

NMC Consulting Group, Inc.

# Assessing Access: Obstacles and Opportunities for Minority Small Business Owners in Today's Capital Markets

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Testimony to the US Senate Committee on Small Business &  
Entrepreneurship

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Good Morning Chairwoman Landrieu, Ranking Member Snow and fellow esteemed members of the US Senate Committee on Small Business & Entrepreneurship. My name is Natalie Madeira Cofield, President of the NMC Consulting Group, headquartered in Washington, DC.

Thank you for the opportunity to testify on behalf of aspiring and existing entrepreneurs of color—more specifically, those who seek or have sought to obtain financing. It is an honor and a privilege to serve as the voice of millions of American minority-business owners who struggle with the harsh reality that business ownership or expansion may not be an option for them due to under-capitalization, lack of social capital and lack of financing.

The NMC Consulting Group, Inc. is a boutique consulting firm that operates with the mission of increasing entrepreneurship and business development opportunities and improving economic programs targeted toward people of color, women and youth.

As a champion for small business, I would be remiss if I did not highlight the contribution that the more than four (4) million minority-owned businesses make to the US economy—employing more than 4.7 million and producing more than \$668 billion in annual gross revenues<sup>1</sup>.

What these statistics do not show however, is the overarching impact that these business owners have on their communities; providing valuable support, examples of success and philanthropic investments— all of which support more viable and economically self-sufficient neighborhoods and ethnic groups.

Unfortunately, the number of businesses owned by Americans classified, as minority is not as many as it could or should be. More specifically, only 18% of all US firms are classified as minority owned and when considering African-Americans this number is roughly 5.3% for a population that represents 12% of the country<sup>2</sup>.

This is not solely due to incomplete business plans or unfeasible concepts, but because of factors that have made the playing field inequitable, and makes it necessary that government programs exist and critical that these programs are improved.

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<sup>1</sup> All data: US Department of Commerce Minority Business Development Agency. *The State of Minority Business Report*. August 2006.

<sup>2</sup> US Department of Commerce Minority Business Development Agency, 2006. *The State of African American Business Report*. 2008.

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## THREE FACTORS FOR ACCESS TO CREDIT DISPARITIES

1. **Insufficient Capital Infusion (Wealth):** A historical disparity in sufficient disposable income that weakens the ability to provide initial business seed capital and results in the immediate need for financing or credit.
2. **Insufficient Access (Social Capital):** A social relationship or bond between people (personal or professional) that transfers into human or economic capital<sup>3</sup>. Minorities have often had a dearth of more developed social networks that makes accessing angel investment from friends, family, colleagues and external private investors increasingly difficult, as many individuals do not have access to people who have legacy or substantial existing disposable assets.
3. **Insufficient or Inadequate Financing:** Historical antagonistic practices in the areas of lending such as excessive interest rates, higher required down-payments, higher fees, higher declinations and lower approved loan amounts – that result in significant disparities in access to and obtaining equitable financing

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## CASE-STUDY OF MINORITY CAPITAL ACCESS DISPARITY<sup>4</sup>

These obstacles are evidenced by the story of an NMC Consulting Group client, Jennifer King, an African-American woman and disabled-veteran who served proudly in the US Navy.

The daughter of a low-income single mother, who came from generations with minimal financial access, she was the only one of her four siblings to attend college. After college she joined the Navy where she was exposed to various cultures that lead her to devise the concept for her business.

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<sup>3</sup> Cofield, Melody A. Building Social Capital in Multi-cultural Community: The Process and Related Outcomes Produced. Diss. St. John Fisher College, 2010. Print.

<sup>4</sup> Case study based on multiple interviews conducted beginning March 20 – April 12, 2010. Case study based on the experiences of Jennifer King.

In 2006 she incorporated her company. And, with a 740-credit score ratings<sup>5</sup> and a completed plan she was declined a meeting with a major bank because of the amount of capital that she requested, \$500,000 with a \$100,000 capital injection<sup>6</sup>. She was an African American woman who was fluent in Arabic, who wanted to create a business marketed toward the diplomatic community- it was too difficult a sell.

She met with federal credit unions and was declined an SBA loan because she could not come up with the required 25%<sup>7</sup> down payment – an unfavorable rate during a time when even home mortgages were 0% down. This was compounded by the fact that a home equity line of credit was not permissible to cover the 25% down payment (working capital) required for an SBA loan. This was to be her only source of financing.

She met with The Veteran Corporation and was informed that they did not offer loans though their website in 2008 explicitly stated so.

She submitted her information to the SSBIC and never heard back<sup>8</sup>.

She even tried to pay for social capital by hiring someone to find angel investment but the monthly retainer was too significant to afford<sup>9</sup>.

She did not qualify for the Minority Business Development Agency and most disappointingly, was told by SCORE that it was their job to convince her not to start her business in an attempt to weed out the serious entrepreneur.

In an effort to improve her standing and the possibility of starting her business she enlisted the partnership of another woman veteran. Her white business partner's experience was the opposite; she came from a family with a legacy of

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<sup>5</sup> Credit scores above 700 are typically viewed as good credit ratings. The range for credit is between 450 – 850 (based on experian.com)

<sup>6</sup> Between 2006 – 2007 the financial request was \$500,000 - \$800,000 (\$100,00 in capital injection). In 2008 this increased to \$2M based on partnership and increased capital injection.

<sup>7</sup> Loan financing terms vary by financial institution. Loan to value terms average between 10% - 30% minimum requirements (dependent upon loan size and institution).

<sup>8</sup> As of April 12, 2010

<sup>9</sup> \$2,500 monthly retainer fee

homeownership, investments, and financial access<sup>10</sup>. This support allowed her to bring to the concept \$100,000 in non-debt backed assets at the on-set.

Then the economic recession began.

Unfortunately, roughly five years later, lack of sufficient capital infusion, lack of social capital, insufficient financial terms coupled with the recent economic downturn and its impact on her biggest asset, her home, has stalled her significantly. Today she is a participant in PROSPECTUS the NMC Consulting Group's nine-week entrepreneurship-training program and business competition because she has not given up her dream.

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## CONCLUSION

This is not unlike thousands of African Americans and other minorities pushing toward the pursuit of entrepreneurship. Minority firms are awarded fewer loans (17% vs. 23% for non-minority firms) are awarded smaller loans (\$149,000 vs. \$310,000) and as demonstrated by this example are denied at higher rates with almost half of all loans being declined (42%)<sup>11</sup>.

Chairwoman Landrieu, as a young woman if she came to you for your advisement you would have encouraged her to go college and graduate school, to serve her country proudly, to purchase a home, to maintain stellar credit, and to dream of an opportunity for her to leave a legacy. You would have encouraged her to participate in the American Dream. All things she did.

If she can't break the generational issues of lack of financial access, then who can?

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<sup>10</sup> Related Statistics: The median wealth for single black women is only \$100; for single Hispanic women, \$120. This compares to just over \$41,000 for single White women. Married rates are \$167,00 to \$31,500 (Black) and \$18,000 (Hispanic).

Chang, Mariko. "Lifting as We Climb: Women of Color, Wealth and America's Future". Insight Center for Community & Economic Development, March 2010.

<sup>11</sup> Fairle, Dr. Robert and Alicia M. Robb, Ph.D, *Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBE*. US Department of Commerce, Minority Business Development Agency, January 2010.

And furthermore, we must ask ourselves, what could this one woman do with her dream if only she was able to obtain financing?

She could be one more person who could create new jobs. She could be one more person to inspire those depressed by past and current conditions. She could be one more business owner contributing to the tax base in her state and in this country to support the social service programs that exist. She could be one more person to testify that the American Dream is obtainable and real.

Again, thank you for this opportunity to speak today and I am happy to answer any questions.

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