

Consultant helps small businesses

United Press International
NEW YORK — U.S. consumers are picking up the tab in higher interest rates for risky foreign bank loans but imposing onerous controls on such lending could be more costly in the long run, according to one economic authority.

At mid-year 1982, U.S. bank loans to all developing countries, including East bloc and

OPEC nations, equaled \$131.3 billion, or about twice total capital of \$66.2 billion. Loans to non-OPEC LDCs were \$108.2 billion.

"There is no free lunch in economics," said Robert E. Weintraub, senior economist for the Joint Economic Committee of Congress in a study entitled "International Lending by U.S. Banks: Practices, Problems, and

Policies. "Loan funds are scarce resources," and when too much is lent out additional funds can be obtained only at higher interest rates. Therefore, he said, the loans to developing countries "raise interest rates above what they otherwise would be and crowd out lending to all other borrowers." Banks made loans to most de-

veloping nations, but many "allowed their loans to Mexico and Brazil to reach worrisome levels in relation to their capital," he said.

But Weintraub believes recent legislation that, among other measures, limits a bank's lending to individual countries, is not a satisfactory response. Indeed, he said, the legislation could impose too high a cost on restructuring any loan, "possibly preventing the timely rescheduling of loans to financially strained countries."

"Broadly speaking, there are two ways to make certain that banks act prudently in making loans to LDCs," he said. Regulatory restraint "would, by definition, limit foreign loan exposure (but) would not necessarily promote diversification and safety."

Across-the-board country limits on foreign lending, for example, could prevent deserving foreign loans from being made and place banks at a competitive disadvantage with nonbank financial institutions.

"But the political implications would be especially serious," he said. He referred to a Joint Memorandum to Congress by

the nation's chief bank regulators that "lending limits based on subjective judgments that change over time are likely to have capricious and abrupt effects on the flows of credit, imply a degree of foresight on the part of regulators that may not be realistic and be difficult to administer fairly while avoiding political implications."

Full freedom to lend abroad and especially to reschedule outstanding foreign loans is particularly important now, he said.

He suggests instead a more efficient balance between regulation — enough powers already exist — and market incentives; making banks pay federal insurance premiums based on the size and safety of their loan portfolios and making that information available to depositors and shareholders.

Foreign loans costing U.S.

United Press International
DALLAS — Frank Northcutt specializes in solving the problems of small businesses. Since 70 percent of all small businesses fail, it isn't hard to find problems.

Very often, consultant Northcutt finds, the problems are the fault of management. "It's not inept management," he told UPI, "but a misdirection of the manager's time," a concentration on the phase of the business in which they are most talented to the neglect of other areas.

An experienced cook, for instance, starts a restaurant that serves fine food. But the restaurant closes its doors in less than a year because the location was bad, because the waiters and waitresses were poorly trained, because he couldn't meet the payroll.

An outstanding salesman starts a retail store. Although he is able to move merchandise, the store folds because he didn't understand cash flow and he didn't understand pricing.

Northcutt, who teaches at the University of Texas at Dallas, has been called in by financial institutions and by the Small Business Administration to help in turnaround efforts for troubled firms. He listed four major reasons why small businesses fail:

—Undercapitalization. "I find a lot of them really do not plan what their minimum capital requirements are. A lot of failures could be circumvented by more careful planning. It's something a lot of independent entrepreneurs do not like to do. They may be good visionaries but very few like that type of detailing."

—Lack of sales. What may be classified as lack of sales in a business failure, Northcutt said he has found often is improper markup.

"They either don't mark up enough to have an asking price that will allow them to cover their costs, cover their risk, and cover the cost of (borrowed) money. Or sometimes they will not know the facts, mark up too much — and then they're not competitive."

—Bad management, especially bad financial management. Some managers don't know how to read and interpret the financial reports peculiar to their business, Northcutt said.

"Worse yet, some don't even have adequate records. They don't know how to keep records or when they do set them up they aren't maintained as well as

they should be." Interpreting the properly is vital, Northcutt said. "Figures are the language of business, any business. If you can't interpret them, they cannot manage a business."

—Cash flow. Northcutt said small businessmen often don't understand cash flow, how to have enough cash on hand to cover operational expenses as rent, taxes, payrolls and insurance.

"That cash flow problem is a lot of small businesses. A business can live without cash for a period of time but it can't live without cash. A business can't increase profits and sales but still go broke because cash lags behind."

Some entrepreneurs again and again. "Some unless they have been very aware or are very objective go back and make the same mistakes again," Northcutt said.

Expectant mom rides city bus to hospital

United Press International
URBANA, Ill. — The Crank had plenty of people hold her hand when she rode the hospital in labor — even riding the city bus with her husband.


"The bus is the only transportation we have," Mrs. Crank said. So when she went to labor Saturday, she and her husband jumped a bus to a hospital in labor — even riding the city bus with her husband.

He got Mrs. Crank there six hours to spare, he turned to his regular route drop off his other five passengers, none of whom seemed to mind the detour.

"They thought it was neat when it was all over said."

The hospital said Mrs. Crank and her 8-pound boy both doing well Monday.

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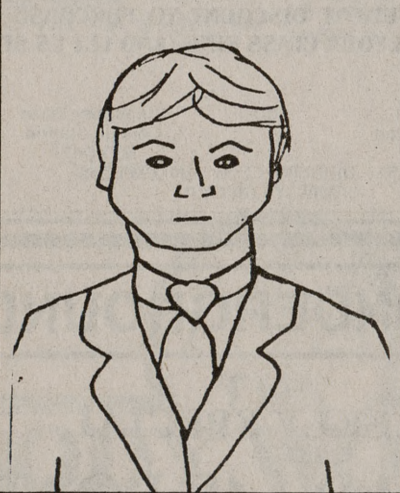

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