Furthermore, the elimination of auction ownership programs for women and members of minority groups as a result of the Adarand case, has caused access to outside equity investors and vendor financing for equipment to practically disappear.

A more detailed discussion of these barriers in both broadcast and wireless licensing is presented below.

B. Market Entry Barriers and Other Experiences

Through the years covered by this study, small, minority- and women-owned businesses in both broadcasting and wireless telecommunications encountered multiple market entry barriers. They were erected by discrimination in the capital markets, in communities, in the advertising industry, and in the competitive marketplace; by the effects of deregulation and market consolidation precipitated by the 1996 Act; and by various actions and inaction on the part of the FCC, the courts and Congress. It is important to note that while essentially all small businesses were negatively affected by these barriers, those businesses owned by women and especially those owned by minorities reported the greatest negative impact.

1. Discrimination in Lending and Limited Access to Capital

➢ ***Access to Capital is Key***

. . . (O)ur number one criteria ... is can they pay for it at the closing and will they pay the most. And that kind of supersedes everything. (Brian Cobb, media broker - BCobb512, p. 13)

Access to capital was clearly the most common and pervasive barrier to entry cited by participants in our study, both among licensees, as well as by most every key market participant (broker, lender, other intermediaries). In a market where access to capital is a critical component for entry and growth, lack thereof basically puts you out of the game. Acquiring money for start-up ventures is difficult enough. If one is a woman or minority, the difficulties in acquiring capital, as the female and minority study participants told us, were exacerbated by discrimination on behalf of the various lending sources and intermediaries.

➢ ***Access to Capital as an Obstacle for Small Business***

Capital affects everything. The more cash-strapped a company is, the less it is able to invest in those things that help it grow and keep it viable. These things include attracting and retaining top personnel; operating out of comfortable, efficient facilities; upgrading to and maintaining state-of-the-art equipment; retaining attorneys to ensure information flow and advocacy;

promoting the business to listeners/customers and advertisers; and acquiring additional licenses to improve competitive advantage.

Access to capital is limited by lending sources' lack of understanding of the broadcast and wireless businesses and their operations; by requirements for collateral in excess of operating cash flow; by increased cost of capital due to consolidation; by exclusion from information and deal-makers' networks; and by advertising agencies' and advertisers' practices.

Discrimination based on education might even play a role in limiting access to capital. As a previous NTIA report on capital market discrimination indicated, at least in the pre-market consolidation era, the fact that minorities who acquired capital were better educated than similarly situated non-minorities may be indicative of discrimination. The study found that education was more important for minorities acquiring capital than even the track record of the business for which the financing was sought.

Erskine Faush, a Black television station owner who acquired his license in 1989, puts it succinctly.

> *(I)t's always capital. ... Now you know, we can theorize and rationalize all of this. But when it comes right down to it, it's the lack of resources.... (W)hen you have a company with mega bucks, many of them being [publicly] traded, who have ready access to deals in the marketplace, even to make improvements, to do all of those things necessary to grow, to fertilize it if you please, without those resources just how do you make it a level playing field? (EFaush238, p. 15)*

Mr. Faush goes on to say that he's not necessarily looking for a hand out but rather a reasonable foundation on which to compete fairly.

> *. . . (I)t's that access to capital. It's that barrier. And, you know, you're not necessarily looking for preferential treatment – and, yet, I could make a strong case to justify some [of it] because of past practices in the marketplace. I could make a strong case for that, but I won't do that. What I will say is this, that once you remove the barrier that's there, without help you cannot move, and that's the one of capital, you know, everything else – once you do that, give me the wheels to put on my chariot -- do you understand what I mean – I'll drive it. I'll run it.*
>
> *I don't mind getting in the race with anybody else at any other level and let it be on initiative, your drive, and all those things that you ought to have to be a good, viable business enterprise, you know. You don't have to do that. You don't have to go out and get the business for me. I'll go get it. Do you understand what I'm saying? (B)ut the one thing I can't get over is the fact that I'm starting at the starting gate and I'm expected to ... make the chariot go and there are no wheels on it. Give me some wheels and I'll get at the race line with everybody else and line up, and let's see who can run to the finish line. (EFaush238, p. 26)*

Similarly, Ernest James, an African American former licensee (who purchased his station in 1985 and subsequently lost it in bankruptcy proceedings) makes these comments.

> *I had done all of the things that you need to do. I had done the engineering to ensure that the property that I needed would meet FCC requirements. But I failed, and the reason that I failed had nothing to do with my ability, proven by the fact that I am very successful running [seven stations for Clear Channel], and the stations that I run are not all urban formatted stations. . . (S)o my point is that it wasn't a matter of skill, it was a matter of access to capital. (EJames268, p. 9)*

➢ *SBA Programs Do Not Ease Access to Capital*

During various years, when the "opinion molder rule" was not in effect,[26] the Small Business Administration (SBA) was able to lend money for the acquisition of broadcast properties. Several of our interviewees were able to finance their station purchases using the SBA's loan guarantee program. For example, Joyce Banks, a Black female radio licensee, recalled that SBA was available to help finance her acquisition, but she only learned of its availability through a state government official. As she states:

> *But still ... so what happened is in contacting, I believe he was a state senator at the time, Paul Simon whom I had worked with for years, had come across ... or one of his staff persons, I believe ... that the SBA had just made the decision to loan money to radio stations. And so a bank whom we had done business with for years then decided that, okay, with that guarantee, they would be willing [to loan us the money]. (JBanks175, pp. 7-9)*

Even though the maximum loan amount for broadcasting properties that the SBA will guarantee has increased over the years to its current level of $750,000, that is too low an amount in today's marketplace, as Manny Davila, Hispanic radio broadcaster, told us.

> *[The] SBA, you know, will lend you $750,000. Well, wow, that's fine. That means I can go and buy [a station in a small town in] Texas, man. but I can't buy in San Antonio.*

[26] The Small Business Administration in the administration of its "opinion molder rule", generally prohibits governmental financial assistance to business operations relating to the communication of ideas on the basis that the government should refrain from subsidization of particular views or ideas, has led the agency to reconsider the rule because it appears to have had the opposite effect of entangling, rather that extricating, the government in speech matters due to the need for agency determinations of eligibility. The SBA's opinion molder rule, which was lifted several years ago, provided generally that the federal government was prohibited from granting governmental financial assistance to applicants engaged in the communication of ideas. 13 D.F.R. 120.2

> *But, yet, the banks, if you want to borrow a couple of mil or a mil or something, no, they don't want to lend you that. They don't – no, if you're not borrowing $3 to 5 million or $10 million, they don't want to talk to you. (MDavila 128, p. 42)*

Pluria Marshall, Jr., an African-American radio licensee, suggests that the upper limit on SBA loans should be increased gradually from $750,000 to $1.5 million to $2 million. As he said, with only being able to get $750,000, *"basically you couldn't buy much of anything for that amount of money." (PMarshall115, p. 1)*

All small businesses face these obstacles. Minority and women licensees reported that because of discrimination, they experienced increased disadvantage.

➢ *Discrimination As an Obstacle to Capital for Minority- and Women-Owned Businesses*

While small businesses typically have more difficulty getting bank loans, the minorities we spoke with shared stories of even greater difficulty because of pervasive and often subtle discrimination. Bob Carl Bailey, an African-American who acquired his radio station in 1977 said:

> *(F)inancing broadcast facilities or any business if that [financing] was tied to the success of the business, ... is difficult ... (p)articularly if you're small and even more difficult if you're Black. Next to impossible. (Bob Carl Bailey, African-American radio broadcaster) (BBailey167, pp. 3-4)*

James E. Wolf, Jr., another Black radio station owner who acquired his license in 1983, shared the irony of him finally becoming bankable as a result of the windfall he is reaping from the sale of his broadcasting business. Furthermore, he makes reference to the banker's willingness to call him "Mr. Wolf", an appellation of respect that was obviously lacking before.

> *The color of the skin I am in is the problem. It has been and still is. Now I'll tell you, since I've gotten this big, large contract on my desk [for the sale of my station], everybody – I had one banker [who I earlier had tried to get financing from] tell me, and this is verbatim. "The kind of deal that you've got, I'm going to have to start calling you 'Mr. Wolf.'" But now I can get anything I want. But I don't need them, you know. I can get anything I want now. ... You know, ... I've had so much notoriety in this community and all of the servicing work that I've done, any loan ... it had should have been, "All we require is your signature, Mr. Wolf." That's what it should have been. That's what it should have been. (JWolf281, pp. 21-22, 27)*

Andrew Langston, the first African-American to seek a license directly from the FCC in 1960, financed his radio station purchase *"out of my piggy bank ... because the bank wouldn't' loan any money."* Mr. Langston had 12 businesses at the time he was seeking financing for his radio station [in 1974]. He had extensive experience and a track record as a successful businessman.

And still he could not qualify for a bank loan. He was essentially told by the banks to be his own lender.

> *There was one time I had twelve businesses. . . I borrowed money from [my in-laws] . . [Banks] wouldn't loan me any money, because they told me I didn't need no money. And that was true, I didn't need any money, I needed to wake up and think. Because here I had a transportation business. I had a public relations business, a promotion business, had an insurance agency. I had revenues coming in from that and I turned around and looked and said "what the hell?" I can loan this money to the station. Which I did. (ALangston112, pp. 1,12)*

Mr. Wolf also talked about how even with his industry and community recognition and prominence he was still not able to prove his creditworthiness to the banks.

> *I just really ... positioned myself – I've won every award that you can think of from the cities, economic development awards, from the State of Tennessee. (W)e tried unsuccessfully so many times [to raise capital]. . . . (T)hese are the pressures really that made me actually sell at this time, you know. It's because I just got tired of begging people, even though you prove yourself over and over. I'm on the Chamber [of Commerce's] Economic Development Board. I've won the pinnacle award of the Chamber of Commerce. I've won the small business award. I've won every large award, industry award, that you can win here, but I've never proved myself to banks. (JWolf281, pp. 20-21)*

Some minority owners found that the banks were unwilling to lend them money, but the banks used the information that they received from the minority applicants against them. For example, William Galloway, a Black male radio licensee, recalled the following story:

> *We could not borrow any money, and to this day, we don't need any money. Because they just would not lend money to a minority, and especially in the radio business, because they found that banks are not familiar with lending money to broadcast radio stations, and I live in Buford, South Carolina. And they're not going to lend me any money for this radio station. They will now. I was told no on 3 or 4 occasions, but someone found out, I guess in the bank, from a friend, I guess, because I was approached. They offered me $85,000 for the radio station and I said, well, first of all, how did you know I was trying to borrow $50,000? That was supposed to be confidential. Evidently it was not. I live in a small town. Everyone knows everybody's business. And so I said, well, if it's worth 85 to you, why isn't it worth 50 to the bank? And of course I said, well I'm not gonna sell. And I refused to sell. And I do not need any money at this point. My radio station's free and clear. I do not owe anybody any money. And the only reason is, because it's free and clear, and I'm afraid to borrow any money. Because, I can borrow more than I can afford to pay back. And, since I have refused to sell, the good way to get me is to lend me more than I can afford to pay back, and call the advertisers, who are their friends, and say, look, let's not advertise. We can get Galloway's station. So that's a way for them to get it from me without my agreeing to sell. (WGalloway183, pp. 4-5)*

➢ *Prominence and Prior Business Success Is Not Enough*

As in Mr. Wolf's case, many minorities we spoke with were prominent in their communities, often had other successful businesses, aligned themselves with other leading individuals as equity investors, and still had great difficulty receiving the financing they needed. Often they had to approach several lending institutions before they succeeded, if at all.

Notable among them is Percy Sutton, who in 1971 co-founded Inner City Broadcasting. At the time, Mr. Sutton was Manhattan Borough President, principal owner of the *Amsterdam News*, a leading Black newspaper in New York, and an owner of a cable television company. As his son, Pierre Sutton, President of Inner City and Chairman of the National Association of Black-Owned Broadcasters (NABOB), reports:

> *We didn't have access to capital, we didn't. We had an opportunity to purchase but we were unable to find a bank that would back us in [1971]. In fact we went to some 30 banks in New York looking for backing and this was to buy an AM daytime radio station in Harlem. . . . (W)e were fortunate in that one of our shareholders had saved the life of Bunny Berkley, who was then the [child of the] Chairman of the Board of Chemical Bank, and that's how we got additional financing. But it was just dumb luck. He [the shareholder] was a counselor at summer camp and he had saved the life of the [child] from drowning, saved the life of this man's child. It's kind of extreme access. (PSutton, pp. 1-2)*

Mr. Sutton's poignant story illustrates the extreme lengths to which minorities had to go to secure financing almost 30 years ago. These barriers compare to those faced by minorities today as a result of: market consolidation, the lifting of the ownership caps, the repeal of the tax certificate program, the issuance of the Adarand decision, and the ending of FCC minority and women ownership policies (comparative merit, installment payments and bidding credits).

Greg Davis, a Black radio licensee, who also has 25 years of experience, had a more difficult experience:

> *As minorities we found it – I found it extremely difficult, and even with my 25 years in the business, and even proven record having been there for 12 or 15 years. It was still very difficult to get conventional financing. So we ended up having to do venture capitalist money and so forth. So the cost of capital has always been a very strong deterrent for minorities participating in the broadcast industry, whether it's wireless, cable, television, or radio...I want that to be very clear, that it's not only the accessibility, but it's also the cost of doing business. It's been extremely difficult for us to come ahead. (GDavis202, pp. 4-12)*

Richard Weaver-Bey, an African-American who owns both a real estate company and his radio station, which he acquired in 1981, had put together a team of highly visible partners - three lawyers and a doctor. "*... and still the bank would not lend to us.*" The bank said "*they were*

doing what they called asset lending, and they questioned whether or not the radio station had the ability to sustain or to repay the loan." Ultimately the bank agreed to do the loan, but only *"if it would be guaranteed 90% by the SBA." (RWeaver-Bey171, p. 7)*

Jeffrey Hutton, a White small radio station owner, had a markedly different experience with his bank. While Mr. Sutton and Mr. Wolf, with their visibility in the community and record of business success, were deemed uncreditworthy, Mr. Hutton got his loan, two years later in 1983, based on the fact that he was an *"upstanding citizen of the community."* The contrast is stunning.

> *I went down to the bank [in 1983] and got a loan, and they gave me a loan based on two criteria. Number one, the collateral I was able to put on the table and number two, my personal credibility because I was employed as a vice president of a local hospital in town when I went to my bank. And so as a result I was what they call an upstanding citizen of the community and you know, served on a United Way board and things like that so they were really, as I was told later on, they were loaning the money to Jeff Hutton because of Jeff Hutton not necessarily because they thought that this business venture was going to fly and make money.*
>
> *(F)or a period of time when banks were in trouble back in the '80's, they didn't want to loan money to radio stations because it was too speculative. But I've been fortunate, both of the banks I dealt with have done so because of me and they understand my work ethic and how I do things. . . . No, I never had problems with banks. I mean every time I've gone to the bank and asked them to do something they've done it. (JHutton383, pp. 5, 6, 7)*

➢ *The Administrative Cost of Capital – Extraordinary Efforts to Secure Loans*

Several minority interviewees indicated that it took extraordinary efforts to get loans. They were sometimes turned down by several banks; they may have been treated disrespectfully by bank officials; they may have been unsuccessful and had to finance by other means; often their loan agreements required different or more stringent terms; and their deals received more detailed scrutiny.

Art Gilliam, a Black radio owner who after visiting 10-15 banks in 1977 was able to get his loan, nevertheless, considers his experience a fortunate one.

> *Well, we were very fortunate.... (W)e went to really, I guess ten or fifteen banks, and most of them said no. And many of them right off the bat without looking at our proposal, but we did have relationships with some of the banks and the one that had financed [us] initially indicated they would do it along with the minority bank which we'd done a lot of business with in the interim. (AGilliam117, p. 11)*

Hispanics have had similar experiences with banks to those of African-Americans, as Manuel Davila ("Daddy D"), a second-generation Hispanic radio station owner and on-air personality, shared.

> *[W]e went to several banks [over two decades, from 1974 to 1996] and they all turned us down. . . . The banks won't lend you money because [they believe with Mexicans] all you do is drink and you all beat your wives and you have a lot of kids and you all have tattoos and you wear gold chains.... [We] couldn't get money. (MDavila128, p. 26)*

James Wolf, Jr., an African-American broadcaster, tells us further that he *"... got turned down by every bank, every traditional institution. We were redlined and I started to sue – redlined. And we had proven that there was nothing in our history that suggested that we were going to do anything other than [be] good stewards of the money we were loaned at the time. I got rejected all the way up until 1996, 12 years later." (JWolf281, pp. 20-21)*

Many minority interviewees had similar experiences of being turned down by several banks, and in some instances despite their efforts to comply with the banks' requirements and suggestions. For example, Greg Davis, a Black radio licensee recounts:

> *I went to almost nine different banks in various parts of the country, and my story was pretty – I'll tell you straight to the point. It was a very long, tedious process. And initially I would go to the bank, and one of the banks would tell me your business plan isn't thorough enough. And I'd correct everything that they would tell me. I'd go to the next bank and the next bank would tell me that you don't have enough experience. I would correct that ... I would tell you that it was very, very difficult initially to raise the capital to invest in our company...It took six years. I started in 1980. No, they never loaned me the money.... I'd go back and correct it and they would say, no, we're just not interested for a lot of reasons. So access to capital has been a tremendously difficult task, at least from my perspective, in trying to start a company...(GDavis202, pp. 4-12)*

Certain minorities had to take out home equity loans in order to finance the purchase of their communications property. For example, Leodis Harris, a Black male radio licensee, recalled the following:

> *The only way I was able to do it was to go into my home equity. I had some small purchase price, but the balance of it I had to get from a home equity loan.... Especially with a new owner having no broadcast history, it was just almost, well, it was impossible. I had some big plans when I purchased the station, market studies and kinds of proposals for sales and so on. However, they were based on my being able to get a loan, a bank loan, I was trying to get a loan of I think $585,000 or something of that sort. But of course I ended up not being able to ever succeed in getting that loan.... With the station not up and with me not being able to show any kind of history or any kind of prospect except my hopes and dreams, it was difficult and all the banks turned me down. (LHarris276, pp. 1-4)*

Even though some minorities had access to some personal capital, this access did not preclude discriminatory treatment. For instance, Nancy Waters, a black female radio licensee, recalled the following:

> *When I went looking for money, you know, all the local banks had turned me down. That was back in '79. It didn't matter that my husband had $200,000 in profit sharing at the local bank. They said that I didn't know broadcasting, and I was way over my head. (NWaters178, p. 5)*

Some banks have treated minority applicants as if they were unsophisticated borrowers, irrespective of their level of sophistication. For instance, Joyce Banks, a Black female radio licensee, recalls that:

> *[I]t was just very difficult to start the business with advertising being very tight. The banks ... we had no history of broadcast experience, and though a lot of the bankers knew me, they still knew me in a light that didn't have anything to do with the radio business. So as we put together loan packages some of them were quite insulting. We would come ... my husband accompanied me ... we would go to some of the banks, and they would look at you like you need to put together this or that or the other. We knew what to put together. And it would surprise them, and yet they would not consider it because we were asking for quite a bit of money. Again, we were asking for six hundred and some thousand dollars for a start-up business, and they were not willing to take the chance. Well, just because some of the conversations, and I sincerely mean, were insulting. "Now, well, you don't need to ... well, you do have to put a plan together; we can't take things brought in a shoe box. You know, people will bring ..." Not even noticing that there was a bound book with a planned budget and all of that sitting right in front of them. . (JBanks175, pp. 7-9)*

Jim Winston, Executive Director of the National Association of Black-Owned Broadcasters (NABOB), relayed the fact that minorities often experienced more stringent loan terms than their non-minority counterparts.

> *There was always the ongoing problem being a minority buyer, the terms were always stiffer. If you could get a lending institution to talk to you, the terms they came up with were always stiffer, so that minority buyers often found themselves having to sign a personal guarantee to the bank when they borrowed money against the station. So, essentially, they would take a security interest in all the assets of the station, and would still come to the borrower and say, I want a personal guarantee from you on top of that. There always seemed to be the stories of guys who were buying their second or third or fourth stations, who were still being required to do personal guarantees. And, nobody was seeing anybody else's bank loan documents. But there was this view that the restrictions were – that personal guarantees stayed with our guys longer. (JWinston502, pp. 24-25)*

Some minorities indicated that the banks over-scrutinized their transactions in comparison to their non-minority counterparts. Pluria Marshall, Jr., Black male radio licensee, shares his experience.

> *I know friends of mine that are in the business that are able to go in and get deals done, and if I come in with the same kinds of deals, my deals get scrutinized ten times tougher... And I'm a real small operator. So it doesn't really matter how good, how well you can function in the business, I mean it just doesn't matter. A Black man's gonna have problems and that's it. (PMarshall115, pp. 9-10)*

➢ *Limited Access to Capital: Banks Don't Understand Broadcasting*

Several interviewees observed that yet another obstacle to the access of capital is that banks simply do not understand the broadcasting business and are, therefore, reluctant to loan money to loan applicants attempting to start a broadcast business. Bud Price, a White male radio licensee, recalls the following:

> *There were two banks in town. One bank we filled the application out and he said, "You know, if this was a hog farm, we know hog farms. But we don't know anything about radio, so we're going to turn you down." So I went to the bank across the street and they looked over the application and he said, "You know, the guy across the street who's president of the other bank told me that he doesn't know anything about radio and neither do we." And I said, ... "What do you need to know besides my willingness to pay, my cash flow, my ability to pay, my credit history?" He said, "Well, you know, if we have to have a fire sale and you go under, we've got to get that money back and we don't know anything about radio."... None of that mattered when it came to financing a radio station, because it was a unique, one of a kind animal in the community and in the region, and they didn't know anything about it; and there was no access to typical lines of credit. You know, the only people I know talking of wild success stories are on the corporate level, that are buying a lot of radio stations, dumping a lot of people, curtailing the services, operating it much leaner and, you know, trying to make a little profit off a lot of stations rather than a living wage off of one station. (BPrice243, pp. 6, 45)*

The primary asset of a broadcast company is generally its cash flow from advertising revenue. It is not unusual for smaller broadcast companies, especially in smaller markets, to encounter difficulties in acquiring debt financing, as they are often seen as higher-risk borrowers based on the size of their operations and their ability to generate cash. These companies rarely own the hard assets – buildings, equipment, inventory - that banks generally use to collateralize business loans. Furthermore, since a broadcast license is subject to FCC and public scrutiny upon regular renewal every eight years, banks do not consider the license adequate or appropriate collateral.

Absent these business assets, a banker often requires the licensee to secure the loan with other personal assets such as real property, marketable securities or compensating bank balances (e.g., stocks and bonds, treasury bills, certificates of deposit, etc). An alternative or addendum to

personal assets as collateral was often an increased interest rate on the loan to compensate the lender for the perceived additional risk. In the absence of business or personal assets, licensees were largely unable to secure loans for either acquisition or working capital purposes. The more comfortable the lender was with the borrower, though, the more he was inclined to look to the operations (cash flow) of the business rather than to hard assets for his security.

Our study found that while historically small broadcasting and wireless telecommunications businesses have had difficulty gaining access to affordable and sufficient capital, discriminatory practices in the banking industry have disadvantaged minority- and women-owned businesses more so than White male-owned small businesses. Additionally, when required to pledge personal assets as collateral for loans, minorities are frequently confronted with an added market entry barrier due to historic disparities in intergenerational wealth transfers. If mortgaging the proverbial farm is necessary to secure a bank loan, a minority's farm, if they have one at all, is likely to be smaller than that of their White counterpart.

S. Jennell Trigg, a communications attorney, highlighted the fact that the Small Business Advisory Committee *"show[s] that minorities have less collateral and less personal equity before they entered into business than non-minorities. So they're always starting off at a deficit when it comes to cash. And the longer it takes to acquire the property, the more legal fees. And again, at one point, you reach a point of no return. If you give up, you've got nothing to show for it... You're pouring...bad money into good. (JTrigg536, p. 30)*

Charles Cherry, an African American who acquired his first station in 1988, summed it up this way.

> *[Banks] don't understand broadcasting and they look at it strictly [on the basis of] collateral . . . . And then, of course, debt is always tough because if you go to a conventional lender they don't understand how radio works. . . (t)hey're looking at hard assets . . . and we've had people say, you know, we don't lend on cash flow. [But it's my cash flow that's going to pay you]. (CCherry262, pp. 3, 19)*

Robert Fink, a White small town radio broadcaster who bought his station in 1998, echoes these comments when he says, ". . . *(Y)ou go to the small local banks, like we would have here, and they'll at least be polite and let you make a presentation, but they deem it too risky because they don't understand the [broadcasting] business.*

Amador Bustos, President of Z-Spanish Broadcasting, a successful Spanish-language broadcaster with 33 radio stations nationwide who first went into the radio business in 1992, had similar experiences when he was first starting out.

> *[We went to your traditional banks], the Bank of America, the Wells Fargo, the people that we knew. That was the only banking relationship that we had at the time. Being in the broadcast industry and not in the finance industry we didn't know any investment bankers or anybody in New York or anything. So we just went to the traditional commercial banks. And since broadcasting does not carry a lot of assets – it's just the*

> *value of the franchise and the license – they did not understand that kind of financing. They didn't like the collateral of the broadcasting industry. (ABustos12, pp. 10-11)*

Minority broadcasters might be uneasy about educating the banks about the broadcast industry in order to get a loan, probably because banks could use the information to the minority applicant's disadvantage. For instance, Pablo de Jesus Colon, a Hispanic male radio licensee, recalls:

> *In 1982, when the $400,000 note ballooned, and we didn't have any money, ... we went to a couple of banks, I'd say, one bank, they took forever to give you a no answer. Yes, we had the Fleet Bank. OK, and the Fleet Bank told us that I think it was a troubled credit, [and they] couldn't give us the loan. The other bank was Founders Bank, and we were a little upset at this bank, because we'd prepared a 5-inch binder book with all the information on our radio station from the beginning, in 1989 to 1993. And when we talked to the bank, to the officer at the bank, he was very excited, because we had given him so much information about the radio industry and he came out and announced to us that he had never done a loan for radio, for broadcasting before. But he had another Anglo group that was trying to get a loan from the same bank, and he said, now this information that you have given me, gives the opportunity to read and get myself knowledgeable about this industry, so that I can work out these loans. But the other people got the loan and we didn't. So we prepared this man with enough information to make a right decision and the other loan for the Anglo group, and our information was not good enough for us to get a loan. (PColon244, p. 8)*

➢ *Limited Access to Capital: Broadcast Station Assets Undervalued As Collateral*

Even when owners who were known in the community had businesses with sufficient hard assets to use for collateral, as was the case for African-American Erskine Faush, minority owners were still not successful in getting bank financing.

> *(E)ach of us, my partner and I, the two Blacks, we put in $40,000, which was all we had. [We went to] (a)t least three or four [banks] and were getting virtually the same story. In some instances, I can remember a couple of them at least going through the motions of coming out and looking at the[station] property [which we owned].... This station had some real assets, its studio and the property on which the studio sits. So it was not just the intangibles that are associated with the broadcast industry. Therefore, there was some real tangible assets and the station had enjoyed some years of operation so it had a track record in terms of its credit rating and paying its bills and that sort of thing.*
>
> *We were both indigenous to the soil, to the extent that we also had personal records. In addition to being a broadcaster I am a minister and have pastored the largest Black Methodist church in this area. And I retired from that after 20-1/2 years there. So we were not new or novices, and we had personal credit records, you know, if personal guarantees were necessary. So everything was there, I would think, by any yardstick or*

> *measure in a general situation, that would qualify us for the loan. [And still we were unsuccessful.] . . . (I)f you measure us by any yardstick that you measure the general population, I could find no reason not to justify granting the loan. So what else is left [but discrimination]? (EFaush238, pp. 3, 4-6)*

William Saunders, a Black FM station owner, who acquired licenses in 1971 and 1983, had similar experiences. He owns free and clear 34 acres of land *"right on the water"* which is probably worth 20 times the amount of the loan of $250,000 he is seeking, *"but we can't get [the loan]."* His waterfront property is somehow considered inadequate collateral to provide comfort to the banks he is dealing with. Due to delays in finding money, his business has been put into receivership.

Even when some minorities had appraisals of their broadcast properties, banks sometimes still refused to loan them money.

> *... (W)e did go to a couple of banks that had loaned money to radio stations. We found that out and approached them because we weren't talking to a new entity. They would tell us that the collateral in this type of business was ... that we didn't have enough to make them comfortable, even when we had letters from – one from an appraiser, one from a person who had offered to buy us before we even started. And the appraisal was saying that the license in itself at that time was worth about $800,000... (JBanks175, pp. 7-9)*

➢ *Limited Access to Capital: Personal Assets as Collateral*

Since broadcast lending is based on cash flow versus hard assets, it was not uncommon for license holders to have to secure their loans with other personal assets. Michael Carter, a White radio station owner who first acquired a license in 1977, told us that *". . . [he] had to mortgage a farm"* in order to provide collateral to cover his loan *". . . because [the banks] don't value the FCC licenses. It was terrible." (MCarter230, pp. 2, 3, 4)*

In talking with Dale Gehman, a Native American radio station owner who acquired his license in 1991, he tells of how his father mortgaged the family home and put up the assets of their furniture businesses to get a loan.

> *[My dad] mortgaged our house ... for the tower site property, and then the assets of the furniture business [which was] the only way the leasing company would [provide the loan] – I mean, at least he could help pay the payment if we couldn't. And, of course, he never had to . . . I guess looking at any other minority trying to get in those days, in the early '80s there, he was hopeless. I don't see how anybody could have done it with the banks. The banks are just impossible. [We also] tried the Small Business Administration and really got nowhere there. (DGehman132, pp. 10-11)*

But for Native American tribes, gaining access to capital is very complicated because of their unique status. For instance, Jim Casey, a communications attorney, states:

> *The primary barrier, not surprisingly, is capital. Tribes have a very difficult time raising capital, because of the nature of their assets. Their assets are typically held in trust by the Federal Government. They cannot be pledged in a financing arrangement. So they start out at a disadvantage in getting financing. Another difficulty they have with financing is their sovereign immunity status. They are often put into a position to waive their sovereign immunity in order to get a financier to work with them. (JCasey535, p. 6)*

William Saunders, a Black radio station owner, talks about his struggle to acquire much needed capital for his two stations from 1971-1983 and everything he put at risk to do so.

> *I ended up with the two stations and really could not get the capital that I needed to make it run. I needed operating money, I needed stuff for promotion, I need a lot of things, and we just couldn't get any of it. And we went into a deal, that happens to minorities most times, I bought 49% of the FM station and then my partner, or the White guy that I was in the partnership with, had a real bad reputation, but a lot of stuff was against him that I didn't know and I couldn't find out even from the White friends that I had. They all said he was a good guy. But he wasn't.*
>
> *And eventually, the bank attempted to foreclose on him. But [they] allow[ed] me to take over the note, because that's the only way I would have been able to get money. They would not loan me the money but if I would take over what the station owed, which was about $631,000. And what I did, like a fool, I signed on as guarantor for it, and as a guarantor, it brought in my AM station, and it brought in my house and my real property and everything, and the bank got a receivership on it for all of my real property and the two stations. (WSaunders163, pp. 4-6)*

When evaluating loan applications, lenders look to the cash flow from the business to determine borrowing capacity and to adequately cover debt service. Accordingly, they will often ask to review a company's business plan and cash flow projections. If lenders believe the projections to be too optimistic, they will discount (reduce) them. As a result, the amount of money that the loan applicant can borrow, if they can borrow at all, is less. For radio stations, cash flow comes from advertising dollars. Reflecting the frequent experience of urban radio broadcasters with discriminatory practices in the advertising industry, it was not uncommon for licensees who had urban-formatted stations to experience discounting of their cash flows by lenders. Charles Cherry, an African-American radio licensee, highlighted this point.

> *The bankers do what the industry does, which is they discount – if you are trying to go into an urban format, they discount the buying power, the purchasing power, of the market that you're trying to serve. (CCherry262, p. 14)*

The discounting of minority-formatted stations is worse than would appear at first glance. If banks discount the buying power of minorities and advertisers diminish cash flow by also discounting advertising buys and/or refusing to advertise on minority formatted stations, the broadcast property is undervalued in at least two respects. Accordingly, debt capital is all the more difficult to obtain.

➢ *Limited Access to Capital: Use of Personal Capital in Lieu of Bank Debt*

Several interviewees shared how they had to get creative with raising funds for the purchase and operation of their stations. Many used cash savings and proceeds from the sale of other personal and business assets.

Jose Molina, a Hispanic owner of both radio and television properties, tells how in 1970 he purchased a one-bedroom house in an undesirable section of Hollywood, California for $25,000, with $3,000 down. Most weekends, his buddies and he, for the cost of lumber, worked on the house until it grew to four bedrooms. He then refinanced his mortgage to pull $80,000 out of his house and combined that with $70,000 of private equity to make his $150,000 down payment. *"The lady [seller] carried $500,000 in a 10-year note. So I didn't have to go to banks because I knew I wouldn't qualify. She carried the paper. . . . (T)his person was a cream puff. . . . (T)he time period that she gave me was a godsend. Ten years." (JMolina121, pp. 9-10)*

Since many minorities were not able to secure bank financing, they had no choice but to sell or mortgage other holdings to generate the cash needed to buy or build out their stations. In order to buy his low power television station in 1983, Eduardo Cabellero, a Hispanic licensee, tells us, *" . . . the money I raised has been mostly by virtue of selling my business and getting some personal loans, not necessarily business loans, but my personal loans and giving it to the company." (ECaballero123, pp. 12, 13)*

While White male-owned small business licensees typically had an easier time securing bank financing, they were not immune to having to pledge assets in excess of those owned by their stations and invest significant capital themselves. Robert Fink and Bob Darling, White radio station owners who acquired their station in 1998, had to put in 75% of their own money and borrowed the remaining 25%. *"I mean they wouldn't take the station as collateral. I ... had to put up ... everything I had ... my home, I had some rental properties, and I had to sign those over. Literally everything I owned." (RFink235, pp. 12-13)*

John Tupper, a White TV station owner, also used his own capital to finance his business in 1995.

> *We probably could have gotten funding had we personally signed for the loan and provided some other collateral to back up any debt that we would have incurred to build the stations. But the assets themselves were not bankable collateral to stand on their own. . . . So we decided to bank it ourselves instead of paying interest to somebody else*

when in fact we would have had basically the same assets tied up either way as collateral. (JTupper216, p.6)

➢ *Women Experienced Discrimination as Well*

Historically, many women were of the opinion that banks were uninterested in helping them finance their acquisition of a communication property. For instance, Ruby Unger, a White female radio licensee, stated:

> *It would seem real clear to me during that whole process and in my years with AWRT [American Women in Radio and Television] and other women's groups and small business women's groups – it really did make a difference in those days if you were going for funding and you were a woman, boy, you had a tough, tough road, a very big, uphill battle. Yeah. It just – you know, when you're sitting across from a banker who's a man – if you're a White man you have a much better chance, and obviously all the numbers bear that out. I mean, it was something like one or two percent of all of the radio and TV stations in the United States were owned or managed by women. I mean, come on. (RUnger367, p. 10)*

Similarly, Bernadine Nash, a Black daytime AM station owner whose late husband bought their Boston radio station in 1980, offered her experiences.

> *I think [being a one-station business owned by a Black female has] made it virtually impossible [to raise outside capital]. . . .I mean, I think that certainly being small is a distinct disadvantage, and I think that would be the case for anyone, regardless of whether or not they are male, female, Black, White, whatever. Just because the tenor within the industry is that bigger is better. However, the additional burden of being female . . . (Y)ou know, the reality is that when you are owning and operating your own business and you're a female and you're small . . . and a minority, they don't take you seriously. (BNash118, pp. 11, 14)*

Francine Rienstra, a White station owner in Arizona, spent an exceptionally long time in the application and comparative hearing process from 1987 to 1993 using up a great deal of her money to wage that fight. As a result, she had to go into a Local Marketing Agreement ("LMA" – alternatively referred to as a Lease Management Agreement), giving someone else the right to use her license and broadcast facilities for their own benefit in exchange for a monthly fee.

> *[We went after the LMA in the first place because] it was the need for funding. No one wanted to fund a radio station. No banks in town wanted to fund a radio station. . . . I did talk to venture capital people, and a lot of the people that I talked to only wanted to do large deals. They didn't want to do a small deal because, really, I didn't need a whole lot of money to get the station up and running. I was asking for about $1 million. . . . And I did try that route [talking to the SBA]. I did talk to ... in fact, I talked to some of the*

> *national SBA people, and they would not lend to broadcast or print industries. (FRienstra360, pp. 17-18)*

When Ms. Rienstra, who had put together an all-woman team to apply for the license, went to the banks she had these experiences which were compounded by the fact that she and her partners were women..

> *So, I put my group together. We had pooled our money together. We had put together a business plan, and I had started meeting with three to four people for financing through local banks here. And I had gone to three banks, the first of which was one of the larger banks in town, and I literally got laughed out of the office. Because they took one look at me and assumed that I didn't know what I was doing. So that was the first bank that I went to. The second bank that I went to insisted that if I were going to try to get a loan or even to apply for a loan, that I needed to have, not only all of my partners' signatures, but I had to have all of our husbands' signatures. And we were an all-women group. Now, granted we live [in a community property state]. But by the same token, I don't know that they would have asked a man that. That was the second bank. And the third bank said that they do not loan for such risky ventures. (FRienstra360, p. 1-3)*

Bennett Kessler, a White female radio licensee, relays a story of how the banks were particularly unhelpful to her because she was a woman.

> *...I'm about to get my first bank loan. But the banks were very unhelpful... I will say that the banks I felt were not helpful to women. That was my general impression and also, the story that I heard from other people. ... But it is my general impression, it has been my general impression in this area, which I guess you could call kind of a redneck area, that a woman named Bennett is really not going to do that well. I try to explain that it was my great-great grandmother's maiden name. That helps a little bit... (BKessler313, pp. 13,18)*

Patty Ruiz, a Hispanic female television licensee, states:

> *I think it was a lot easier for a man to get financial backing than it is for a woman. Oh, yeah. I think those barriers are finally coming down a little bit, but at that time, you know, seven, eight years ago that was tough...*(PRuiz452, pp. 14-15)

Not all minorities and women had the same difficulties highlighted above. Some were in the right place at the right time. Johnny and Opal Shaw, Black radio owners, gave their bank an A+ [although they also spoke of the challenges in getting their loan]. Originally, Mr. Shaw was general manager of the radio station he ultimately purchased in 1987. The station owner got into financial trouble and offered to sell the station to Mr. and Mrs. Shaw. They financed the purchase of their station with personal savings, seller financing and a loan for approximately 60% of the purchase price from their local bank. Furthermore, when it was time to upgrade and buy new equipment, their bank was willing to refinance their loan. (*DSutter205, p. 5)*

Mr. Shaw feels that his ability to get a loan quickly to purchase a station from his boss was the result of the prior owner putting in a good word for Mr. Shaw with the bank. "... *I was a little bit surprised [at their willingness to loan me money]. I think [the sellers] had something to do with me probably getting that loan as quick as I did because – you know, I don't have evidence of this, but I want to feel like they said, hey, look, we really need to sell this station, and this guy does have the capabilities of running it. He's had the experience and so forth, and we need to get it off our hands, and we need you to help him get it." (JShaw185, p. 3)*

He went on to give his bank high marks for the opportunities he was given, especially because he was a minority.

> *I have to say at this point in time that I think, as an African American, I would have to give my bank an A+. My bank has worked with me very well throughout this whole process. But we've always been responsible to them. But at this juncture I think they realize that it's okay, you know, they can trust us and we can trust them. So our bank has done well. (JShaw185, pp. 17-18)*

➢ *The Importance of An Informal Industry Network to Success in Acquiring Capital*

A number of study participants told us how important it was to have contacts with lenders and equity investors along with personal financial sophistication to help overcome the market entry barrier of limited access to capital. Tyrone Brown thinks that " . . .*today, finance is the most important thing. The most important thing is you [have to] understand finance because you [have to] put together a financial package and not only understand it but you need contacts in the field." (TBrown510, p. 13)*

John Thomas, a Black radio licensee who acquired his station in 1992, believed that his previous banking experience and relationships made all the difference in his ability to eventually get a loan for his station.

> *(M)y banking experience and the relationships that I had developed over the years in the banking industry helped me tremendously. I did have a small amount of capital, but primarily all of the money was from bank financing. . . . [But] it was [still] difficult because, again, I came in, I did not have any experience operating a radio station. Second, the station was in bankruptcy, so it was very, very difficult to convince people that it was worth putting money behind. But I was persistent and I just kept looking for ways to put the deal together, and eventually it happened. (JThomas277, p. 4)*

➢ *White Males had Greater Ease and Success Securing Debt Financing*

Like White radio broadcaster Jeffrey Hutton above, several of the White male licensees we spoke with had very different experiences compared to those of their minority and female counterparts. Wireless license owner Dennis Miller, who is White, has had positive experiences with banks helping to fund his company's expansion, even going so far as to have lenders eager to provide capital. Mr. Miller shares *"[As we have grown, raising capital has been] very easy to do. We've gone to traditional banks. Real Telephone Finance has been providing our financing now for the last three years. Part of that was CoBank, but we have investment bankers there, very anxious to provide us funds. Well actually, we've grown and we've been very successful in our enterprise here, and so as you get more successful, you get on more radar screens. (DMiller147, pp. 5-6)*

Trent Boaldin, another White male wireless license holder who acquired his licenses from 1976-1999, similarly had a relatively easy time raising money for his new venture. Unlike his female and minority counterparts, who typically approached multiple lenders and still received very little, if any, assistance from bankers to ensure their success in acquiring a loan regardless of their backgrounds and personal financial strength, his bankers were helpful in suggesting to him how he might improve his chances of getting a loan. In addition to their wireless holdings, his family also owns cable television and wireline telephone in his rural market.

> *We approached three lenders. . . They had some suggestions for changes to make to the assumptions and improvements to make in the plan. So we incorporated the various suggestions from each one that we talked to, revised the plan, and sent it back. . . . (A)nd then at that point we got the indication from one of them that they were willing to go. . . . We're pleased with what we've got. (TBoaldin307, pp. 9, 10)*

➢ *Increased Cost of Capital for Small, Minority- and Women-Owned Businesses*

One way for a banker to mitigate the risk of lending is to charge a higher interest rate for those loans that are perceived to be more risky. Business size, type, operating history, and age impact perceived risk as does the track record and personal creditworthiness of the borrower. Often for small businesses, the higher interest expense noticeably impacts their viability and opportunity for growth. For new businesses, the increased cost of capital can render their business plans unworkable.

When asked how the size of his business and the fact that it was a new venture impacted his cost of capital, Mr. Boaldin responded, *"I don't know what the exact difference would be, but I imagine it's very significant, yes. . . . [The interest and terms that we got] obviously fit into the business plan. I think it's just the nature of a small business. That's one of the down sides of a*

small business. But, you know, small business has lots of upsides. That just happens to be one of them that's always an issue. (TBoaldin307, pp. 9, 10)

The higher cost of capital for small businesses was also noted by other study participants. Anthony Chase, an African-American radio and wireless licensee who acquired his licenses from 1992 to 1994, says that a higher cost of capital for small businesses comes with the territory, and you just have to learn to work with it.

> *. . .(M)y sense is that the [cost of capital] is always very high for start up businesses and it's certainly no exception in my case. It's very high. It's a real barrier to entry in the business. And you know, you just [have to] suffer through it and hope that your first deal doesn't necessarily become your last because you have to pay pawnshop rates to get into the business. (AChase119, p. 6)*

Minorities told us that they perceived they were paying a premium for capital, perhaps more than their White male small business counterparts. Mary Helen Barro, a previously successful Hispanic radio broadcaster who acquired licenses from 1987 to 1992 and is now in bankruptcy primarily because she was not able to obtain adequate financing, tells us that she *"had a very difficult time raising capital. I was a minority woman. If I did get [the money] it was very expensive. I had to go to venture capitalists; the banks just didn't want to assist us at all." (MHBarro190, p. 3)*

Dorothy Brunson, one of the first Black women in broadcasting and a current owner of a UHF television station which she started operating in 1989, also had to pay a higher interest rate for her borrowed capital.

> *Every time we've had to borrow money, we've had to borrow it at 15%, 16% interest rates because the history and the growth of the station and the level of profitability was not there in the early stages. So people still look at us as high risk. . . . And so you, you're constantly paying extra dollars to be able to do the basic things that most people can do with 5 or 6 or 7% dollars, and the same dollars would cost us 12%, 15%. (DBrunson105, p. 9)*

As discussed, interest rates are reflective of the perceived risk involved in the transaction. Charles Cherry, an African-American licensee, thinks that *"race probably adds an additional risk factor, but [he] can't say that that's the sole sort of determinative in these kinds of deals.... [His] gut tells [him] that he's paying a high price [because he is a minority]." (CCherry262, p. 13)*

➢ *Minority Small Business Investment Corporations (MESBICs)*

Those minority study participants who had to deal with Minority Enterprise Small Business Investment Corporations (MESBICs)[27] shared their negative experiences with the process. W. Don Cornwell, an African-American who is a former senior executive at the investment banking firm of Goldman Sachs and current President of Granite Broadcasting, a publicly-held television broadcaster, told us his story.

> *Oh, it's awful [dealing with MESBICs in 1988]. You know, disorganized and not reliable as investors. We had a group of MESBICs that committed to put up about $2 million in the group. I did not want that in the deal because all the experiences I had had with my prior life of helping other small guys get financed, because I used to do that just as a sideline on a pro bono basis when I was [a senior executive] at Goldman [Sachs]. And my experience had always been that these guys were not good for the money, but I was [approached] by a guy who ran one of these, who I had known, and I got a lot of smoke blown at me, how I was the kind of guy they really needed to back, and you know, this was going to be professional and blah-blah-blah.*
>
> *Anyway, the long and short of it all is that they waited until a month before it was time to close, and then they started imposing demands, and I conceded to one of them which was a pricing change, which was in their favor, and against my best interest. But then they started to try to take, in effect, control of the company. And to be candid with you, one, I wasn't going for it; but, two, I had a couple of my other investors, including Goldman Sachs, basically tell me that they wouldn't be in the deal if these terms were put in the deal [by the MESBIC]. So it was just not a good experience.*
>
> *I've been told that this industry has cleaned its act up a little bit, and it's better. Some of the people who were part of this group after I basically kicked them out -- because I did, they were shocked, because they're used to having people who are frankly on their knees, and because of my background, I knew how to raise capital. And so I kicked them out, which shocked them. (WDCornwell103, pp. 22-23)*

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[27] MESBICs are small business investment companies (SBICs) that address the needs of entrepreneurs who have been denied the opportunity to own and operate a business because of social or economic disadvantage. SBICs were created by Congress in 1958, and licensed by the Small Business Administration. MESBICs are privately organized and privately managed investment firms. Possessing their own capital and with funds borrowed at favorable rates from the Federal government, SBICs provide venture capital to small independent businesses. Small Business Association, Alternative Financing, (visited Aug. 30, 2000).
<http://www.sba.gov/gopher/Business-Development/Womens-Business-Ownership/Financial-Alternatives/wfin1.txt>

Pierre Sutton also had an experience with a MESBIC in 1971 that was more costly than it might have been with a different lender or if he had not had to use a MESBIC, especially since he had to give up equity in his company to get the financing. Now, however, with the company's track record, his experience has changed.

> *Initially I don't think [my cost of capital was the same as for non-minorities]; I know they weren't. My cost of capital was high getting started because [the MESBIC] said I had to give up points, I had to give up 10% of the company. I eventually bought those back. In fact, I got that back before we went out and bought additional radio stations. But, no I had to give up points, I had higher interest rates, because it was a MESBIC. I was getting charged what banking business would consider usury rates. . . . but I can't say that now, I know that now we're not getting the same kind of treatment either because we're better, we're more established, having been in business 20 years, 25 years, we know what we're doing almost 30 years. And we have a good track record. We're just not going to take it any more, you know. (PSutton110, p. 14)*

Merrill Charles, a Black male radio licensee, is of the opinion that some MESBICs may take advantage of minority borrowers.

> *I don't want to characterize all of the MESBICs ... but I think it was very clear that a lot of these organizations that were designated as, you know, SSBIC's, and you know, got the SBA certification and all of that to loan money were definitely taking advantage of their opportunity to supply funding for people. I mean by taking out heavily on warrants and kickbacks for them as a result. (MCharles458, p. 9)*

➢ *Increased Station Prices Brought on By Consolidation Further Limits Access to Capital and Raises Barriers to Entry*

As our study participants told us, capital has historically been difficult to raise for small businesses. It appears that it has been nearly impossible for minorities and women. Lacking access to capital, the ability of these businesses to enter the broadcasting and wireless markets has been curtailed. With the consolidation of the broadcast market, the economics of the industry have changed, resulting in significant implications for small, minority- and women-owned businesses. The most notable change is the dramatic escalation in prices that apparently has made it nearly impossible for them to either acquire new stations or enter the industry for the first time.

The restructuring of the market, with its increased station prices, has also necessitated a restructuring in the sources of capital needed to finance purchases. For those needing cash to buy stations, as compared to having stock to trade, the bar has been raised just that much higher. Frank Montero, former Director of the FCC's Office of Communications Business Opportunities (OCBO) offers this perspective.

> *. . . (P)rices for stations and the like have gotten so high that while there is still difficulty in getting access to capital, at the same time, you know, the brass ring is pulling farther and farther away from them because the prices are going up faster than the supplements to capital are appearing. And, likewise, what's tied into this is that lenders or potential investors see what the dynamic in the marketplace is, namely that markets are being carved up into larger but fewer large competitors, and so they are becoming more and more reluctant to, absent some sort of a mandate, invest in these new entrants to the market when they know that this new entrant is essentially going to be a relatively small player competing against larger and larger competitive players in the marketplace and that the viability of that venture is questionable as to whether they are really going to be able to succeed. (FMontero509, pp. 9-10)*

With stations now selling in the multi-million dollar price range, anyone trying to enter the market today has to find not only debt financing but equity capital, as well. These new financing requirements raise a different set of market entry barriers for would-be entrants.

Lenders of debt typically look to the interest income generated from the loan to cover their risk, charging higher rates as their perceived risk goes up. However, there is only so much they will lend on broadcast properties regardless of the cash flow. With stations selling for upwards of 20-22 times projected cash flow, and with media lenders only willing to lend up to 5-7 times cash flow, station purchasers have to raise equity capital equal to approximately 15 times cash flow. Given the size of the deals, it is almost certain that prospective purchasers will have to look to venture capitalists to fill the lion's share of this gap, with the balance coming either from personal funds or private equity investors other than traditional venture capitalists. Understandably, there are very few individuals who can play at this level.

One of the paradoxes of dealing with media lenders and venture capitalists, especially these days, is that they are generally not interested in funding deals that are smaller than $10 million, nor are they interested in single-station, single-market opportunities, unless perhaps they are in a top 10 market. This does not bode well for the individual or group that wants to start out in a small market with a small station. As Robert Fink, a White radio licensee tells us, their financing options are drying up.

> *... (T)he banks won't look at you if you're not looking at $10 million deals. Okay? And most of these stations in the small markets, you're looking at anywhere from $300,000 to maybe a million dollars in the small market situation. We're too small for them to worry about. And that's the biggest complaint that we small broadcasters still have [is that there is] virtually no outside assistance, and I have tons of friends in the business over the years, and I am sure they would just echo my comments. We have to almost always go out and just find it through private individuals; in other words, all the money in our station basically is what Bob and I put into it. We're too small for the big guys that are in the broadcast; they're into the big corporations. And the saying in radio is that if you don't have a $10 million deal, they won't give you the time of day. (RFink235, pp. 9-10)*

Diane Sutter, a successful White television broadcaster, echoes these thoughts and provides additional insight.

> *Single stations are very difficult for anyone to do, but a first-time entrepreneur especially because most of your equity companies as well as your banks, don't like to have all of their risk in one place. They're much happier if they can spread the risk amongst other [broadcast] properties so that you don't have to rely on one single station to support the debt service. So they're very difficult to do. The hardest thing to do, probably, a single-station deal. They're also usually small. And most of your private equity funds as well as venture capital and other sources ignore the group of potential people that you can do business with because of the size of the deal. So . . . a combination of factors makes it more challenging to try and finance a single-station deal. (DSutter205, p. 4)*

Ernest James, a former radio station owner who now works for Clear Channel, the largest broadcasting group owner, wanted to buy a portion of the stations that Clear Channel was required to divest when they merged with AM/FM. Even with his successful track record running stations, the size of the package he would have had to put together to be competitive in today's market was way beyond his reach. He estimated that in order for a start-up venture to be competitive he would have needed to raise a half billion dollars to buy multiple stations.

> *"I am not able to buy stations because in order to buy a station now or buy a group of stations the capital that I would need access to would approach half a billion dollars to really start a company and be competitive. . . . (T)he stations I wanted to buy from Clear Channel would have cost and I looked at them and my original request was going to be to buy 37 stations, it ended up, I kept whittling it down and whittling it down until I was trying to buy a package of 11 stations, and even 11 stations was approaching a billion dollars, and then at 20 times multiples, I mean, nobody was going to give me that money. So OK, maybe I could raise half a million, or maybe a million would be my seed money to the deal, but [that's nothing as my share on a billion dollars]. (EJames268, pp. 28-29)*

In the secondary market, the ability to access information about opportunities to buy and sell stations determines one's success; and in today's market, access to that information is created and maintained through access to capital. The distribution of previously issued licenses by means of a private market structure necessarily begets a process driven by financial resources. This need for capital too often proves prohibitive for small and capital-starved businesses to adequately compete.

➢ *Limited Access to Capital: The Impact of Wall Street on the Type and Size of Transactions*

Another change precipitated by deregulation which has heightened market entry barriers for small, minority- and women-owned businesses is the move away from "mom-and-pop' local broadcasters to a situation where the broadcasting industry is mostly owned by large publicly-traded companies. These group owners have two advantages over their smaller counterparts: (1)

they have stations to trade with each other if they need to divest in certain markets; and (2) they often buy and sell stations, as well as whole groups, using stock. In both instances they are in a position to receive more favorable tax treatment than if they had done an all-cash transaction, which is what smaller, non-public broadcasters would have had to do. Dale Gehman, a Native American former radio licensee, summarizes it this way.

> *It's just a conglomerate [game] now, and they use stock market money, and any facility of any size [goes to] the highest bidder, and the price [is so high] -- there's no way I can get in right now and pay the price that you'll get for an FM station in any kind of medium- to smaller-size market, and pay that money back on any kind of 10-year, 20-year amortization. It's a speculative price right now. [W]hat's really hurting is the big conglomerates are giving stock, so they beat the taxes. So they're getting a little bit of cash, lots of stock, no big capital gains tax up front. The stock market is going crazy. They're making fortunes. And a little guy without access to capital from the market, I don't know how you possibly could do it. I can't figure out a way [to finance it] right now. That's why I'm not in it, quite honestly. And I know there's some bond money. I think, with my track record and showing what we did, I think at some point I can get in, but it's going to be extremely hard even with my history of raising that kind of capital. (DGehman132, pp. 35-36)*

Manuel Davila, a Hispanic radio station owner, shares this observation when he says, *"unless you're lucky, and actually got a station in a big market a long time ago, we don't have a chance. . . . Where [will a small guy] get $40 million?" (MDavila128, p. 52)*

➢ *Limited Access to Capital: Buyers Need Money in Hand - Time is No Longer Given to Raise Capital*

Because the market is super-heated and there is acquisition frenzy, only those people who can quickly bring money to the table are even considered potential purchasers for properties. If you couple the fact that it generally takes much longer to raise venture capital than it does debt financing with the market reality that enormous sums of equity financing are now required, you end up with a situation where only the big players who are already in the market and have large coffers of cash and/or stock to trade can participate in the buying of stations. The days of the small business owner being given time to raise the needed capital for station acquisition are long gone.

Art Gilliam, an African-American radio licensee who started acquiring stations in 1977, makes the point.

> *I found out about the opportunity [to buy an AM station in 1977] through a broker. At that time, quite different from now, if you made an agreement with a seller, you had more time to go and find the funds. Today, in the environment in light of the Telecommunications Act, if you're not there with the funds in hand, then you're not going to be a viable buyer. (AGilliam117, p. 1)*

Bruce Dickenson, a media broker, shares his perspective that the speed with which a deal has to get done depends on the actual broadcast property. *"Certainly, with a very expensive property you must have your money ready. . . . The smaller and less attractive the property, the more time people potentially have to put together their financing. [Since] we don't get paid until we get a deal done, it behooves us to pick deals that we think we can get done . . ." (BDickenson517, pp. 5-6)*

John Tupper, a White television licensee who acquired his station in 1995, adds:

> *[Regarding smaller companies acquiring stations], the biggest issue from the standpoint of the seller of the station is which group is most likely to close the deal. . . . And, you know, obviously if you are dealing with a company that has the capability of just writing a check to acquire the station, that's very different than dealing with someone who has to align venture capital and bank debt financing to put together a transaction. . . . And, there are those who are very successful in putting together their venture capital and bank financing to acquire stations, and once they've done a few they seem to be able to do that repeatedly. There are others who aren't so good at it and, therefore, you take more risk in trying to do a deal with them. And it, becomes a decision that both we and the seller have to make as to with whom we want to do business. (JTupper216, p. 27)*

➢ *Consolidation, Brokers and the "Old Boys Network"*

Diane Sutter, a White former television station owner, who has bought and sold one television station and is now in the market for another, explains the chicken-and-egg nature of current financing realities as well as the need to have in place relations with high-quality brokers, lenders and venture capitalists.

> *You can't get the money until you have the deal. And you can't get the deal, until, especially with a new company, until they're sure you're going to have the money. Well, I'd love to sell it to you, Diane, but you know, show me your money. Now the thing that really helped me was that when I went to someone, even when I was in the middle of doing the first deal, but not having gotten done yet and I was looking for other stations, and they say well, who's your money? And I can say Bank Boston or Burr Egan, two well-known quality firms that people go 'Oh, OK, you're real. You're for real. I can probably sell it to you.' (DSutter205, pp. 20-21)*

In this market of rapid turnaround on media properties, not only do brokers, lenders and equity partners weigh in on the prospective buyer. The seller often approves the list of buyers prepared by the broker. It is up to the broker to make the seller feel comfortable with the list prior to sending out marketing materials, solicitation of offer letters and confidentiality agreements. If an entry on the list is for someone with whom the broker has not yet done business, it puts the broker at risk with his client, the seller, to push for its inclusion. Brian Cobb, a media broker explained his process as follows:

> *. . . (T)hey will almost always ask as they go through the list, if they don't recognize a name, they'll say, "Who is that?" You know, I have to tell them who it is and have to demonstrate that this person belongs on the list. If I don't have a good answer, they'll tend to take it off, and the answer usually is do they have the money. . . . (I)t gets down to a conversation of do they have it, can they get it, or do you think they can get it. (M)ost of the times they'll leave it on the list [if I can vouch for the person], but some people just say, "No, I don't want to go through with it. Take them off the list." (BCobb512, pp. 17-18)*

➢ *Financial Sophistication and Track Record are Paramount*

As the consolidation in the broadcast market has driven up prices and gobbled up properties, the criteria for consideration as a viable candidate for receipt of multi-million dollar debt and equity financing has become more heavily weighted towards proof of significant industry experience or a successful track record managing and growing a business enterprise, sophistication with financing means and methods, a vision for multi-property holdings, and a desire and/or willingness to participate in an exit strategy that brings significant returns and on-going upside potential to debt and equity partners

With the need to acquire equity capital, the selection criteria for who gets funded becomes more complicated than those used to qualify bank borrowers. With debt financing, the lender usually looks to the cash flow of the business and his collateral to cover his risk and repay his money. Venture capitalists have no such protection. They are giving the business owner their money on the expectation that 1) their investment will multiply many times over in three to five years and 2) the company will be in a position to either go public or be acquired. This requirement puts enormous pressure on both the business plan and the quality and track record of the management team. These two elements become paramount to the venture partner's willingness and desire to invest equity capital. In today's market, if a team or individual business owner lacks this success profile, money is virtually impossible to obtain.

Robert Fink, a White radio broadcaster, explains:

> *... (I)t's a business that is totally dominated by the management of the company, and a successful station can be a failure the next day if it's not the right management in there. And so acquiring capital has just been extremely difficult for anybody that again doesn't have the borrowing power to talk big time, so it's really left the small market people or people trying to enter into the business without much, without any help at all, really. I mean, we have not gained, in my opinion, in the position that we were in since I started in the business way back when the banks wouldn't even talk to you at all. Now it's just the big guys. If you've got a $10 million deal and we think you are strong enough to buy a station in a major market, we'll talk to you. But people like ourselves aren't strong enough for that, so we're stuck in the small markets (RFink235, pp. 9-10)*

Bruce Dickenson, another media broker, shared with us his primary criteria for evaluating potential buyers. He was quick to say *"financial capacity, integrity, proven track record."* To get the process started in creating a relationship with a broker, a critical task if one has the desire to participate in today's broadcast market, Bruce suggests that the buyer *"give us a call, let us know they're looking for [properties]. . . . To be honest, it's a process of learning about them and as we learn about them we start to make judgments about their ability to do what they're trying to do. Who they've surrounded themselves with in terms of deals, financial folks. You know it's clearly a process to get anybody to the point of making an offer to us on a multi-million dollar property.* Bruce adds *"known quantities, where you don't have to educate the people very much, are more desirable than brand new buyers. (BDickenson517, pp. 1-2, 6)*

Diane Sutter, a successful White former television owner who purchased her first station in 1997, was unique among our interviewees. She was the only female who, as a result of her employment with Shamrock Broadcasting, Roy Disney's company, had developed a significant employment track record as well as a network of key market intermediaries in broadcasting. Ms. Sutter relates that her past work experience as a group executive with Shamrock made all the difference in the world when she went to raise both debt and equity capital. With Shamrock, Ms. Sutter was involved in mergers and acquisitions, among other things, dealing with the station owners, banks and venture capitalists she would eventually have to approach for her own television deal.

> *One of the things that I had that was working in my favor, which was very unique, and I was very fortunate to have this, is that I had spent six years at the corporate office of Shamrock prior to [owning my own station]. And my responsibilities at Shamrock was working with the banks . . . When they were doing financing deals, I was part of those. I already had one, the access to the information of what it took do these kinds of things, which, as I say, I was very fortunate, because there aren't many women at all who get that opportunity, and two, I had the relationship. (DSutter205, p. 5)*

Building credibility with a banker or venture capitalist is key, which is why it is even more difficult for new entrants into the marketplace, and especially difficult for minorities and women. If you add to that the extremely high prices for stations in today's market, borrowing becomes almost impossible. Tyrone Brown, an African-American communications attorney and a former FCC Commissioner, highlights this point when he says *"If you're a minority or a woman in this country, while you're probably better off than you are anywhere else in the world, the fact of the matter is you still have to get up earlier and go to bed later in order to get ahead. Don't ever forget that. Because somebody will remind you of it in a way that will be hurtful ... you really [have to] bring something to the table that is more than ordinary. It really is a capital game today and you've got to convince the people who you're asking to turn over money to you that you've got something that most other people don't have. ...It is true if you're Black or you're a woman and you go and talk to these investment bankers. (TBrown510, p. 29)*

Media broker Brian Cobb echoes that point.

> *You've got to show your financial credibility . . . [This is] a big handicap for somebody starting out that doesn't have a lot of money or maybe has certain talents but doesn't have the sophistication in the financial area to put that package together. (BCobb512, p. 14)*

George Dobbins, an African-American who acquired his wireless license in 1996, sums it up this way when he questions *"Why would you want to provide the dollars for a small start-up company when you're already providing the dollars and playing with the companies that [are] already in place?" (GDobbins362, p. 7)*

Rev. Everett Parker, with the United Church of Christ and a pioneer in the area of civil rights and communications policy, shares Mr. Dobbins' view.

> *... (W)hen the time comes, really the thing that you're interested in – it really comes down to the point of is Citibank going to give $50 million or $100 million or a billion dollars to what they consider to be an untested group when they can get somebody who they think is tested to borrow that money? (EParker504, p. 20)*

Others spoke about the need to prove themselves with the banks and to develop a track record. Of course, it helps if you can get a loan in the first place. Dennis Miller, a wireless license owner who is White and acquired his first license in 1990, shares his perspective.

> *(W)e're reasonably aggressive on our business plans and we're meeting them. I guess if there's one thing that a new entity needs to do, that's to create that track record with the financing community. You need to meet your projection. Make them realistic and meet the projections. . . . (O)ne of the investment bankers I think characterized it the best - that they're betting on jockeys, not on horses. And as a management team, you need to be able to instill confidence in these folks that you can actually deliver on this business plan. (DMiller147, pp. 5-6)*

But even with industry experience, some minorities have complained that they still were not treated seriously. For instance, Peter W. Fong, an Asian-American wireless license applicant, recalled:

> *It just seemed like we don't have any track record, and it is very difficult for people to take us creditably. You have to start somewhere, and we are not coming off from some Chinese restaurant, you know, jumping into telecommunications. I myself have 15 years working with the telephone company, and my partner had 25 years, and so we know what we are doing, but still it ... it is just very difficult for people to take us seriously. (PFong365, p. 11)*

Don Cornwell, an African-American who is President of Granite Broadcasting, which owns 11 television stations, understands how this process of building credibility works. He acknowledges that those who get to "play" are already the players. So how does one get to be a player?

> *". . . what tends to happen is that once you get in the game the brokers discover you. The brokers don't particularly want to call you until they know you can actually buy something. And once you've bought something, to them, that's prima facie evidence that you can do it. . . . The guy who's not known, who has no properties and is starting out, is almost going to have to convince the broker -- not "is almost" -- is going to have to convince the broker that they've got the financial wherewithal to do the deal. So that means that they've got a bank reference that they can point the person to, or they've got an equity partner that has financial wherewithal that they can point the broker to, et cetera. They've got to do some fancy talking to get to that next step." (WDCornwell103, pp. 16, 17)*

As the market has consolidated, properties become more expensive, and deals have to close more quickly, the job of the "gatekeepers'" (the brokers, lenders, investors, sellers) becomes more important and has the potential to be more exclusionary. The tendency is to work with who they know, people they have done business with before. And in a lot of instances, except for a few notable exceptions, that does not include women and minorities.

The interviewees reported that in the wake of consolidation, the "club" (brokers, bankers, lenders, and investors), into which minorities and women were rarely invited prior to consolidation, has become even more exclusive. This market-driven exclusion rests upon decades of historical disadvantage that has existed since the infancy of the broadcast industry. Allowed to run unchecked, the market has created a clear insider/outsider, have/have not environment.

Don Cornwell says that he's "*not aware of any [discriminatory practices]. It doesn't mean that they don't exist. Look, it's a club. And I think that people have to understand it's a club. I work pretty hard to get at least on the periphery of the club so I know most of the broadcasters. ... And when you're in the club, then you hear about things, okay? You hear about what's for sale, what it isn't, et cetera. I think that's no different than the old thing about well, the deals get done on the golf course and so forth. So the answer to your question is, of course, there's discrimination, but could I give you a specific example? No.*" When asked what the price of admission was to the club, Mr. Cornwell answered as follows: *"I think the price of admission is admission. You know what I mean? In other words, I think that the folks at Radio One are in the club now. They've got a billion dollars of property, you know, or more. I think the guy who's trying to get started is going to really have to rely on the pressure of the FCC and others to crack the door open a little bit, to give them a chance to get a shot. And there they have to have both access and capital to actually ever have anything happen." (WDCornwell103, pp. 24-26)*

Erwin Krasnow, a communications attorney, explains exactly how the contracting process may differ for those without a track record and for those about whom the banks have doubts about the applicants' ability to close the deal.

If there are any doubts about someone closing, the contract process is miserable, because the seller, because they're very, very unsure about the buyer's qualifications asks for, usually will ask for a much higher percentage of the purchase price to be put in as escrow as liquidated damages.... to protect themselves in case the deal doesn't go through....(EKrasnow500, pp. 11-13)

➢ *Racial and Gender Stereotyping in the Capital Markets*

None of the interviewees recounted a specific example of discrimination by brokers or larger media lenders, but that is not surprising given the limited contact between and among the groups. The brokers and large lenders interviewed indicated that they had worked with very few or no women and minorities.

The women and minorities, however, all observe examples of exclusion from this "old-boy's" network. If barriers for women and minorities do exist, many are precipitated by the perceptions about the ability of women and minorities to raise the required capital in the stated time frame. Brian Cobb, a media broker, offers his observations:

. . . I can't name an instance where I have seen that it was a rejection because of [race or gender]. But on the same token, with a female buyer or a minority buyer a seller will ask more questions and want more documentation as to the financial capability. . . . I don't think it's a matter of prejudice on – it's not overt prejudice. It's a matter of – it's a perception that [minorities and women] may not have as much money to close, so they ask more questions. (BCobb512, pp. 21-22)

Whether it is considered prejudice or not, a seller who subjects minority buyers and/or female buyers to greater scrutiny and requires additional documentation based on ethnic or gender stereotypes is engaging in discrimination. The fact that this heightened and discriminatory scrutiny is not considered prejudice but due diligence speaks to both the subtlety and profundity of the problem.

Sometimes when brokers have had bad experiences with a few minorities, they might have reservations about dealing with other minorities. For instance, John Lauer, a media broker, indicated:

There aren't as many minority buyers. And sellers go to the obvious places that would know big advantage. They'll take the best deal that comes to them. Well, like I said there are more of them, number one, that have money. Also, in some instances – and this has happened. I've seen this happen. Blacks, minorities – say Blacks, minorities, get to the point where they are ready to close and are out of money, even though they've warned them ...that's been my experience.... Letter of credit, letter from a bank, between the time that they make the deal, the time the deal is ready to close, the bank has changed its mind and the lender has changed its mind. Backing out. (JLauer533, pp. 18-19)

Henry Rivera, a communications attorney, past FCC Commissioner, and Chairman of the Board of the Minority Media Telecommunications Council, tells us *"(I)t's hard to say that [brokers' practices are in fact discriminatory]. I think it's pretty easy to see what the effect of the way they do businesses has been, but it's hard to say that that is driven by discriminatory intent;. [and they want a deal that can close]. . . so they don't want to deal with minorities typically. . . .They don't because again, they do not see minorities as a potentially good buyer. I don't think it's because they don't like Black people. . . . . That's my perception at least. I don't think they're being overtly discriminating. (HRivera516, pp. 28-29)*

Jim Casey, a communications attorney, observes that Native Americans also confront racial stereotypes.

> *Getting...financing in the [Indian] country is very difficult for a number of reasons. The asset, not being able to pledge. We will say that the asset is one very big problem. Sovereign immunity is another big problem. Just the hesitancy to do business with Indians is another. The assumptions are that they can't afford it, they are not going to pay their bill, and you're dealing with a very poor population so there's simply assumed to be a very high risk when it comes to a loan or financing. (JCasey535, p. 21)*

➢ *The Inability to Obtain Financing Forces Some Broadcasters to Sell Their Stations*

For many minorities dealing with the inability to obtain financing, their choice is either to sell their stations or lose them.

James Wolf, Jr., an African-American radio licensee, decided to give up the fight and sell his station since he could not raise the financing that he needed to successfully operate in a changing competitive environment.

> *I was probably the only African-American that had a hot [adult contemporary] format. And I never could get this money financed to get out of my LMA. And I stayed in it for two years, up until '98. And I was so frustrated with – you know, because I wasn't able to get the monies I needed to do the financing. And I just really been with all these big conglomerates, like Capstar, AM-FM Radio, coming at me and offering big bucks. I said, why am I killing myself. I can't get what I need. I might as well just go and sell it, you know. (JWolf281, p. 28)*

Even Granite Broadcasting, a public company run by Don Cornwell, an African-American, was forced to sell stations to raise the capital needed to purchase other more desirable properties.

> *We sold two properties in Michigan to a company called Freedom Newspapers, and in all candor we're not sellers of properties. It's a reluctant thing we do. We decided to sell those two Michigan properties because we were in the process of buying a station in San Francisco and we needed the money to do that, and we would rather have kept the*

> *properties and just bought San Francisco, but we didn't have the capital. So we made that decision. (WDCornwell103, p. 20)*

Others, like William Saunders, an African-American radio licensee who acquired his most recent station in 1983, also chose to sell properties they would rather have kept. Mr. Saunders saw the sale to Clear Channel as an opportunity to get out of debt, not necessarily to make enormous profit on the sale. Ultimately, in 1998, he had to sell his AM station that had been in the community for 50 years.

> *... (W)e were able to actually do a sale of the AM to satisfy most of the debt for everybody, and that's how I again, got Clear Channel[in the deal]. . . . (M)y AM station was what they wanted for a talk program. . . . and so they offered me just about enough money to pay off my debt and to take that, because I would prefer having the AM instead of the FM. You know the AM had been in the community for about 50 years at that time from 1947, and it's been the only station that Blacks have had access to. In our area so we wanted that more than anything else, but they didn't want [that], they had 4 or 5 FMs in the market at that. I lost it all in 1998, December of 1998. (WSaunders163, pp. 4-6)*

➢ *Luck Played a Part in Some Acquisition Opportunities*

From our interviews, it was clearly evident that small businesses and especially minorities were having significant difficulties getting access not only to capital but also to purchase opportunities. Some, however, had luck with either financing or station acquisition and took advantage of it.

Pierre Sutton, and African-American who earlier spoke of his company's difficulty in raising capital for their first station in 1971, was later presented with opportunities by those in his network of industry-related professionals.

> *... (O)ne time I bought a radio station from a guy in Philadelphia because I was sitting down at lunch with the President of the bank [that was courting us at the time] in Philadelphia and he asked me if I knew the owner of this particular radio station in Philadelphia that wasn't paying him. And I said, yeah, I've known him for years. How would [you] like to own his radio station? And so he put me together with him and we worked out something so we became majority owners of that property. Another time a friend of mine, Stevie Wonder, called and said that there's a guy who used to work for me as a newsman who is in trouble in Ft. Lauderdale, Fl with his radio station. And so I wind up getting that station from him. (PSutton110, p. 15)*

Pierre Sutton shared another story about his father, Percy Sutton, impressing a radio station owner with on-air reporting at the time of the 1967 Harlem riots. As a result of that experience the owner told the senior Mr. Sutton that *"if he ever elected to get out of the [radio] business, he would like to be able to sell to [my father]. And my father was currently still in public affairs, in politics, and so he couldn't do it. So I had the opportunity to play." (PSutton110, p. 9)*

> ***The Impact of Limited Access to Capital on Operations***

Even with occasional luck, most minority participants had to struggle to bring capital into the business. Since advertising revenues were generally not on par with their White counterparts, cash had to be generated elsewhere through such means as personal loans to the business or mortgaging of personal assets. Without sufficient capital, the ability to acquire the necessary equipment, to recruit and retain top talent, and to promote the business was diminished.

Erskine Faush, an African-American television licensee, explained it this way.

> *Well, I'm saying that if you need personnel, if you need promotion, if you need equipment, whatever it is that you need, goes back – you know, you can't keep good personnel unless you have the salary level where you can attract and keep good people. In many instances even if you have entry-level people and take them right out of college, right out of school, you bring them in, you train them and, of course, once they get to a certain level then the others with the resources can hire them away from you. Capital – I'm saying whatever area you want to get into, it is capital. (EFaush238, p. 16)*

George Dobbins, an African-American wireless licensee, also expressed his concern over the effect limited capital was having on his ability to attract and retain a good management team. As capital sources told us, the quality of management was a major determinant of a business's credit worthiness.

> *Well, capital won't solve every problem. The other problem is management and expertise. But if you have the capital you can employ the expertise, just go out and do – the way I do now in business is if we see a sharp, young person we want in our business we come up with a deal to bring them in. But if you don't have the capital it's difficult to manage the management team. You know, the management team is making money – there's a demand for sharp people in the telecommunications industry now. So if they are out there making a significant income, they're not about to go with a broke company. (GDobbins362, pp. 7-8)*

2. Discrimination in the Community As a Market Entry Barrier

Several female and minority interviewees spoke of resistance and downright discrimination that they encountered in their communities when they were first starting out as well as through their years of operation. Such things as disputes over tower locations slowed down licensees' ability to start up their stations. Menacing calls from racially biased groups made programming and selling more difficult. Local politics interfered with the acquisition of financing.

Most poignantly, James Wolf, Jr., an African-American, was confronted by the Ku Klux Klan over the positioning of his microwave tower. The fight was taken to the courts. His life was threatened in the process.

> *The [White community] had never really had local autonomy in Black broadcasting, never a voice in Black broadcasting, and they didn't know what that meant. . . . The White community, they were just totally opposed to us, you know. As a matter of fact we ran into confrontation with the [Ku Klux] Klan and all of that. We had some major stuff in this small community here that we're in.*
>
> *(T)hey tried to stop the erection of our microwave, free-standing tower. (W)e got hung up in court, in court battles and so on. Finally we surmised that we needed to bring the media involved in it, so we brought a local television station in[to] it, and I brought the newspaper in[to] it and I brought [in] others from other communities inside of this zoning median. We took pictures of all the towers around the town which were hazards, and we showed where our tower was going to withstand winds of 220 miles per hour. And they finally, after looking down the cameras and all, said – they granted it. But we had threats . . . phone calls from the KKK that said don't build this, don't open this up, you know. It was a lot of life threatening stuff that I went through, you know. (JWolf281, pp. 11-12)*

Dale Gehman, a Native American, saw it as *" a political situation where you've got a license, you're going to service the community, then you become an influence in the community, and I think there's a lot behind the scenes that we learned later that we were blocked in every move we made, unfortunately." (DGehman 132, p. 5)*

Willie Walls, a Black radio station owner, stated that his number one obstacle in 1962 when his station was organized was that *"it was a time of some integration, and we had a problem being Black owned and operated, listing ads, and you know, [we] had opposition". (WWalls403, p. 4)*

Others, like James Wolf, Jr., had experiences of being pressured to change their format away from urban and toward something less minority focused. He told this story .

> *[Steve, a White male and one of Mr. Wolf's partners] wanted to . . . go country and western, but he compromised it and tried to fuse in pop. And so I had to stand up. I stood up – and they had a new program director that we had brought in, which is a White program director from Alabama. And he had nothing but real red neck in him. So he was glad to do [country and western]. So what I did, I walked in after about 20 hours, not quite a day, of listening to it, and I told him to put everything back just the way he found it, and to pack his stuff and go back to Alabama.*
>
> *... Steve was a part of our organization then, you know, and we had to demonstrate that since these great White fathers had helped me to get this money to sustain and so on and so forth, one of the conditions that they wanted was him to be in as a general manager and . . . It was one of those situations where we had challenges, because they were getting pressures from the White community, because they didn't like the Black music, you know.*

... Steve had lost a lot of his friends because of the nature of the beast that we had created, you know. And so he was just trying to justify – "I'm still White, you know. Look here, I can change this, you know." That's what that was all about. (JWolf281, pp. 18-20)

3. Discrimination in the Industry as a Market Entry Barrier

Not only was discrimination experienced in the capital markets and in the communities, but minority and women licensees also encountered discrimination within the industry itself, coming from other station owners or from employment practices among the large broadcasters.

➢ *Discrimination in Media Portrayals and Coverage of Minorities*

Rev. Everett Parker, with the United Church of Christ and a long time civil rights activist in the area of communications policy, shared stories of how WLBT (Mississippi) reported news about African-Americans in the 1960s. It highlights the extensive power of the broadcast medium to affect community views and actions. The following comments by Rev. Parker and Mr. Faush provide a historical context for the market entry barriers that African-Americans have faced in their attempts to become broadcast licensees.

Well, in all of the South stations referred to Blacks only by their last name. And women just the same. They refused to give Blacks the opportunity to present their views on political issues of great importance to them, such as at that time of school desegregation. WLBT, when Meredith was admitted to the University of Mississippi, the manager of the station got on the air and told the people, "You get up there and stand shoulder to shoulder with the governor and you keep that nigger out of Old Miss," and they did. They took their ax handles and their pistols and they went up there and you know there was a riot and I think some people were killed. The manager of WLBT [told people to do that].

... For WLBT, when the Brown v. The Board of Education was decided and Justice Thurgood Marshall ... was on the Today Show, WLBT put up a sign, "Sorry, cable trouble." And when the kids from Tougaloo College sat in at the Woolworth store in Jackson, WLBT covered it for NBC but did not carry it, and things of that sort. And that was true all over the South. . . . (Y)ou could go all over the South and it was the same. (EParker504, pp. 6-8)

Broadcasters discriminated against their listeners in ways other than just what news they reported or how they presented it. Rev. Parker shared that "*The broadcast industry at the time – back in the '60s – had no interest in Black people as [an] audience. They said – well, this manager at WLBT, later after he lost his job and everything, he says, 'Well, if I thought those Negroes had any money to spend I'd have given them time.'" (EParker504, pp. 13-14)*