

**State of Asian American Pacific Islander Small Businesses
Remarks by Kerry N. Doi, President
Pacific Asian Consortium in Employment (PACE)
to
Congressional Asian Pacific American Caucus (CAPAC)
And Senate Democrats
U.S. Capitol
Washington, DC
April 24, 2008**

Madame Speaker Pelosi, Majority Leader Reid, Congressman Honda and to your other distinguished colleagues who are present, thank you for inviting me to speak today.

On the occasion of the upcoming Small Business Week, I am pleased to submit our perspectives, comments and priorities on the needs of Asian and Pacific Islander American Small Business needs.

As many of you know, PACE –which stands for Pacific Asian Consortium in Employment—was founded in 1976 to provide linguistically and culturally appropriate training services for the burgeoning API population in Los Angeles. Since our founding the immigration of APIs has not only continued unabated, but has significantly escalated. PACE too has grown in both the number of people we serve and the types of programs we offer. We now serve more than 30,000 low income, ethnic minority families each year in Los Angeles County and we have staff fluency in more than two dozen languages and cultures. While we continue to offer employment and job training we now also provide early childhood education, affordable housing, environmental services, financial education, asset building and—the subject of this hearing—Business development.

In the Los Angeles-Orange County SMSA, there are approximately 2 million Asian and Pacific Islander residents. Although most of them are not small business owners, it has been said that 40% of the small businesses in the SMSA are API-owned. It is a matter of fact that small businesses drive the economic engine of the country. It makes perfect sense that if you want to address the economic issues of the country, addressing the needs of small businesses is imperative.

Why do so many immigrants become small business owners and need PACE's services? Because many of them:

- Have limited English speaking ability
- Lack understanding of the United States business and banking climate
- Have a distrust of government and banks

- Have skills that are not marketable in the US
- Lack US-credentialed education

These hardworking people are unable to secure a living wage occupation. In many cases, starting their own small business is the only way they can make a livable wage, support their families and achieve economic self-sufficiency.

PACE's Business Development Center was started in 1992, in response to the Civil Unrest of that year. Since then the PACE BDC has provided a full range of services to more than 16,000 entrepreneurs resulting in more than 8,000 new or expanded small businesses. Last year alone, almost 1000 businesses were assisted. These businesses had 420 million dollars in sales, generating over \$37 million in sales taxes and creating and retaining over 3,000 jobs.

We are proud to say that, over the past 15+ years PACE has proven that, given resources and opportunities, these hardworking people are not only capable of earning a livable wage, but will succeed and thrive. We have identified three critical elements that we feel are key to their success.

First, financial education is imperative. Often, our clients need information from the most basic understanding of U.S. banking laws and practices to cash flow projections, the cost of funds, banking relationships and the importance of credit. Graduating hundreds of new entrepreneurs from our business classes has similarly proven that preparation of an accurate business plan is vitally important. Understanding everything from "soup to nuts"--from business laws and licensing, to labor laws and tax consequences is additionally critical for a new entrepreneur.

Second, is the need for access to credit and capital. The federal government has played an important role in providing tools for small business success, but it is important to have access to both public and private small business assistance tools and credit. Some examples of these important programs include:

- Through the SBA, the Women's Business Center, SBDC, 504 and community express loans, have been important towards the success and survival of these fragile businesses. The PRIME program was also incredibly successful, however, has been zeroed out in the President's budget.
- The Economic Development Administration has been limited but also important in providing needed capital to these small businesses that lack the credit to go to traditional financing institutions.
- The Community Reinvestment Act has been very useful in encouraging banks to reinvest in underserved communities from which they draw their deposits.

- Loan guarantee programs offered by various agencies have provided banks with comfort as they minimize their risk.
- The Department of the Treasury's Community Development Financial Institutions (CDFI) is a tool that similarly encourages banks to reinvest in communities in need.
- Also, a product of the Department of the Treasury is the New Markets Tax Credit Programs. Similar to CDFI's, this tool can be used to become a substantial tool for small business success.
- Inasmuch as the Federal government purchases services and products in the hundreds of billions of dollars annually, technical assistance in federal contract procurement is similarly productive.

A third critical need is for continued vigilance about enforcement of equal opportunity and equal access for API populations. Overall in the US, APIs represent 4.6% of the population. In California that percentage is 12.8% and in Los Angeles County it is 13.4%--although in more than half of the cities in the San Gabriel Valley APIs are more than 50% of the population. Because APIs make up a larger percentage of the population in and around Los Angeles—and a disproportionately large percentage of small business owners—it is essential that business assistance resources be strongly directed to the API population. Two examples of government business programs desperately needed by APIs, that fail to adequately serve the API population include:

SBA 504 loan program provides loans to businesses up to \$4 Million (100% guaranteed by SBA) through Certified Development Corporations (CDC). In Los Angeles district, there are 14 CDCs, NOT ONE is run by API agency nor is focusing on serving API businesses.

SBA Microloans between \$500 - \$35,000 pass through SBA intermediaries, but of the 4 intermediaries in the Los Angeles district, NOT ONE is run by an API agency nor are any of the existing intermediaries focused on serving API businesses.

Yet another example of an excellent government program that is under represented in the API community is the US Treasury Department's CDFI (Community Development Financial Institution) program. In the 5 years ended in 2006, CDFIs in Los Angeles were awarded more than \$1.1 million in Technical Assistance grants, \$18.8 in Loan funds, and \$1.1 Billion in New Market Tax Credits. In Los Angeles, there are currently 18 CDFIs, ONLY ONE CDFI (Asian Pacific Revolving Loan Fund) is run by and is serving API businesses—and they have never been awarded New Markets Tax Credits.

A fourth critical need of API small businesses is new--the rapidly escalating foreclosure crisis. The credit "squeeze" has special significance to API business owners because they disproportionately use their homes as collateral to service the cash flow needs of their

businesses. According to a survey of API business owners, almost two thirds of these businesses are using either credit cards or home equity loans to finance their businesses. With the current mortgage foreclosure crisis, these businesses go into double jeopardy. If a bank has extended a home equity line of credit to a small business person and then calls the line because of the depreciation in his home, he can no longer draw upon his line of credit. This person, then, is at risk of losing both his business and his home at the same time.

The last time businesses in Los Angeles were affected this dramatically was after 9/11, businesses around LAX and Downtown which were affected by the shutdown of LAX and the blockade of City Hall and Federal Buildings were declared disasters. Businesses in these areas with a revenue decline of 30% or more qualified them for Disaster loans--interest at 4% over seven year term. PACE worked with over 500 businesses and 76 of them were funded by SBA Disaster loan program.

Many of our clients are now seeing that kind of downturn in their revenue. According to the Los Angeles Journal of Business, close to 50% of the bankruptcies filed last week were API business owners—and this is a trend that is repeated week in and week out. Something must be done to STOP this downward spiral cause by tighter credit. Making low cost credit available to small businesses is an important, viable solution.

We strongly recommend the expansion of all of the programs we mentioned above. The small businessman using their home to support his business does not understand small business financing. And is dire need of financial education. The tools that the federal government provides need to be expanded in addressing the nation's economy. We need to invest in our human resources as an investment in the country's future.

I applaud your initiative in holding these hearings and I look forward to your support to assure equality of access and administration for the American Asian and Pacific Islanders of existing government programs, I further urge your support in targeting foreclosure assistance and capital to the API community. These actions would be a sound investment in jobs and the health of the economy of Los Angeles and the entire nation. Thank you.



**2008 Democratic Congressional
Asian American and Pacific Islander Small Business Forum
April 24, 2008; 9:00 am**

U. S. Capitol, S-207, (Mansfield Room)

**Senator John F. Kerry, Chair, Sen. Benjamin Cardin, Rep. Barney Frank,
Rep. Mike Honda, Rep. Mazie Hirono, Rep. Eni Faleomavaega, Rep. Zoe Lofgren**

Comments of
H. Cooke Sunoo, Director
Asian Pacific Islander Small Business Program
Federal Reserve Bank Governors' Consumer Advisory Council, Member
State of California Small Business Board, Commissioner

There is a distressing dichotomy regarding Asian and Pacific Islander (API) businesses. API owned businesses, according to the last US Economic Census grew by 24% whereas non-Asian businesses grew in number by only 10%. But API receipts grew by only 13% in a period of 12% inflation versus non-Asian revenue growth of 22%. For every dollar a White firm makes, an API businesses make 56 cents (SBA, Ap, 2007) notwithstanding their higher than proportional number of SBA loans. These data are generally consistent across the country; so, APIs are entrepreneurial, are borrowing, but perform well below par. It is clear that API businesses are in need of business technical assistance. Since 80% of API entrepreneurs are immigrants and face hurdles of language and culture, assistance is best delivered by organizations of their own communities.

Asian businesses are currently suffering on two fronts in the mortgage meltdown. The Federal Reserve Bank is currently writing a report for the National Coalition of Asian Pacifics for Community Development national convention in May that will illustrate the severity of the mortgage crisis within the API community and its important nexus to API small business difficulties. In a meeting this month with bank executives from four of the largest Asian American banks in Los Angeles, their consensus was that 50-75% of API entrepreneurs who own homes use them as their principal source of business capital. This is more than twice the 30% of all business owners using home equity reported in the Senate Small Business Committee press release (4.16.08). The Asian banks have generally not participated heavily in mortgage lending, but have reported commercial loan delinquencies at rates 2-to- 2 1/2-to- 3 times those of a year ago. These same banks have reacted by tightening underwriting standards and withdrawing certain credit products from the market. At least one of them has totally withdrawn their home equity line credit product and another a \$50,000 commercial credit line. We need the SBA to come in with a stimulus package.

Senator Kerry's Small Business Committee on April 16 reported a drop in Government-backed loans of as much as 29% from this time last year this due mostly to the 7a loan program. Demand for a much more popular Community Express Loan is up significantly; it is this program that mandates the borrower to work with an SBA approved technical assistance provider. SBA by guaranteeing commercial loans reduces banks exposure to 15 to 35% of the loan amounts. In this recessionary time, it is critical that the SBA aggressively encourage businesses and banks to invest in their businesses. This may mean an increase in percentage of guarantee with a reduction of risk to the banks, the creation of new credit products, reducing fees or in other ways stimulating business growth.



The Community Express Program (CEP) was initiated by SBA as a pilot program and as such is limited by Congress to no more than 10% of the total number of loans it guarantees. CEP loans are generally under \$10,000 and almost always under \$50,000, so although the number is currently at about the 10% limit the percentage of dollars loaned is much below. In May, SBA will start to restrict CEP loans by more than 2/3. In this program, a bank makes a very minimal payment towards technical assistance service and in return, the SBA guarantees up to 85% of the loan amount. We know from experience that this program generally results in very quick growth for smaller enterprises. Making the CEP a permanent part of the SBA is included in the 2008 budget document passed by the House, but we believe is currently being held in Senate committee by Senator Preston (R-OK). It is also being held up on a separate tack by OMB which views this as an expansion of program, this is a little mis-directed since CEP is a no-cost program.

Another important way to stimulate economic growth is to increase the amount of business technical assistance to entrepreneurs. The SBA has several technical assistance programs all of which struggle for level funding at a time when they should be significantly *growing*. The SBDC, SCORE, and Women's Business Center programs all provide a stimulus package that have much more long term potential than a few hundred dollars to individual tax filers. The PRIME program should also be re-instated.

Lastly, the Minority Business Development Agency (MBDA) in the Department of Commerce has offices scattered across the Country. As its name implies, its sole purpose is to assist minority owned businesses to grow, yet there is no "Asian Program" within the office. In areas such as Los Angeles where APIs own 37% of the minority businesses, there should be targeted efforts to reach our businesses.

We are thankful for the opportunity today to present a variety of perspectives to this august committee and hope that our words are heard and appropriate actions taken. Please be assured that we intent to continue to be active participants in the process. We look forward to continuing our dialogue.

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A Brief Biography!

The Asian Pacific Islander Small Business Program (API SBP) was established in 1999 to deliver individual counseling and workshop training to low income Asian immigrant populations in Los Angeles. API SBP is funded in part by the Small Business Administration as a Women's Business Center; additionally corporate and foundation charitable donations provide required matching funds. In 2007 we served 2500 entrepreneurs!

We serve our clients in six Asian languages, Spanish and English providing free individual business counseling and an extensive array of business workshops and courses. We provide guidance to our clients in business plans, loan applications, and other forms of access to capital, basic business preparation, franchise acquisition, etc. Many of our workshops are presented in alliance with business organizations and other community partners, as a way of strengthening the communities in which we work. All of our program geographies are focused in low/moderate income census tracts. We also provide an entrepreneurial financial literacy program for low income adults co-sponsored by the United Way of LA which provides modest financial incentives to program participants.

Asian Small Business Expo is our annual fall event. On September 29, 2007, the eighth annual expo at the Omni Hotel in downtown LA attracted more than 750 participants. This strictly business-to-business event targeting Asian immigrant entrepreneurs in search of business opportunities/credit/advice included 15 workshops and 45 exhibitors. Corporate supporters and exhibitors reached out to our significant niche audience at the event.

API SBP is a successful program and has been recognized for its leadership and innovation with the following recent awards:

- o Association of Enterprise Opportunity: National Program Innovation Award
- o Asian Business Association Advocate of the Year
- o SBA (LA Region): Minority Business Advocate of the Year
- o San Francisco Home Loan Bank Board: Community Revitalization Award (nominee)
- o Los Angeles Mayor (Minority Business Development Committee): Technical Assistance Advocate

In 2006, API SBP's leadership in the field was recognized by its Director's appointment by the Federal Reserve Bank's Board of Governors to its national Advisory Council and Governor Schwarzenegger's appointment to the State Small Business Board.

API SBP is a 501(c)(3) organization that works as a collaboration of Chinatown Service Center, Little Tokyo Service Center CDC, Koreatown Youth and Community Center, Search to Involve Pilipino Americans and Thai Community Development Center. These agencies collectively have a history of more than 140 years of community service, through them, API SBP has strong recognition and respect among our target low-income Asian immigrant entrepreneurs.

Our mission is "To assist the development of Asian and Pacific Islander small and micro businesses in Los Angeles, especially those of low income immigrants, focusing on Chinatown and parts of the San Gabriel Valley, Koreatown, Little Tokyo, Thai Town and the Pilipino business communities."

For further information please visit www.apisbp.org or contact H. Cooke Sunoo, Director