

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-0515

MEMORANDUM

TO: Small Business Committee Members
FROM: Representative Judy Chu, Chairwoman
DATE: Friday, November 8, 2019
RE: Subcommittee on Investigations, Oversight, and Regulations will hold a hearing entitled, “Fostering the American Dream: How SBA Can Empower Immigrant Small Business Owners.” The hearing is scheduled to begin at 10:00 A.M. on Friday, November 8, 2019 at Rosemead City Hall, 8838 East Valley Boulevard, Rosemead, CA 91770.

The Committee on Small Business will hold a hearing entitled “Fostering the American Dream: How SBA Can Empower Immigrant Small Business Owners.” The hearing is scheduled to begin at 10:00 A.M. on Friday, November 8, 2019 at Rosemead City Hall, 8838 East Valley Boulevard, Rosemead, CA 91770San.

The United States is currently home to nearly 45 million immigrants¹ and over 3.1 million have started small businesses. These companies employ more than 8 million people, generate over \$1.3 trillion in sales, and pay more than \$4 billion in taxes.² Recognizing their economic contributions, the hearing will focus on how the federal government can better assist immigrant entrepreneurs desiring to start small businesses. Members will learn why immigrants are more likely to start new businesses but less likely to have access to traditional sources of capital, and how the Small Business Administration’s (SBA) programs, such as entrepreneurial development and lending programs like the Community Advantage program can help immigrant business owners succeed. The witnesses will be:

- Ms. Rachelle Arizmendi, Vice-President and Chief Operations Officer, Pacific Asian Consortium in Employment (PACE), Los Angeles, California
- Mr. Donald Loewel, MBA, Director, Pasadena City College SBDC, Pasadena CA
- Ms. Tatiana Bonilla, President, Andrew Design Group, Inc., Pasadena, CA
- Mr. Amir Salahi, Founder and CEO, Energy Advisor Hub, Pasadena, CA

Background

Approximately 45 million immigrants live in the United States, constituting roughly 13.7 percent of the U.S population. The national contribution and impact of those immigrants, regardless of

¹ MIGRATION POLICY INSTITUTE, <https://www.migrationpolicy.org/programs/migration-data-hub> (last visited Oct. 29, 2019).

² Immigration and the Small Business Workforce, New American Economy, <https://www.newamericaneconomy.org/issues/entrepreneurship/> (last visited Oct. 29, 2019).

legal status, has and will continue to positively impact our nation's economy. With regard to entrepreneurship, the number of immigrant small business owners has increased significantly over the years, and their contributions to our nation's economy are substantial.

Immigrants tend to launch businesses at a faster rate than non-immigrants. The Kauffman Indicators for Entrepreneurship, which offers in-depth reports on entrepreneurial trends in the United States, found that the 2018 rate of new entrepreneurs among immigrants was close to double the rate for native-born entrepreneurs, meaning that immigrants are twice as likely to start businesses. Among ethnic and racial groups, Asians and Latinos experienced a significant increase in the share of new entrepreneurs between 1996-2018, while African Americans share of new entrepreneurs increased only slightly. Moreover, immigrants now comprise nearly 30 percent of all new entrepreneurs, a significant increase from 13.3 percent in 1996.³

Many of the small businesses launched by immigrants are very successful, changing the landscape from Silicon Valley to Main Street. More than half of America's top tech companies, which include Amazon, Apple, Google, and Yahoo were founded by immigrants or children of immigrants.⁴ Immigrant-owned small businesses have also made substantial contributions on Main Street. In fact, 28 percent of new Main Street businesses like restaurants, grocery stores, and retail shops were launched by immigrants. Yet, immigrant small business owners face challenges accessing capital, which can prevent small businesses from getting off the ground. This is primarily due to lack of knowledge about available resources, technical difficulties with the loan application process, and reluctance to obtain loans from financial institutions.⁵ Instead, many immigrant-owned small businesses use personal or family savings, home equity loans, and credit cards.⁶ It is important for the Committee to gain a better understanding of the constraints facing immigrant entrepreneurs with accessing capital and other SBA resources.

America's immigrant-owned small businesses are an essential component of our entrepreneurial, job-creating economy. In the United States, small businesses are responsible for creating nearly 61 percent of all new net jobs over the last two decades, with immigrant-owned businesses employing 8 million individuals in 2017. Given immigrants substantial contributions to our economy it is important to learn how the federal government, and the SBA in particular, can better assist immigrant entrepreneurs in both launching and growing small businesses.

Role of the Small Business Administration

The SBA has a number of programs to promote small business creation and economic growth. SBA offers a wide range of training and counseling services to help small businesses succeed. With regard to capital access, the SBA ensures the gaps in the commercial lending markets are filled, enabling small businesses to access credit.

³ Kauffman Indicators of Entrepreneurship, 2018 NATIONAL REPORT ON EARLY-STAGE ENTREPRENEURSHIP.

⁴ Sara Salinas, *More than Half of the Top American Tech Companies Were Founded by Immigrants or the Children of Immigrants*, CNBC, May 30, 2018.

⁵ W. Lee & S.L. Black, *Small Business Development: Immigrants' Access to Loan Capital*, J. SMALL BUSINESS & ENTREPRENEURSHIP, 29:3, 193-209 (2017).

⁶ U.S. Small Bus. Admin., Office of Advocacy, IMMIGRANT ENTREPRENEURS AND SMALL BUSINESS OWNERS, AND THEIR ACCESS TO FINANCIAL CAPITAL (2012).

Entrepreneurial Development

The SBA and its resource partners can play an important role in providing entrepreneurship services to immigrant entrepreneurs. The SBA offers a wide range of free or low-cost counseling and training services through its entrepreneurial ecosystem to help entrepreneurs launch and grow their small businesses. To deliver these resources, the SBA relies on its four primary resource partners: Small Business Development Centers (SBDCs), Women’s Business Centers (WBCs), SCORE, and Veterans Business Outreach Centers (VBOCs).

- Women’s Business Centers: Women’s Business Centers (WBCs) are a critical component of SBA’s entrepreneurial ecosystem. WBCs were created to assist small businesses primarily owned by women, many of whom are socially and economically disadvantaged. The WBC program funds more than 100 centers nationwide and offers a full range of counseling and training services for all stages of business development.⁷ WBCs provide multilingual services, maintain evening and weekend hours to accommodate clients who work full time, and allow children to attend training sessions with their mothers.⁸
- Small Business Development Centers: The largest of the resource partners within SBA’s entrepreneurial ecosystem, the Small Business Development Center (SBDC) network is comprised of 63 lead organizations and more than 900 subcenters.⁹ They are in rural, urban, and suburban communities nationwide, and many are housed at universities or state agencies. The network delivers free face-to-face counseling and at-cost training in all aspects of small business management to new and existing small businesses. The services include, but are not limited to, assisting small businesses with developing a business plan, accessing capital, marketing, regulatory compliance, technology development, and international trade.¹⁰
- SCORE: SCORE utilizes an expansive network of volunteers to provide free or low-cost mentoring and training to entrepreneurs throughout the country. It is the largest network of volunteers, with more than 11,000 expert business advisors at 350 chapters nationwide.¹¹ SCORE provides personalized one-on-one counseling to help entrepreneurs start, grow, and manage their small business, as well as workshops, either on-line or in local communities. Among other services, SCORE aids with developing a business plan, building a website, growing an online brand, managing cash flow, and determining a company’s legal structure.

Access to Capital

Entrepreneurs consistently report that access to affordable capital is essential for starting small businesses, hiring employees, and expanding operations. Though most small businesses struggle

⁷ The Association of Women’s Business Centers is the resource partner for WBCs. WBC RESOURCES, *available at* <https://irp-cdn.multiscreensite.com/fb72abcb/files/uploaded/WBC-One-Pager-and-2018-Policy-Priorities.pdf>.

⁸ U.S. Small Bus. Admin., FY 2020 CONGRESSIONAL BUDGET JUSTIFICATION AND FY2018 ANNUAL PERFORMANCE REPORT.

⁹ U.S. Small Bus. Admin., OFFICE OF SMALL BUSINESS DEVELOPMENT CENTERS, *available at* <https://www.sba.gov/offices/headquarters/osbdc/resources/11409>.

¹⁰ America’s SBDCs is the association for SBDCs, SBDC WEB RESOURCES, *available at* <https://americassbdc.org/about-us/>.

¹¹ SBA FY 2020 Budget, *supra* note 8.

at one point or another with accessing capital, those challenges are magnified for immigrant-owned small businesses. Without adequate access to funding, small firms often fail to realize their full potential, which in turn inhibits growth in local communities. The SBA administers programs to support small businesses, including loan guaranty programs designed to encourage lenders to offer loans to small businesses that may not be able to access affordable capital elsewhere on reasonable terms.¹²

- 7(a) program: The 7(a) program is considered the agency’s flagship loan program, and its name is derived from Section 7(a) of the Small Business Act, which authorizes SBA to provide and guarantee commercial loans to U.S. small businesses.¹³ Under this program, participating lenders offer commercial loans to eligible small businesses while SBA guarantees the loan in the event the borrower defaults, thereby minimizing the risk to the lender of making that loan. SBA guarantees from 50 to 90 percent of each 7(a) loan made, depending on the loan characteristics.¹⁴ The SBA also administers several subprograms within the 7(a) program that offer streamlined and expedited loan procedures for particular groups of borrowers, including the SBA Express, Export Express, and Community Advantage Pilot programs.¹⁵ Although these subprograms have their own distinguishing eligibility requirements, terms, and benefits, they operate under the 7(a) program’s authorization.¹⁶
- 504 Certified Development Company Program: The 504 program provides long-term, fixed rate financing for businesses to acquire real estate, industrial or commercial buildings, or heavy equipment and machinery. The program is delivered by local Certified Development Companies (CDCs) working in partnership with private lenders and the SBA. Typically, a 504 project includes a loan secured with a senior lien from a private-sector lender covering up to 50 percent of the project cost, a loan secured with a junior lien from the CDC (backed by a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost, and a contribution of at least 10 percent equity from the small business being helped.
- 7(m) Microloan Program: In the Microloan Program, entrepreneurs receive SBA subsidized small dollar loans in conjunction with basic managerial and technical assistance in operating their business, thus increasing an entrepreneur’s chances of success. Under this program, the SBA makes funds available to nonprofit community-based lenders (intermediaries) which, in turn, make loans to eligible borrowers in amounts up to a maximum of \$50,000. The average loan size is about \$15,000. Applications are submitted to the local intermediary and all credit decisions are made on the local level. The maximum term allowed for a microloan is six years. However, loan terms vary according to the size of the loan, the planned use of funds, the requirements of the intermediary lender, and the needs of the small business borrower.

¹² ROBERT JAY DILGER, CONG. RESEARCH SERV., R41146, SMALL BUSINESS ADMINISTRATION 7(A) LOAN GUARANTY PROGRAM (2019) [hereinafter CRS R41146].

¹³ 15 U.S.C. § 636(a).

¹⁴ SBA FY 2020 Budget, *supra* note 8.

¹⁵ CRS R41146, *supra* note 12.

¹⁶ *Id.*

- SBA’s Community Advantage Loan Program: Established by SBA as a three-year pilot program, the Community Advantage 7(a) loan program (CA) became operational in February 2011, and has subsequently been extended numerous times, most recently through September 30, 2022, when it is set to expire.¹⁷ The program is designed to “meet the credit, management, and technical assistance needs of small businesses in underserved markets.”¹⁸ CA provides mission-oriented lenders, primarily nonprofit financial intermediaries focused on economic development, access to 7(a) loan guaranties for loans of \$250,000 or less.¹⁹ Lenders may also provide borrowers and potential borrowers with technical assistance, but are not required to do so. SBA’s goals for CA are to:
 - Increase access to credit for small businesses located in underserved areas;
 - Expand points of access to the SBA 7(a) loan program by allowing non-traditional, mission-oriented lenders to participate;
 - Provide management and technical assistance to small businesses as needed; and
 - Manage portfolio risk.²⁰

Conclusion

Immigrant-owned small businesses play an increasingly important role in our economy. Immigrants are currently launching small businesses at faster rates than non-immigrants, and their contributions to the economy cannot be overstated. With that said, the constraints facing immigrant small business owners limit their potential to scale and grow their small business. More needs to be done to better promote borrowing opportunities for immigrant entrepreneurs and overcome barriers to utilizing SBA’s entrepreneurial development services and financing resources. Members will have an opportunity to better understand the issues confronting immigrant entrepreneurs, explore ways to strengthen SBA’s entrepreneurial development and loan programs, and discuss opportunities for outreach to immigrant communities.

¹⁷ *Id.*

¹⁸ U.S. Small Bus. Admin., *Community Advantage Participant Guide*, Version 5.0 (2018).

¹⁹ *Id.*

²⁰ *Id.*