business Investment Companies, or SSBICs. Despite this checkered history, these vehicles have channeled more than $2 billion into minority businesses, if only in $100,000 chunks, on average, according to SBA figures.

But along the way, there have emerged only about a dozen firms capable of producing serious returns for outside investors, Dr. Bates estimates. “Without really topflight management, a Mesbic had no chance to succeed,” he says. Many “lent money to struggling, marginal businesses and lost their shirts.”

Syncom’s story—often as bitter as it is sweet—shows how one firm kept its shirt, and is steadily breaking ground in minority-business finance.

Syncom began in 1977 as Syndicated Communications Inc., a closely held media-investment company organized by Opportunity Funding Corp., a nonprofit entity with social aims. The late Jack Gloster, a charismatic executive who ran Opportunity Funding, raised nearly $1.8 million and hired Mr. Wilkins, then 35 years old, to oversee Syncom. To leverage its scant capital, the company in 1978 took $1.3 million of its funding and set up a Mesbic subsidiary, Syncom Capital Corp., through which Syncom mostly operated until late 1990.

Scant Wealth

Mr. Wilkins says he had long dreamed of building a venture-capital firm to aid minorities. “I spend part of almost every day thinking about what holds black people back,” Mr. Wilkins says. “It has nothing to do with black people, but the wealth that they control is barely detectable on any scale.”

The son of a Boston house painter, Mr. Wilkins trained to be a machinist but says he was denied a union card because of racism. So he went to college and, with help from an employer, to Harvard Business School.

After admiring how venture capitalists had seeded Digital Equipment Corp. and other famous start-ups, Mr. Wilkins says he and two others tried to raise a $10 million fund to invest in budding minority businesses. They got nowhere, but Mr. Wilkins later went to work in venture capital.

At Syncom, Mr. Wilkins was joined in 1978 by Nebraska-born Terry L. Jones, a brainy beanpole of a man who a decade earlier, in Hartford, Conn., had helped lead a student revolt over scholarship policies at Trinity College. After Mr. Jones earned an M.B.A from Harvard, he headed for Africa, where he helped start a savings-and-loan institution in Kenya and other ventures. On returning to the U.S., Mr. Jones went to work for a foundation that gave minority entrepreneurs advice, but not money.

Eager to help such people get actual funds, he joined Mr. Wilkins at Syncom, only to learn that firm itself was hard up for money. The two managers spent much of their time seeking new investors, and finally got two insurance companies, Aetna
ing the most disadvantaged entrepreneurs, not those with the most education and corporate experience. But Syncom was seeking the brightest and best. "The people we financed were constantly called into question by the SBA," Mr. Wilkins says. (The SBA confirms that recipients of Mensch financing had to be "socially disadvantaged" or "economically disadvantaged.")

Syncom III came in 1996, armed with $18 million in investment capital, with Fairview Capital Partners as the sole limited partner.

To be sure, it is largely the record of the Syncom II and III funds that will count when the company tries for a much bigger stake later this year. Mr. Wilkins says the existing funds plan a partial payout by year end of at least $50 million—consisting of $12 million in returned capital and $38 million in profit.

Total returns are tricky to predict until the funds are completely cashed out, but Syncom II and III seem to be doing fine. Investors say. Fairview says it is confident that Syncom will top 25% in annual returns on Fairview's Syncom III investment.

That's not to say that all of Syncom's deals work out. Mr. Wilkins estimates that the firm has lost money on as many as 20 deals, with total wipeouts in about 15. Recently, Syncom closed the books on $6.1 million in losses on a struggling Los Angeles cable-TV system, which Syncom had bought, gambling on a turnaround. "There are always going to be some deals that you just can't make work," Mr. Wilkins says.

Even if the next fund never reaches Syncom's $350 million target, Mr. Wilkins vows, he'll keep plugging away. "I'm an incrementalist," he says, "but I'll get where I want; I'll figure out how to do it. We've got to convince the world that Syncom can make a difference."

Mr. Tannenbaum is a WALL STREET JOURNAL STAFF REPORTER IN NEW YORK.
July 7, 1998

Ms. Joy Hoffman
Community Affairs Officer
Federal Reserve Bank of San Francisco
Division of Banking Supervision and Regulation
Mail Stop 620
101 Market Street
San Francisco, CA 94105

Dear Ms. Hoffman:

The California Council for Environmental and Economic Balance (CCEEB) is a coalition of California business, labor and public leader established in 1975 by the late former Governor Edmund G. “Pat” Brown to collaborate on creative approaches to achieve both our environmental and economic goals. We focus on issues such as job creation, economic development, regulatory reform, environmental protection, infrastructure investment and fiscal reform.

Everyone should be aware of Bank of America’s exemplary internal efforts to lower their own corporate environmental operational impacts, but perhaps what is less well known is the commitment and leadership the Bank has shown in helping California face up to the broader environmental public policy challenges confronting us. Their landmark efforts in crafting workable proposed solutions to California’s most intractable issues, such as land use and sprawl, water, and habitat conservation are nothing short of remarkable.

For several years, we have worked with Bank of America to help bridge the gap between the environmental and business communities. In these efforts Bank of America has repeatedly demonstrated their commitment and skills in building collaboration between historically adversarial interests. We are proud to have a good working relationship with Bank of America and share the same values. In fact, CCEEB gave special recognition to Bank of America in 1995 by presenting our prestigious Edmund G “Pat” Brown Award to Richard M. Rosenberg, Bank of America’s former chairman and CEO, for exemplifying the spirit of environmental and economic balance.

Currently, we are pleased that Bank of America’s Environmental Program is actively participating in the California Environmental Dialogue (CED), a collaboration between environmental, business and government leaders working to find common ground and workable solutions to thorny challenges in such areas as cost-effectively reducing mobile sources of air pollution and demonstrating the linkage between habitat protection and sustainable economic growth. Leaning heavily on Bank of America’s past experience in collaboration, we have seen these CED members move from conflict to dialogue to actionable solutions. The Bank’s leadership role in this work has been a key in making the CED successful.

Sincerely,

[Signature]

Catherine Stehli
Audie Thomas

CONSULTANTS

David E. Biddinger, AICP
Jackson R. Uelesco
Robert W. Lucas
Robert W. Lucas Advocates
Cindy K. Tuck
LAW OFFICES OF
WILLIAM J. THOMAS

Gov Edmund G. “Pat” Brown
FOUNDING CHAIRMAN

Celebrating 25 Years of Excellence  1973-1998
We fully expect the merged Bank of America Corporation to continue working in California on our established bridge between the business, government and environmental communities. In fact, I would anticipate an expansion and export of these efforts to other areas as the merged Bank of America Corporation pursues new national partnerships between various stakeholders in our environment and economy. I see this merger as an opportunity to leverage Bank of America's leadership role on a national scale and in more geographic locations.

CCEEB looks forward to a continued relationship with the new merged Bank of America Corporation.

Sincerely,

VICTOR WEISSER
President
I appreciate the opportunity to inform this distinguished panel and/or other interested parties by means of personal testimonial on the subject of the proposed merger. Upon completion of this testimonial is my intention that there is understanding of the past involvement and commitment Bank of America has provided to microenterprise in Nevada.

The Nevada MicroEnterprise Initiative (NMI) is a statewide microenterprise organization. In our capacity as a non-profit organization, we aim to help low- and moderate-income individuals achieve economic self-sufficiency through entrepreneurship. NMI offers entrepreneurial training, technical assistance, and microloans to develop the entrepreneurial skills of our clients.

Our training classes focus on what to consider when starting a business as well as the development of a business plan. Topics include determining your target market, cash flow, bookkeeping, marketing and financing your business. We believe this training is the key to the success of our clients who, in most cases, have little or no business experience.

Our Microloan fund was established in 1993 to fill a gap in access to credit for individuals wishing to start or expand a business. Our clients typically have small loan requests, poor credit or job history, or little or no business experience, which make them 'unbankable'. With our nontraditional financing a client can access up to $7,500 for a startup and $25,000 for an existing business. Our successfulness in this 'risky' lending is based on our technical assistance program. We work one-on-one with our clients, to assist them with any concerns or challenges the may encounter. This support is crucial to the success of the business and repayment of the loan.
Since the creation of our Microloan fund in 1993, Bank of America has played a key role in the establishment and continuation of this program. BankAmerica Foundation was the second contributor to help establish the Microloan fund by giving $15,000. The following year, Bank of America established a $100,000 Micro/MBEWEBE program exclusively for NMI participants. Those who utilized this opportunity are now very successful in their businesses. In 1995, Bank of America matched various program grants with a grant for $85,000. Recently, Bank of America committed $15,000 for NMI operations.

Bank of America has also supported NMI through the participation of its employees. NMI opened a second branch in Las Vegas in 1995. Bank of America staff served as founding board members and were instrumental in the creation of that office. Other employees offered assistance to Nevada MicroEnterprise Initiative over the years.

For the past two years, Joselyn Cousins, Community Development Department, serves as the President of the Board of Directors. Previously, she served on our Loan Review Committee. Her time and dedication to the organization has created many opportunities for our organization.

Ms. Cousins has helped to establish a referral system between Nevada MicroEnterprise Initiative and Bank of America. Funds have been set aside for individuals who Bank of America is unable to assist with their lending needs at that time. Those clients are then referred to NMI's training program to fine tune their business plan or idea and entrepreneurial skills. The goal is to have that client then return to Bank of America with business management skills.

As you can see, Bank of America has shown a real commitment to the community though its extensive support of the Nevada MicroEnterprise Initiative.

I estimate my presentation time to be 10 minutes. If you have any further questions please feel free to contact me at 116 East 7th Street, Ste 3, Carson City, NV 89701 (702) 841-1420, (702) 841-2221 fax.

Sincerely,

Gerald C. Alcasas
Executive Director
Statement of Stephen Acree,
Executive Director, City of St. Louis Community Development Agency
San Francisco Federal Reserve Hearing
July 10, 1998

NationsBank

In 1997 NationsBank acquired Boatmen’s Bank, which was the oldest and largest banking institution in St. Louis. Boatmen’s was a leader in the community development field in St. Louis. They had a reputation for “pushing the envelope” for worthwhile projects. Certainly, the St. Louis community was concerned that this very proactive stance would be altered with NationsBank’s merger with Boatmen’s Bank.

In fact, NationsBank has assumed a tremendous leadership role in the community, particularly in Downtown. Not only has NationsBank fulfilled the commitments made by Boatmen’s, but they have brought tremendous additional resources to the community.

In the year that NationsBank has been actively involved in St. Louis it has invested $2.1 million in the St. Louis Equity Fund to provide equity to small, non-profit housing developers for the creation of low- and moderate-income housing. NationsBank has partnered with my agency in the following housing developments:

- Westminster Phase IV/McCormack House – a 100-unit supportive housing development for the elderly. NationsBank provided $6.4 million in LIHTC equity and Affordable Housing Assistance Program contribution dollars.

- NationsBank has contributed $100,000 to the day care center at the Murphy Park development, which is a leading edge mixed-income redevelopment of a large Public Housing site in St. Louis. NationsBank also helped raise $2.4 million in equity for this project.
• NationsBank provided $2.5 million in LIHTC equity for the Etzel Place Apartments Phase II, a 42-unit affordable housing development.

• NationsBank provided the construction loan and provided the equity through purchase of the tax credits for Parkview Gardens Phase II, a not-for-profit development of the Parkview Gardens Neighborhood Association, who originally began their efforts with Boatmen’s Bank.

There are a number of very exciting projects that can be accomplished in St. Louis exclusively because of the additional financial resources and financing tools brought to the community by NationsBank:

• The NationsBank Small Business Investment Corporation made a $500,000 equity investment in TLC Next Generation to help an African American businessman, Leroy Wright, to expand his business. Mr. Wright is the founder of Wright Cellular. With cellular phone sales nearing $1 million annually, the NationsBank investment and $1.6 million business loan helped him to acquire Next Generation to form TLC Next Generation. Mr. Wright’s new firm is now the largest distributor of wireless communications products in the St. Louis metropolitan area.

• The NationsBank Community Development Corporation is undertaking the $5.3 million acquisition and rehabilitation of an eight-story 60,000 s.f. warehouse building in our Downtown Loft District. The building is being converted to 26 loft apartments with a first floor art gallery and studio space. The Bank CDC will own the project long term in partnership with a local nonprofit, the Regional Housing and Community Development Alliance. NationsBank CDC invested cash equity and purchased the State and Federal LIHTC and Historic Rehab Tax Credits. NationsBank will provide the construction financing, a bridge loan, and permanent financing, as well. This project does not work financially as a mixed-income development without the NationsBank CDC’S ability to invest patient capital. NationsBank is essentially funding 100% of the debt and equity for this project, as well as taking a long term ownership position.
- NationsBank CDC is also pursuing the redevelopment of a 140,000 s.f. historic warehouse as 42 loft apartments, again in partnership with the Regional Housing and Community Development Alliance. This $9 million project will commence in the third quarter of this year. In the short term, NationsBank has made a commitment to spend $200,000 to replace the roof and stabilize the building.

Our partnership with NationsBank is helping us to create the mixed-income and vibrant residential presence in our Downtown that is absolutely critical to re-energize and spur our City’s Downtown redevelopment efforts. Their projects and their commitment serve as a catalyst to encourage other corporations and institutions to invest in Downtown St. Louis.

- NationsBank has committed to invest $100 million in Downtown St. Louis. As part of this commitment, the Bank advanced $425,000 to the City to pay for our Downtown Planning Study that is being undertaken by EDAW. NationsBank was the first contribution and allowed the team to start the process.

- NationsBank made a $2.5 million loan to the City to acquire the long-vacant Gateway Hotel as part of the City’s effort to attract a team to build a state-of-the-art Convention Headquarters Hotel.

- The NationsBank CDC is considering taking a major role in the redevelopment of Cupples Station, a historically significant collection of industrial warehouse buildings in our Downtown, where Westin Hotels has recently announced plans to locate a new property.

On a neighborhood level, NationsBank made a commitment to invest $100 million in low-moderate income communities for neighborhood projects such as mortgages, home improvement loans, small business lending, and small scale community development lending. The commitment was announced in June, 1997 and was met by the end of the year.

The NationsBank CDC is also active in two long-term, comprehensive neighborhood revitalization efforts -- Forest Park Southeast and Grand Rock.
In Grand Rock, the CDC officers brought together the major stakeholders in the neighborhood and began a dialogue regarding the value of a master plan for the area. The group has embraced the concept and has been meeting regularly to move the process forward. NationsBank will pay for half the cost of the master planning process. Additionally, the CDC will partner with one or more of the stakeholders to develop single family and multi-family housing in the area once the plan is complete. Such a partnership provides the local groups with the financial backing and technical assistance to both build their organizational capacity and enable them to undertake much larger scale projects. The CDC’s ability to invest patient capital over a sustained period of time will be critical to the successful implementation of the master plan.

The Forest Park Southeast process follows much the same model, except that the neighborhood organizations and “people infrastructure” are more fully developed and collectively moving forward. NationsBank CDC will be involved in partnering with the community to build housing. The discussions to date have focused the CDC’s efforts toward building at least 50 new single-family homes and a Make A Difference Center, if operational support can be identified. The CDC is prepared to invest equity and additional capital as the development progresses. Currently, the CDC is going to provide capital to and partner with the community organization to acquire and rehabilitate six buildings for homeownership. The project will be financed by the City, a Joint Community Development Grant from HUD that was received by Washington University, and cash equity from the NationsBank CDC.

The NationsBank CDC hired staff and became active in St. Louis in July, 1997. I was immediately impressed that NationsBank staffed its CDC with local professionals from the local not-for-profit and government sector, people whose careers have been dedicated to housing and community development – one a former Director of Neighborhood Housing Services in St. Louis, one a former Community Development Director in St. Louis County and another from the City of St. Louis Community Development staff.

All of the above activities were undertaken within the last year. These exceptional activities could not have been undertaken in any form without the unique tools and huge financial capacity of NationsBank.