

# Where angels fear to tread... call in the entrepreneurs

by James S. Howard

**This version of the American dream may not fit any of your prior conceptions. Could it be the first chapter of a new triumph of American capitalism?**

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## Scenes of growth:

**1** *The president of a fast-growing food-wholesaling company inspects space being remodeled for his latest expansion.*

John Torres, president of Metro Spanish Food Wholesalers, a business that just passed \$60 million in sales, is showing his visitors a dimly lit, cavernous space of 25,000 square feet that he is readying for his next expansion. "It was a pigpen," Torres says, not disguising his contempt for the housekeeping habits of the prior occupant, a national grocery chain. Turning to a bare concrete wall, he gestures grandly, "And here is where we break through for our *next* expansion of 40,000 square feet."

John Torres, left, with Serafin Mariel



**2** Two confident young businessmen in dark flannel suits and vests face the venture capitalists.

"You must realize," says Stuart Reid, the young president of Urban Satellite Cable Corp., "that we are bringing a new type of service to the seventh largest city in the United States. The residents of the area we have selected for our first development are not transients, as in so many urban areas," he says, trying to explain to the assembled venture capitalists why their investments would be safe and profitable.

"The vacancy rate is less than 1 percent. The churn is low; people rarely move once they find suitable living accommodations, particularly in the co-ops and condominiums in our target area. There are no real models for us to go by, but there is every reason to think our subscribers will pay the cable bill before they pay almost anything else other than their mortgages." Impressed by the carefully documented presentation and professional plans and charts, the venture capitalists suggest a closing sometime in the next 30 days.

Left to right: Jim Barrera, Stuart Reid, Serafin Mariel and Doug Frazier



**3** A tired but elated businessman talks to his banker about new funds for growth 16 months after purchasing the company.

"Our first 16 months we did not try to increase sales. We decided we would be very cautious until we knew the business well, and we have now accomplished that. Our goal," says Young Lee, secretary and one-third owner of Ace Suede-Life Inc., one of the largest wholesale cleaners of suede and leather garments in the country, "was to maintain sales and profits at the same level as when we bought the company, as it had been very well managed by Mr. Mier. We have done that, and now we are comfortable that we know the business. Next year we will show perhaps a 20 or 25 percent increase. For this," he says, turning to the attentive banker, "we need more working capital for growth." Lee slumps in his chair. "Forgive me," he says. "I haven't had much sleep for the last 16 months."

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Left to right: Young Lee, Chun Jim Chung and Serafin Mariel



The vignettes on the preceding pages are scenes of growth, portraits of small-business owners caught up in the fervor of the American dream. Their eyes focus through and beyond you, as if seeing a distant vision that others cannot see. These are men of competence, with clarity of purpose. They know exactly where they are going and cannot quite believe it when others cannot see the same landscape.

Surely these scenes of opportunity are being acted out in a prosperous, fast-growth city.

Not quite. For this is the South Bronx, N.Y. And if to you it is synonymous with urban blight, for John Torres, Stuart Reid and Young Lee it is where it is happening. As much as any place in the country, it is the home of the American dream, and that dream is the same one that folks dream 150 blocks south on Wall Street, 200 miles north on Massachusetts' Route 128 and across the continent in California's Silicon Valley.

Though all three of these vigorous businesses are owned by minorities, they are being financed privately, without benefit of special, government-sponsored low-interest loans or 8(a) set-aside programs that channel government contract business to minority entrepreneurs. Their success depends solely on the wits of their owners.

#### **An improbable godfather**

If dreams could have godfathers, the dreams of these and dozens of other Bronx entrepreneurs have been watched over by a thoughtful man who is himself an entrepreneur of impressive accomplishment.

Serafin Mariel, born to Puerto Rican parents in Brooklyn and raised in the Bronx by his grandmother, is the founder and president of New York National Bank. He would probably be momentarily embarrassed to be called a visionary, yet his special vision of what the South Bronx can become is so compelling and his evidence so persuasive that he may just possibly reshape the way the downtown politicians and the midtown corporate types look at this benighted area.

In 1980, Mariel was vice president in charge of the North Andean nations of Latin America for Bankers Trust, but he decided to leave the safe haven of Wall Street banking to found a new bank in the South Bronx. This was not because he was moved by a spirit of social improvement, but because he had perceived and defined a business niche that no one else was properly serving.

Mariel understood that the problems of New York's poorest borough had to be attacked with responsible, practical

measures. To him that meant providing traditional, classic banking services, no more and no less than his current employer, Bankers Trust, would provide to a *Fortune* 500 client.

The bank would be funded by business leaders with a stake in the area. It would seek out the business of depositors and commercial customers who were in and of the community. These funds would be lent at fair rates to established businesses in the community. And, along with the funds, Mariel's group would provide venture capital when necessary and financial consulting services for a fee to help make certain that the funds entrusted to the bank were used responsibly.

#### **A practical plan**

This was not a vision so much as it was a practical plan to fill a market niche that the big New York City banks had abandoned

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years ago in favor of "safe" investments like loans to Brazil and the oil-exploration industry.

Of the five founding investors who put up seed money, two were Hispanic and two were black. To save money, Mariel drafted the business plan and offering circular himself and set out to raise additional funds. He was shooting for \$2 million in capitalization. Since he lived in the Bronx and had once headed the Bankers Trust branch at Hunts Point, he knew most of the leading business people in the area. Within several months he had his core investors together.

It was almost too easy, Mariel remembers. Then, weeks before the final papers were to be filed with the comptroller of the currency, one of the larger investors turned hostile, attempting to take over a bank that wasn't yet in existence. He had obtained the investor list and had secured proxies from 40 percent of the investors, promising them a much larger return. No one had had the guts to start a bank in the Bronx for decades, and now that it was close to reality, a

fight for control erupted.

Confirming the support of the other investors and gaining a dispensation from the comptroller of the currency, who had to approve the stock offering, Mariel went back to work. He approached Manufacturers Hanover, which agreed to lend the founders \$200,000. More months passed as he hustled for more investors. Finally, Mariel knew he could put together \$1.6 million without using the \$200,000 note, and, while it was less than he originally sought, his projections said he could make it. On February 22, 1982, New York National Bank was in existence.

Even before opening the doors, Mariel had persuaded Bankers Trust to sell its Hunts Point branch to the new bank, adding \$5.7 million in deposits to its capitalization. After opening, he acquired two branches from Manufacturers Hanover. The big banks that once dominated the scene were withdrawing, branch by branch, in favor of greener pastures. That was fine for Mariel; they were expanding his market niche.

#### **Winning respect**

Since the new bank operated exclusively in the commercial-loan and financial-services market, it didn't need to impress depositors with expensive retail locations or costly advertising campaigns. An officer of Manufacturers Hanover smiles at the fact that NYNB's headquarters is over a Blimpie's hamburger shop on Southern Boulevard. Inside, the offices are as modern and attractive as any you will find, but the rent is a fraction of what it would be in Manhattan.

Most of Mariel's advertising budget goes for a big sign painted on the side of an old building facing the Cross-Bronx Expressway. "He knows what he's doing," says the banker. "He keeps his overhead under control. We have participated in several loans with Mariel, and they have all worked out well."

Despite heavy start-up costs, the bank ended its first year in the black, and it has stayed there.

Last year, the bank's assets passed \$67 million. This steady but cautious growth has inspired confidence in others not ordinarily inclined to pay much attention to what happens in the Bronx. Now Mariel is taking steps to bring in co-venturers. Since his bank's capital restricts the maximum size of any loan to \$750,000, he calls upon the big money-center banks to participate in larger loans. To them, he represents reliability and a sound base in an area they once disdained. Mariel has also been holding talks with large corporations in the metropolitan area with an eye to joint ventures.

## Gaining political clout

Aware that his constituency had been virtually disenfranchised by the political power structure of New York City, Mariel was determined to act as a one-man flying wedge into the city administration and beyond, all the way to Washington.

He persuaded his fellow business owners to form an association for joint action. It is now the National Hispanic Business Group, and Mariel is president of the New York-area chapter. The association has hired a talented administrator and is helping to form chapters in other parts of the U.S. where Hispanic businesses abound. Mariel recently helped launch a fund to provide special working-capital financing for minority businesses with government contracts. He has also been an active member of New York City's Commission on Hispanic Concerns.

"Now we are in a position to help the bank's customers with an application for a change in zoning or a building permit, and we know our voice will be heard," he explains.

Moreover, because he is active on the National Minority Suppliers Development Council, which brings minority contractors together with *Fortune* 1,000 companies, Mariel can frequently steer a bank customer to a lucrative subcontract or a joint venture with a larger and more stable company or persuade a respected accounting firm to accept a client in an area it is inclined to ignore.

## Service for the disenfranchised

From the outset, Mariel was keenly aware that the long-term success of New York National Bank would depend upon providing an extraordinary level of service for his customers.

The Bronx is not your conventional business community. Few if any of the "Big 8" accounting firms, for example, are willing to make calls in the Bronx. The political infrastructure is Byzantine. Obtaining something relatively simple such as a building permit may take twice or four times as long as it would if the same business were located 50 blocks to the south in Manhattan.

Mariel has acted upon such problems so single-mindedly that it has become part of his routine of doing business. If you are a responsible Bronx business person and you need a helping hand with a permit, why not meet the head of the Department of Buildings or the Port Authority or the Urban Development Corporation? Mariel will make the introductions.

Along with the determination to create clout for customers, Mariel understood

from the beginning that NYNB could not restrict its services to traditional banking alone. This gave rise to his "triad" concept: The bank is the first leg, venture capital is the second and financial consulting services the third. Mariel believes that this triad of services is necessary to meet the needs of small and medium-sized Bronx businesses.

In 1983 Mariel started a Minority Enterprise Small Business Investment Co. (MESBIC) that could bring venture capital to the Bronx. It is the bank's MESBIC, Triad Capital Corp., that is helping to provide funds for Stuart Reid's Urban Satellite Cable Corp. Triad is one of five MESBICS participating in the package, but Triad will be the one headquartered in the Bronx, so NYNB will be in line to get the deposits.

## Where is the risk?

Serafin Mariel is well prepared for the visitor who asks about the high risk of making small-business loans in a distressed area dominated by ethnic minorities. It is well known that some U.S. government programs have loan portfolios that are more than 30 percent in default. A normal small-business loan-loss ratio for a commercial bank in a prosperous area is 0.5 to 1 percent. NYNB's loss ratio since starting has averaged less than 1 percent. In addition, because NYNB offers extra services to its customers, it charges one point over the going rates downtown. So where is the risk?

For more than five years, NYNB has been proving that the losses in a portfolio of business loans in the South Bronx, properly managed, can be lower than they are in some of the big New York banks with their exposure to foreign loans and oil-exploration companies. Mariel believes that this is proof that the private sector, if it keeps its roots in the community and follows sound lending practices, can solve the problems that government has not been able to solve.

This also calls into question an entire set of assumptions about so-called "minority businesses." Businesses are well or poorly run, adequately or inadequately funded. The owners are honest or they are crooks, experienced or inexperienced, competent or incompetent. The good ones, the ones that have the talent and dedication to become institutions, should be funded.

Mariel is already introducing Reid and Doug Frazier, Urban Satellite's vice president of operations, to Bronx developers and co-op board leaders whom Mariel has financed through the bank.

The MESBIC is an illustration of another Mariel principle: The bank will thrive only if it has a powerful and experienced management team that shares a vision of what the Bronx can become. The president of Triad is Jim Barrera, who has years of experience in MESBIC lending and is a sleeves-rolled-up businessman with a keen entrepreneurial bent.

The bank's third arm, Financial Services Co., has been largely staffed by outside consultants. An illustration of the flexibility that this capability adds to the bank is in the expansion funding that Mariel hopes to provide for John Torres' Metro Food.

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### A classic story

Torres and his business are a classic story in themselves. Originally the proprietor of a *bodega* in the Bronx selling groceries to the largely Hispanic residents of the area, Torres learned firsthand how hard it was for a little guy to stay ahead of the game. After a time, he tired of the high prices and poor services that the wholesale grocers provided, so he banded together with a dozen other *bodegeros* to form a cooperative food-wholesaling company specializing in the items that Hispanic grocery stores carry. Metro Spanish Merchants Cooperative was founded in 1967 and soon began to grow.

In 1974, Torres formed the Metro Merchants Federal Credit Union to provide desperately needed funds to the *bodegeros*. It is not uncommon for them, after being turned down by all normal lending sources, to resort to "street" borrowing from loan sharks at rates of 1.5 percent *a week*. Worse, it is not uncommon for the *bodegeros* to next discover that the one and only way to discharge this virtually unserviceable debt is to front for the sale of drugs. Torres' credit union replaced this pernicious system with working-capital funds at reasonable rates. In 12 years of operation, the credit union has had only *one* loss

of more than \$1,000.

Co-ops have their limits, Torres points out, and in 1982 he established Metro Spanish Food Wholesalers, a private grocery wholesaler that operates arm-in-arm with the co-op. By 1986, the enterprise had grown to 120 employees, occupying 75,000 square feet of warehouse and office space in the Bronx Terminal Market. It needed funds to finance that growth.

That was where Serafin Mariel and New York National Bank came in. Mariel had already funded one stage of Torres' growth and is now attempting to put together a new funding package that will not only support the continuing growth needs that he and Torres foresee but, just possibly, find a way to make some serious money available to the *bodegeros* through the Metro Credit Union. Some very large corporations are said to be looking at the proposition.

### Building for tomorrow

Central to Mariel's vision of the Bronx is a concept that goes even beyond banks and businesses. It is by its nature so simple that it is in danger of being missed entirely by those who look from the outside in.

"It is not enough for us to think on a day-to-day basis," Mariel explains. "We must develop *institutions*. A business alone may be here today and gone tomorrow, but a business that is also an institution is something much greater. You *know* that it will be

here tomorrow. You know that it will provide jobs to our people and for their children. These are the anchor businesses that we are trying to create in the Bronx."

Unmistakably, New York National Bank itself is displaying all of the characteristics of an institution in the best sense of the term. From the beginning it has disdained the "fast money" that so many new banks seek. Its creation has not been a tour de force but, rather, a painstaking enterprise built a brick at a time.

That is why New York National Bank gravitates to the John Torres who themselves are institutions. That is why it is behind Young Lee and Yong Joon and Chun Jim Chung, the three owners of Ace Suede-Life, who today employ 70 residents of the Bronx and tomorrow will employ 100 or, maybe, 300.

That is why Triad Capital wants to see a group of black businessmen, in and of the community, controlling as much Bronx cable television as possible. Generations ago, huge utilities laid the wires to bring electricity and telephones into the Bronx. They also carried money out. Now, some of the money from the newest utility, cable television, will flow within the Bronx. It will be paid and collected and then reinvested in the Bronx—as frequently as possible—through New York National Bank, if Serafin Mariel has a say in the matter. ■