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Running a transportation company in Reading, Pennsylvania, Luis Osorio needs to keep his fleet on the road.

So when a fire damaged one of his three vehicles a few years ago, he needed \$30,000 to replace it and continue growing Royal Transportation. He couldn't get a bank

loan.

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Frustrated, Esoro returned to Community First, which supplied another round of financing.

“For some reason, a loan of \$30,000 to \$40,000 is nothing,” he said. “(Banks) don't even want to look at that.”

Minority-owned small businesses are less likely to borrow money from traditional lenders and less likely to have their loans approved. Access to financing is crucial for new businesses, and in Berks County, PA, there are more options available for entrepreneurs to borrow money, including a new program for Reading business owners from National Penn Bank.

Financing is key

The U.S. Small Business Administration recently looked into access to capital for new small businesses, especially high-tech companies and companies owned by minorities and women. New businesses typically borrow from banks because they don't have access to alternative types of funding, such as investors. At the same time, they don't have collateral or long histories, both negatives in the loan process, especially as banks tighten loan requirements.

“Financing is the No. 1 issue that creates an obstacle to them starting and successfully launching a business, so it's extremely critical,” said Ernie Post, director of Kutztown University's Small Business Development Center. “And for the most part, very few commercial banks will entertain a business startup.”

The SBA study released in April found that minority-owned firms relied more on their own money and less from outside sources like banks than white-owned companies. It also found that, even when controlling for things like credit scores, Hispanic, African-American and women business owners were less likely to apply for

a loan, fearing denial. When minority business owners applied for loans, they were

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Sometimes they don't see the point in getting a credit card or getting some history," Martinez said. "Sometimes they pay with cash, so there's no records. If they don't have any credit history, their credit score is really low, so that hurts a lot, because it's like they don't even exist. It's kind of the same thing as if they had a bad credit score."

When they do use a credit card, they tend to run up high-interest balances. Or they borrow from family and friends, which has its own challenges.

"Sometimes there isn't a clear contract between the people, so that can create conflict between them," Martinez said.

New outreach at National Penn

National Penn Bank has launched a new loan pilot program for Reading business owners regardless of race, but it was promoted by the Latino Business Resource Center. The idea came from the LBRC and the Small Business Development Center, where staff noticed clients didn't have adequate capital to start or expand their businesses.

"We just want to make sure that all of the clients who at one point weren't able to get financing for one reason or another have a chance," said Daniel Sansary, outreach coordinator for the National Penn's Community Reinvestment Act department.

Qualifying businesses need to be part of either center's business programs and be located in Reading. Staff at either center will refer business owners to the program. Sansary will work with them on the application process. The loans in the pilot program will go through the same underwriting guidelines, but organizers expect business owners will borrow less than a traditional amount, about \$3,000 to \$10,000 for startup costs or to buy more inventory. The loans are for up to five years at 5 percent.

Outside the microloan program, the typical minimum loan is \$10,000, said Mary

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Most local banks offer business loans guaranteed by the SBA to small businesses. In Berks, about 10 percent of the \$130 million worth of SBA loans were made to minority-owned businesses in the past five years, according to data from the SBA. Community First Fund made the highest number of loans to minority-owned businesses, which is one of the nonprofit's targeted groups.

Banks are complicated, with lots of regulations, and often can't make loans to those with low credit scores, said Jonel Ruiz, director of lending for the Reading area for Community First Fund. So, banks will refer clients that don't meet their loan requirements to Community First Fund. While banks are profit-driven, the fund is mission-driven and looks for high-impact loans.

The fund is a nonprofit that doesn't have the same rules. Staff can spend more time putting together a financing package for clients, too, said Jim Buerger, senior vice president and chief lending officer.

Banks see value of diversity

At Susquehanna Bank, if entrepreneurs don't qualify for a loan, they're given guidelines for improving their financial situation, said David Roland, the bank's regional president for the Berks/Lehigh region. They also can be referred to Community First Fund.

Staff at the Lititz-based bank look at things like business plans, and for signs that loans can be paid back when evaluating business loan applications.

Lending requirements make banks careful about targeting specific groups, said Marilyn Hedge, Susquehanna Bank's Community Reinvestment Act manager. Loan application materials are printed in Spanish, but otherwise, race or ethnicity isn't a factor for loan approvals.

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The bank's also proud of its diversity track record. About 24 percent of bank managers in the greater Pennsylvania region, which doesn't include Philadelphia, are racially or ethnically diverse, and about 20 percent of branch staff in the Reading area are bilingual, said Billy Mosley, senior human resource business partner for Pennsylvania.

Wells Fargo will work with groups such as a Hispanic chamber of commerce, sharing job openings and encouraging staff to refer applicants. It's all part of the concept that a bank should reflect its community.

“We believe that diversity is what makes us a stronger bank,” Mosley said.

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