

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

To: Members, Committee on Small Business, Subcommittee on Contracting and the Workforce
From: Small Business Committee Staff
Subject: Subcommittee Field Hearing: "Land of Opportunity: Pursuing the Entrepreneurial American Dream"
Date: October 14, 2011

The Subcommittee on Contracting and the Workforce of the House Committee on Small Business will meet for a field hearing titled *Land of Opportunity: Pursuing the Entrepreneurial American Dream*. The hearing is scheduled to begin at **2:30 pm PDT, on October 17, 2011, at the Richard H. Chambers Courthouse, Courtroom #3, 125 South Grand Avenue, Pasadena, California 91105.**

The hearing will examine the resources available to new legal immigrants interested in becoming entrepreneurs. Witnesses will discuss what this specific population needs to become successful entrepreneurs. The hearing also will focus on the resources that are currently available to help prospective business owners and whether additional outreach methods should be considered. Witnesses at the hearing will represent Small Business Administration's entrepreneurial outreach partners, community organizations and lenders.

Introduction

In 2010, over one million people obtained legal permanent residence status in the United States.¹ Many people coming to the United States choose to do so because they see it as a land of opportunity where there are policies in place that encourage innovation and reward success.² According to the World Bank, the United States ranks fifth out of 183 countries for its ease of

¹ DEPARTMENT OF HOMELAND SECURITY, OFFICE OF IMMIGRATION STATISTICS. 2010 YEARBOOK OF IMMIGRATION STATISTICS, 5 (2011), available http://www.dhs.gov/xlibrary/assets/statistics/yearbook/2010/ois_yb_2010.pdf.

² For more information on public policies that encourage innovation, See KAUFFMAN FOUNDATION, RULES FOR GROWTH: PROMOTING INNOVATION AND GROWTH THROUGH LEGAL REFORM (2011).

starting a business.³ Besides having a favorable environment for business creation, an entrepreneur must have a desire and tolerance to take on the risk of creating a business. Immigrants show a tolerance for risk in deciding to leave their country of origin and coming to the United States. Entrepreneurs typically exhibit four key characteristics: creation, devotion, the desire for rewards and risk.⁴ Creation refers to creating something new that has value to both the entrepreneur and the market.⁵ Devotion refers to the willingness to expend the necessary time and effort to turn an idea into a successful business.⁶ The desire for rewards includes the benefits of business ownership, which might include the ability to be one's own boss, have a flexible schedule, work from home, and turn their hobby into a career. Risk involves both the willingness to embrace an unknowable future and make decisions when the outcome is uncertain.⁷ Persons possessing these traits might choose to start their own business, rather than take a job with a business where they do not have control of the enterprise.

Despite the benefits of business ownership, the path to success can be difficult. In a typical year, approximately 640,000 new firms open and 580,000 close their doors.⁸ Prospective business owners face the challenge of navigating the requirements for starting a company, such as registering a business name, obtaining a tax identification number and obtaining a business licenses.⁹ These challenges can be more difficult to overcome if the entrepreneur has difficulty understanding English. The lack of English proficiency can prohibit an entrepreneur from starting a business, or lead them to conduct business outside of the legal framework, subjecting them to fines and penalties.

Business financing is another area that is challenging for new residents. Most small businesses need access to capital to purchase raw materials and equipment, obtain workspace, hire employees and market themselves. To obtain capital, a business owner must demonstrate their creditworthiness to a lender which can be done through a credit score. Credit scores are an important part of the underwriting process used by lenders to determine whether a borrower will repay a loan and the rate of interest the lender must charge to offset the risk of default.¹⁰ Most immigrant entrepreneurs have little knowledge of how the credit rating system works, or the opportunity to build a credit history. As a result, these entrepreneurs are shut out of many traditional financing options, forcing them to rely on family and friends to provide small, short-term loans to get their business up and running. According to a field study conducted by the University of South Carolina, Darla Moore School of Business, a representative from First

³ <http://www.doingbusiness.org/rankings>.

⁴ R. HISRICH, M. PETERS AND D. SHEPARD, *ENTREPRENEURSHIP* 8 (7th ED. 2008).

⁵ *Id.*

⁶ *Id.*

⁷ *Id.* at 9.

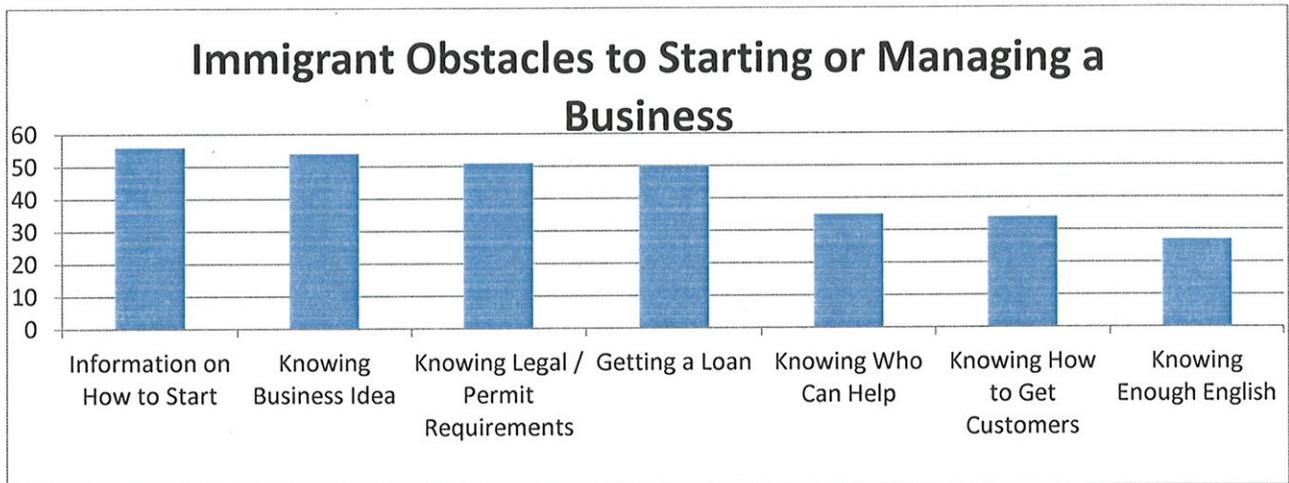
⁸ W. DENNIS, JR. AND W. DUNKELBERG, *SMALL BUSINESS GROWTH AGENDA FOR THE 112TH CONGRESS*, NFIB RESEARCH FOUNDATION, 19, (2011).

⁹ <http://www.sba.gov/content/follow-these-steps-starting-business>.

¹⁰ BENTON E. GUP ET AL., *COMMERCIAL BANKING: THE MANAGEMENT OF RISK* 235 (2007).

Citizens Bank, reported that many immigrants have difficulty obtaining credit and do not always understand how credit works, bilingual tellers are hard to find and bank deposits are only written in English.¹¹

According to a survey conducted by the Santa Clara County Office of Human Relations, Citizenship and Immigrant Services Program, immigrant entrepreneurs identified the following as the main obstacles to starting a business:



THE SANTA CLARA COUNTY OFFICE OF HUMAN RELATIONS, CITIZENSHIP AND IMMIGRANT SERVICES PROGRAM SUMMIT ON IMMIGRANT NEEDS 113 (2000) available at <http://www.immigrantinfo.org/borders/index.html>

SBA Programs

The Small Business Administration (SBA) through its website, district offices and entrepreneurial outreach partners, provides training opportunities and counseling services to help business owners become educated about how to run a business and strategies for growing their existing business. SBA-supported education programs leverage state government and private resources to provide a wide array of services to both prospective and established business owners at no cost to the business owner. These training opportunities include courses on topics such as how to start a business, how to obtain capital, how to contract with the federal government and how to sustain and grow a business.¹² The SBA also provides government-backed financing to small businesses unable to obtain credit under the same terms in the private lending market.

¹¹ DARLA MOORE SCHOOL OF BUSINESS UNIVERSITY OF SOUTH CAROLINA, HISPANIC NEEDS ASSESSMENT FIELD STUDY 15 (2001) available at http://www.sph.sc.edu/cli/documents/Hispanic%20Needs%20Assessment%20Field%20Study-DMSB_june01.pdf.

¹² <http://www.sba.gov/content/online-courses-starting-your-business>.

The 7(a) Loan Guarantee Program

The SBA's flagship financing program is the 7(a) Loan Guarantee Program, which guarantees a percentage of a loan from a participating lender in case of default by the borrowers, who are small business owners that cannot obtain credit elsewhere.¹³ The public policy goal for risking taxpayer dollars in this way is that the government should aid small businesses in obtaining access to long-term capital.¹⁴

In the 7(a) program, loans are not made directly by the SBA; rather, commercial lenders underwrite, issue and service the loan to a small business. The size of the government guarantee varies depending on the size of the loan, with loans under \$150,000 receiving a guarantee of 85 percent and loans exceeding \$150,000 receiving a 75 percent guarantee. The maximum loan amount is \$5 million, and interest rates vary depending on the size of the loan.

Microloans

To obtain a bank loan, many lenders require the business to prove a track record of success before they are willing to provide funding. The SBA's Microloan Program is designed to assist startup small businesses that cannot yet prove that their business can be successful, by providing low dollar loans to businesses that traditionally cannot receive financing through a bank or credit card company.

The SBA does not make Microloans directly to a small business. Rather, the SBA makes a loan to a non-profit called a Microloan Intermediary. The Intermediary then makes loans of up to \$50,000 to small business borrowers.¹⁵ Unlike the 7(a) loan guarantee program, the SBA requires that intermediaries provide education and training to its borrowers. The intermediaries can provide such training or contract for some other enterprise to provide training and counseling.

Small Business Development Centers

Small Business Development Centers (SBDCs) educate entrepreneurs on finance, marketing, production, organization, engineering, and technical problems as they pertain to running small businesses. Additional assistance is available to those seeking counseling with international trade issues, procurement assistance, venture capital formation and rural development. The primary SBDC or grantee directs a network of smaller centers throughout a state in order to make their services available to a broad range of small business owners. The SBA is responsible

¹³ 15 U.S.C. § 636(a)(1)(A).

¹⁴ 15 U.S.C. § 631.

¹⁵ Maximum loan size in the program was \$35,000 before it was raised in the Small Business Jobs Act of 2010 to \$50,000.

for contributing up to fifty percent of operating funds with the remaining funds coming from a variety of contributors including state government, foundation grants, state and local chambers of commerce, public and private universities. In fiscal year 2010, SBDC conducted business consulting for 209,558 clients, training sessions for 379,794 attendees, and other forms of assistance for approximately 500,000 small businesses and aspiring entrepreneurs. SBDC clients received 2.9 million total hours of consulting and training services in FY 2010. Further, SBDC representative Jody Keenan testified before the House Committee on Small Business that 33 percent of SBDC's client base is comprised of minority entrepreneurs.¹⁶

SCORE

The SCORE program is composed of a network of working and retired business executives and small business owners. Similar to SBDCs, this organization provides free, expert advice to fledgling and seasoned small business owners. Small business owners receive this assistance through SCORE's website, chapter offices, SBA district offices, and other venues. There are currently 389 SCORE chapters in the United States which serve over 300,000 small business owners per year. The program also provides more than 1200 online counselors who aid small businesses that are unable to travel to an office for counseling. Since its inception in 1964, SCORE has served over 7.8 million small business owners.

According to SCORE, the Los Angeles area is the fastest growing area for SCORE in the country. The number of entrepreneurs requesting assistance is greater in Los Angeles than in any other city. To meet these growing needs, SCORE has partnered with 26 Chambers of Commerce throughout Los Angeles and all four SBDCs in southern California. Through partnerships, SCORE is able to reach entrepreneurs who may not otherwise be aware of their services. For example, the SCORE chapter in Los Angeles has a partnership with the Latino Business Chamber of Commerce that enables the program to connect with a wider array of small business owners in the community. These partnerships allow SCORE to provide enhanced entrepreneurial development services and reach communities they would not be able to on their own.

Non-Government Education Programs

Complementing the entrepreneurial development efforts provided through SBA and other federal agencies are efforts that are exclusively funded by the private sector. Many corporations offer education and mentorship programs providing a variety of services. While these efforts vary in

¹⁶ *Promoting Entrepreneurship and Job Creation by Decreasing Duplication at SBA: Hearing Before the House Committee on Small Business, 112th Cong. (2011) (testimony of Jody Keenan, Director, Virginia Small Business Development Center Network, Fairfax, Virginia on behalf of the Association of Small Business Development Centers).*

both size and scope, these programs can include training, networking opportunities, mentorship and financial assistance.¹⁷ America's vast network of colleges and universities, along with community colleges, also offer courses designed for small business owners. These courses teach important skills for running a business, including leadership training and recordkeeping. There are also mentorship and networking opportunities provided through local chambers of commerce and other business organizations.¹⁸ For example, New York's Economic Development Corporation and Department of Small Business Services recently partnered with the Deutsche Bank America's Foundation to implement three new programs aimed at assisting new resident small business entrepreneurs. These programs will translate all of the city's free small business courses into Chinese, Korean, and Russian. Deutsche Bank will also award \$25,000 to five city nonprofits that create the best plan to aid new resident entrepreneurs.¹⁹

Conclusion

Part of what defines an entrepreneur is independence and the desire to solve problems without assistance.²⁰ While this trait helps a business owner become successful once a venture has started, the benefit of assistance at the outset can help more prospective business owners get started on the right foot. The programs offered by SBA, its entrepreneurial outreach partners and the private sector are some of the tools available to help entrepreneurs.

This hearing will provide members of the Subcommittee an opportunity to hear directly from entrepreneurs in the new legal immigrant community who either started a small business or provide counseling to prospective entrepreneurs on how to be successful. Members will also hear about the government-supported programs designed to help entrepreneurs and whether they are meeting the goals for which they were designed and what if any changes are necessary to improve these programs so more Americans can start businesses and create jobs.

¹⁷ <http://www2.goldmansachs.com/citizenship/10000-small-businesses/index.html>.

¹⁸ For example, IKEA of Los Angeles has partnered with SCORE to provide workshops for entrepreneurs on various small business subjects. The workshops take place at IKEA stores throughout the Los Angeles area and feature experts who dispense advice based on their experience running a small business.

¹⁹ Benjamin J. Spencer, *City Aids Entrepreneurial Immigrants*, Crain's New York Business, Mar. 7, 2011, <http://www.crainsnewyork.com/article/20110307/SMALLBIZ/110309891>

²⁰ R. HISRICH, M. PETERS AND D. SHEPARD, *ENTREPRENEURSHIP* 8 (7th ED. 2008).