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The Five Gaps Facing Small and Microbusiness Owners: Evidence From New York City

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Abstract

Small businesses play a critical role in economic development. Over the past 20 years, policies and programs have sought to increase the potential success of these businesses. Yet little is known about the extent to which these policies and programs respond to the specific needs of business owners. Using a mixed-methods approach, the authors investigate the barriers to success that small business owners face, the effectiveness of current policies and programs aimed at serving small businesses, and ways to improve the current system. Focusing on disadvantaged entrepreneurs in New York City, the authors find five primary gaps within the current policy system: a transitional gap, an information gap, and an institutional capacity and service delivery gap. The authors argue that the capital and training needs of small business owners are deeper and more complex than what the current policy system addresses and offer recommendations for improvement.

Keywords

small and microbusiness, New York City, disadvantaged entrepreneurs, business development, entrepreneurship, industrial policy, community development

Small and microbusinesses are critical economic actors in our national, regional, and local economies (Acs & Armington, 2004; Acs & Audretsch, 2005; Baumol, 1968; Moore, 2004; Servon, 1999). Research has shown that small firms and their owners provide the innovation and innovators required for knowledge externalities that are vital to economic growth (Acs & Audretsch, 2005). In addition, support for small businesses in their critical startup and development phases provides the commercialization of technologies, products, and services that stimulate the economy. Moreover, small businesses have been targeted as a primary avenue for economic renewal in cities and regions devastated by natural disasters, such as New Orleans, because they are capable of building both individual financial stability and economic health on a larger level (U.S. Small Business Administration Office of Advocacy, 2006).

Given the critical role small businesses play in economic development, an array of policies and programs have been initiated that attempt to maximize their economic development potential and increase their success rate. Although research has documented both the problems (Barth, Yago, & Zeidman, 2006; Bates, 1995; Servon, 1996) and benefits (Edgecomb, Clark, & Klein, 1996) of some of these strategies, the extent to which these programs respond to the specific needs of small business owners remains questionable. This article seeks to address this issue through the exploration of three primary research questions: What are the barriers to success that small and microbusiness owners, those with 20 or fewer employees, face? How well do current policies and programs aimed at serving small businesses do in addressing these barriers? And, what can be done to improve the current policy system?

To answer these questions, we undertook a comprehensive approach, analyzing a range of publicly available data sources, conducting interviews with entrepreneurs and with policy makers and practitioners who serve these entrepreneurs, and reviewing creative initiatives nationally. We focused on disadvantaged entrepreneurs—particularly those who are low income—given that these groups are the target of many small business assistance programs and because they arguably stand to gain the most from intervention. In addition, because studies have articulated that disadvantaged entrepreneurs are not fully served by the current system of

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assistance (Caskey, 1994; Dunham, 2001; Holtz-Eakin, Joulfaian, & Rosen, 1994; Meyer, 1990), this focus also has the potential to serve the public good by illuminating specific market failures within the current system.

We chose to focus our research on New York City given its wide range of organizations engaged in assistance programs, the positive environment influenced by growing local government support of this sector, and the range of business diversity in the area. Our analysis revealed five primary gaps within the environment of support for small and microbusinesses in New York City: (a) a capital gap, (b) a resource gap, (c) a transitional gap, (d) an information gap, and (e) an institutional capacity and service delivery gap. The vast majority of small business owners we interviewed confronted two or more of these gaps in their efforts to start and grow their businesses. In addition, we found that the majority of programs designed to assist these business owners focus on capital and training gaps, even though small business owners face a larger range of issues as they start, stabilize, and grow their enterprises. Furthermore, we argue that the capital and training needs of small business owners are deeper and more complex than what existing policies and programs currently address and that given the constraints of the current financial crisis, any strategy designed to assist small businesses must take a larger range of needs into account if the economic development potential of small businesses is to be realized. We address our recommendations for mitigating these gaps to local policy makers given our belief that they are in the best position to initiate and implement the kinds of changes needed.

The Current Support Environment for Small Business

Economic development programs and policies strive to improve the economic health of regions by supporting the generation, stabilization, expansion, and attraction of businesses to a particular area. Typical economic development strategies include tax abatements, subsidies, and low-interest loans to businesses, with some programs, particularly microenterprise development organizations (MDOs), providing training as well. However, training is generally limited to multiweek modules geared toward writing a business plan, and little training exists that is geared toward specific business sectors or to businesses beyond the startup phase. As a result, despite considerable consensus that small businesses are an important piece of the economic development puzzle, programs and policies targeting these businesses remain narrowly focused on capital and, to a lesser extent, training. Throughout the United States, both the policy environment and the landscape of nonprofit organizations that target small business development are fragmented and uneven.

Small business development was squarely on the federal agenda during the 1990s; during this period the Office of Community Services, the Office of Refugee Resettlement of the Department of Health and Human Services, and the Department of Housing and Urban Development all created or supported programs targeted at entrepreneurs. Most important, in 1996, the U.S. Small Business Administration (SBA) created the SBA Microloan program, and in 1999 the Program for Investment in Microenterpreneurs Act (PRIME) authorized the SBA to establish a microenterprise technical assistance and capacity building program. SBA PRIME was the first federal program to focus on providing training and business assistance to low- and very-low-income microentrepreneurs, regardless of whether they seek loan capital.

Whereas these programs seem to promote an understanding of the importance of very small businesses for regional and local economic growth, there remain a variety of issues that were not addressed. The majority of these programs place a large emphasis on already established businesses at the expense of those firms that are just starting. In addition, many of these programs—especially the SBA programs—provide loans in larger amounts and offer no support services or suffer from limited funding from resources. As a result, there is little emphasis placed on the importance of promoting financial literacy and business training.

At the state level, New York has mounted promising initiatives, including the Empire State Development Corporation's Entrepreneurial Assistance Program (EAP) and Community Development Financial Institutions (CDFI) program. The EAP provides funding for community-based organizations as well as microenterprise training and technical assistance to disadvantaged entrepreneurs, including minorities, women, and dislocated workers. The CDFI program helps establish CDFI credit unions and helps nonprofit organizations apply for up to $50,000 for loan capital and to help cover loan loss reserves. In addition, the program seeks to build the institutional capacity of these organizations by providing technical assistance to borrowers. This program's longevity and influence seem promising, given that legislation was passed in 2007 to create a permanent CDFI Fund modeled on the federal program.

New York City is home to a number of local initiatives and organizations to help small businesses. Table 1 summarizes relevant public and private programs to which New York City's small and microbusinesses can go for assistance.

In 2000, the Department of Small Business Services (DSBS) created seven Business Solutions Centers (BSCs) across the five boroughs to "help the business community of New York City find efficient solutions to common business problems." BSCs provide technical assistance and training to small business owners, but their capacity is limited and they overwhelmingly support startup businesses. This program will be further supported by the reintroduction of the Capital Access Program (CAP) in 2009, which aims to address the liquidity problems often faced by small businesses.

Table 1. Government Programs

Agent/Program Ownership	Program Name	Type of Intervention	Description	Loan Limit	Limitations
Federal					
SBA	7(a) Certified and Preferred Loan Program	Loan guarantee	Guarantees 85% on loans less than $150,000 and 75% on loans greater than $150,000 If loan issued by preferred lender, lender makes credit decision; if not, SBA makes the credit decision	$2,000,000	Targets established businesses only Larger loans more common No support services
SBA	7(a) SBA Express	Loan guarantee	Guarantees 50% Lender makes credit decision	$350,000	Targets established businesses only Larger loans more common No support services
SBA	7(a) Community Express	Loan guarantee	Guarantees 85% Lender makes credit decision	$250,000	Targets established businesses only Larger loans more common No support services
SBA	504/CDC	Loan guarantee	Business must meet stated public policy goal Guarantees 85% on loans less than $150,000 and 75% on loans greater than $150,000 CDC makes credit decision	$2,000,000	Targets established businesses only Larger loans more common No support services
SBA	Microloan, a 7(m) Loan Program	Direct lending and/ or loan guarantee	SBA makes a loan to an intermediary, who in turn makes the microloan to the applicant Intermediary provides management and technical assistance SBA does not guarantee the loans	$35,000	Limited funding for program
SBA	Program for Investment in Entrepreneurs (PRIME)	Funding, training, and technical assistance	Funding provided to intermediary organizations for training and technical assistance for microbusinesses	N/A	Program not funded FY 2009
State					
Empire State Development Corporation, State of New York	New York Entrepreneurial Assistance Program (EAP)	Funding, training, and technical assistance	Funds community-based organizations providing microenterprise training and technical assistance to minorities, women, and dislocated workers Awards $80,000 to subsidize the cost of services	N/A	Limited funding for program
Empire State Development Corporation, State of New York	New York State Community Development Financial Institutions (CDFIs) Program	Funding, lending, and technical assistance	CDFI credit unions and nonprofit organizations apply for up to $50,000 for loan capital, loan loss reserves, technical assistance to borrowers, and institutional capacity	N/A	Limited funding for program

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Table 1. (continued)

Agent/Program Ownership	Program Name	Type of Intervention	Description	Loan Limit	Limitations
State University of New York, U.S. SBA, State of New York, local campuses	New York State Small Business Development Center (SBDC)	Direct support services	Aims to provide the best business advisement services and information Offers programs designed for specific groups of entrepreneurs	N/A	Limited funding for program
Local					
Department of Small Business Services (DSBS), the City of New York	Business Solutions Centers	Direct support services	Funds seven information centers designed to help businesses find efficient solutions to common business problems DSBS contracts with third-party organizations to run centers	N/A	Language: limited resources and services available in different languages Geographic: only seven locations for entire city Programmatic capacity
New York City Economic Development Corporation (NYCEDC)	Capital Access Program (CAP)	Loan guarantee	Guarantees up to 20% of loan amounts up to $1 million Seven banks and community development credit unions participate	$1,000,000	Limited use Few member institutions

NOTE: SBA = Small Business Administration; N/A = not applicable.

In addition to numerous public programs available to entrepreneurs, there are a variety of private and nonprofit programs that serve small businesses; these can be seen in Table 2. These initiatives include banks and credit unions and a variety of nonprofit agencies. These programs offer a variety of services to small business owners in New York City, including training, technical assistance, loans, counseling, business banking, and financial advising.

The initiatives, programs, and services mentioned above are important resources for small businesses. For small business owners and young entrepreneurs, public programs provide important startup capital, training, and financial literacy. For the local and regional economies these initiatives also help improve the institutional capacity of lending programs and in doing so promote economic development. Yet, although these public initiatives tackle issues that are important to small businesses, they fail to address other key problems faced by new entrepreneurs and established business owners. Our research in this article will show how these important and valuable initiatives, programs, and services fail to address key entrepreneurial needs, either through gaps in service or lack of capacity. We will also make recommendations on how to fill these gaps and strengthen capacity.

Method

Definitions of *small business* lack consistency. The SBA defines a small business as one having 500 or fewer employees. In the microenterprise development world, the Association for Enterprise Opportunity defines microbusiness as any business with 5 or fewer employees that can use a loan of $35,000 or less. The people we interviewed at the New York City DSBS, BSCs, and other agencies that assist small businesses stated that the vast majority of the businesses they serve have 20 or fewer employees. We therefore focused our analysis on businesses with 20 or fewer employees. For the purposes of this article, the term *small business* refers to a business with 20 or fewer employees and *microbusiness* refers to a business with 5 or fewer employees.

Using 2002 Survey of Business Owners data and 2004 County Business Patterns data we found that, although the city has fewer nonemployer firms compared with other cities in the nation, it has more small businesses than the national average for the United States. For the smallest employer businesses, New York City has between 1.25 and 2 times the number of firms compared with the rest of the country. Such realities led us to concentrate on New York City for several reasons. First, New York City is home to a wide range of

Table 2. Small Business Services Available in New York City by Type of Organization

Type	Organization	Description of Small Business Services	Geographic Focus	Description of Lending
Bank	North Fork/Capital One	Second Look program offers microbusinesses referrals to microenterprise development organizations	New York City	N/A
Community Development Credit Union	Bethex Federal Credit Union	Loans, business checking accounts, and support services	The Bronx	According to www.ncua.gov, as of March 31, 2008, nine loans outstanding for a total of $369,670
	Brooklyn Cooperative Federal Credit Union	Loans, business checking accounts, and technical assistance	Brooklyn	According to www.ncua.gov, as of March, 31, 2008, three loans outstanding for $177,686
	Lower East Side Peoples Federal Credit Union	Deposit accounts, small business loans, and microenterprise programs (loans, IDA accounts, and business training)	Lower East Side Harlem	According to www.ncua.gov, as of March, 31, 2008, 26 loans outstanding for $3,044,182
	New York City Financial Network Action Consortium (NYCfNAC)	Small business loan fund for member organizations	Areas served by member organizations	According to 2006 Form 990, $117,764 in outstanding loans
	Union Settlement Federal Credit Union	Loans	East Harlem	As of March, 31, 2008, five loans outstanding for $555,823
Empowerment Zone	Upper Manhattan Empowerment Zone	Loans	Upper Manhattan	Provides business investment loans up to $250,000, BRISC loans between $50,000-$250,000, and microloans under $50,000 (through partnerships with local microlenders)
Nonprofit Microenterprise Development Organization	Audubon Partnership for Economic Development	Training and technical assistance	Upper Manhattan	N/A
	Bedford Stuyvesant Restoration Corporation	Technical assistance	Central Brooklyn	N/A
	Bensonhurst Business Club	Member-driven small business support	Brooklyn (Russian American Community)	N/A
	Bronx Overall Economic Development Corporation (BOEDC)	Provides financing to all sectors of the Bronx and New York State business community, including commercial, industrial, manufacturing, and service firms	The Bronx	No information posted
	Brooklyn Economic Development Corporation	Technical assistance	Brooklyn	N/A
	Bushwick Local Development Corporation	Technical assistance for startup and established businesses	Bushwick, Brooklyn	N/A

(continued)

Table 2. (continued)

Type	Organization	Description of Small Business Services	Geographic Focus	Description of Lending
	Business Outreach Centers (BOCs)	Network offers loans and a variety of support services to entrepreneurs	Chinatown/LES Greater Newark North Brooklyn Queens South Brooklyn Staten Island Upper Manhattan	No information posted
	Chinatown Manpower Project	Training	New York City (low-income immigrants and refugees)	N/A
	Church Avenue Merchants Block Association (CAMBA)	Lending, training, and technical assistance	Central Brooklyn	Loans up to $15,000 for new and existing businesses
	East Harlem Business Capital Corporation	Lending and training	East Harlem	$500 to $50,000 for working capital, inventory, or equipment
	Greater Jamaica Development Corporation	Capital Access and Capital Access Express loans for new and existing businesses	Southeast Queens	$10,000-$300,000
	Greater New York Development Corporation	SBA 504 loans and New Market Loan Fund; New Market Loan Fund provides 25-year low fixed rate second mortgage loans for small businesses and not-for-profit entities	New York New Jersey Connecticut	No information posted
	Harlem Business Alliance	Lending, training, and technical assistance	Harlem	Loans up to $25,000 in capital for business technology purchases, interior leasehold renovations, and store equipment
	Hunts Point Economic Development Corporation	Interracial Council for Business Opportunity	South Bronx	N/A
	Jamaica Business Resource Center	"One-stop shop" for technical and financial assistance	Jamaica, Queens	N/A
	Local Development Corporation of East New York	Training, counseling, technical assistance, and legal services	East Brooklyn	N/A
	National Minority Business Council	Lending and training	National	Loans for members from $1,500 to $25,000
	Northfield Community Local Development Corporation	Lending and training	Staten Island	Revolving loan fund for Port Richmond businesses
	ODA Community Development Corporation	Technical assistance	Williamsburg, Brooklyn	N/A
	Queens Overall Economic Development Corporation	Training and technical assistance	Queens	N/A

(continued)

Table 2. (continued)

Type	Organization	Description of Small Business Services	Geographic Focus	Description of Lending
	Renaissance Economic Development Corporation	Lending, training, and technical assistance	New York City (immigrants)	Loans up to $100,000
	South Bronx Overall Development Corporation	Technical assistance	South Bronx	N/A
	South Brooklyn Business Outreach Center / Council of Jewish Organizations	Business Outreach Center	South Brooklyn	N/A
	St. Nicholas Neighborhood Preservation Corporation	Technical assistance	East Williamsburg, Brooklyn	N/A
	Staten Island Economic Development Corporation	Technical assistance	Staten Island	N/A
	Washington Heights and Inwood Development Corporation	Microloans, business assistance services, and child care business development services	Washington Heights Inwood	$400-$25,000
	West Brighton Economic Development Corporation/Staten Island Business Outreach Center	Business Outreach Center	Staten Island	N/A
	Women's Housing and Economic Development Corporation	Training and technical assistance for home-based child care microbusinesses	Bronx	N/A
	Workshop in Business Opportunities	Training	Harlem	N/A
Nonprofit Lender	ACCION New York and New Jersey	Loans, lines of credit, and advisory services	New York City Westchester County Long Island New Jersey	Provides loans $500-$50,000
	Grameen America	Group lending	Queens	Group lending provides loans from $500 to $3,000
	New York Association for New Americans (NYANA)	Loans, training, and technical assistance	New York City	Provides loans from $500 to $35,000
	Project Enterprise	Loans, business support services, and networking opportunities	Bronx Brooklyn Upper Manhattan (Harlem) Queens	No loan range posted Portfolio: According to Grameen Foundation Web site: 395 active loans as of March 2008 $316,405 loan portfolio
	Seedco Financial	Loans, technical assistance, and referrals to support services from community partners	New York City	Microloans: under $25,000 Small Business Loans: $50,000-$200,000 Mid-Level Commercial and Facilities Development Loans: up to $1,500,000
	Women's Venture Fund	Business plan development, technical assistance, and networking opportunities	New York City	Provides loans up to $25,000

organizations, both public and private, designed to assist small businesses. Second, New York City government has generated some creative policy initiatives, indicating an interest in reaching out to this sector. And finally, there is an enormous range and diversity of small businesses in New York City.

We recognize that many of the characteristics shaping the entrepreneurial environment in New York City are national, but certain characteristics of New York City make this case somewhat context specific. First, the immigrant population in New York City has increased more dramatically than in other cities, and immigrants account for much of the city's small business growth and significant population of disadvantaged entrepreneurs.[1] Second, the high cost of operating a business in New York City has an enormous effect on small business owners. The relatively greater cost of real estate represents a significant fixed cost that business owners need to cover before they can make a profit. Given the current financial and credit crises that emerged in October of 2008, such realities are likely to be felt in many areas.[2] Third, in addition to real estate, New York City small business owners deal with other high expenses within their overhead, such as insurance, that are greater than in other cities. Fourth, the attacks of September 11, 2001, had a tremendous impact on many small businesses, particularly those located downtown.

We employed a range of qualitative and quantitative methods for this article. On the qualitative side, we conducted 50 in-person interviews in English and Spanish with entrepreneurs. We obtained the names and contact information for these entrepreneurs from ACCION New York, Seedco, and the DSBS.[3] These interviews provided us with rich descriptions of the processes entrepreneurs have gone through to start, stabilize, and expand their businesses, and the specific difficulties they have faced. We paid the entrepreneurs $25 each for their participation in the study. We tape recorded the interviews and had them professionally transcribed.

We also interviewed 48 representatives from New York City–based nonprofit organizations and credit unions providing credit and/or training to emerging entrepreneurs and very small businesses, 43 leading-edge practitioners nationwide, and 11 national field experts and policy makers. These interviews were conducted either in person or by phone. For all interviews, we employed Rubin and Rubin's (2004) method of "interviews as guided conversations," using interviewees' responses to guide the flow of the interviews. We analyzed our notes and transcriptions to discern trends and to ensure that any quotes used in our analysis were representative of the larger group.

We supplemented these interviews with a wide-ranging literature review to identify best practices and trends in small business and microenterprise development and the CDFI industry. To gain a better understanding of the policy environment for small and microbusiness development, we reviewed relevant local, state, and national legislation, policies, and regulatory change.

On the quantitative side, there is no single source of data that captures all of the information necessary for our analysis (Samolyk, 1998). To analyze the supply of and demand for capital to small and microbusinesses we used data from the following sources: (a) the 1998 and 2003 Survey of Small Business Finances (SSBF), (b) the 1997-2005 Community Reinvestment Act (CRA) Aggregate Reports, (c) the 2004 U.S. Census County Business Patterns, (d) the 1992 Characteristics of Business Owners (CBO) Survey, and (e) the 2002 Survey of Business Owners (SBO).

Although none of these databases is comprehensive, each provides insight into the various dynamics of small business credit markets, the types of credit used by businesses, and the major suppliers of credit products. These government data sets are the most commonly used and well-respected sources of information on the use of financing by small businesses in the United States and small business loans issued by the largest depository institutions. They are products of the U.S. Census Bureau, the Federal Financial Institutions Examination Council, and the Federal Reserve, and have the best credibility of available data. We also conducted our own survey of credit products on the market through Internet research and phone calls with bankers about the terms of their products. Together these data enabled us to obtain a fine-grained understanding of the environment in which small and microbusinesses operate in New York City.

Findings

Our research illuminated five gaps faced by small and microbusiness owners in New York City. Although these gaps are not exclusive categories in the sense that they may overlap in some areas, we identify them individually because of their importance to small businesses at various stages in their economic development. Our analysis demonstrates that small and microbusiness owners face a larger set of gaps than those typically addressed by existing policies and programs.

Capital Gap

Startup and expansion capital are extremely important to small and microbusinesses. Existing policies and programs tend to focus on this capital gap for small businesses by offering avenues through which to obtain startup capital. The emphasis on policies of this type is appropriate given that such gaps exist and limit the startup and growth of these businesses. Our analysis of the 1992 CBO survey indicates that more than half of all U.S. businesses use less than $5,000 in startup capital, indicating a need for very small loans.

Our interviews with entrepreneurs and other research on this sector documented the difficulty in obtaining even small amounts of startup capital. Many banks' requirements are difficult for a new business to meet. In the words of one business owner,

> When you start a business, it is hard and they want you to have money, but where will I get the money if I do not have the business? How am I going to have a deposit so they can lend [to] me? They want me to have $10,000 so they can lend me $10,000, so they are going to lend me my own money, not their money.

Further, researchers have cited chronic undercapitalization as a factor contributing to small business failure (Bates, 1993).

Our analysis also revealed that many small business owners never apply for a loan because they fear denial. The SSBF includes the question, "During the last three years, were there times when [FIRM] needed credit, but did not apply because it thought the application would be turned down?" Of all firms with fewer than 20 employees, 18.6% answered "yes." Firms with 5 to 9 employees were especially unlikely to apply. Groups that are underrepresented as entrepreneurs and/or have faced discrimination in the capital markets historically were more likely to not apply for a loan for fear of denial. About 20% of female-owned firms did not apply despite need, compared with 17.6% of male-owned firms. And a striking 47.2% of Black-owned firms did not apply for credit despite need because they thought their application would be turned down. This is 28.6 percentage points higher than the average percentage of nonapplying firms in the United States overall[4] and indicates the persistence of a troubling dynamic involving race and traditional small business lending.

The majority of microenterprise development organizations (MDOs) make small business loans up to about $35,000; the median loan size for New York City microlenders for both 2005 and 2006 was $15,000. Banks tend not to want to make loans that are that small; the paperwork is the same as for a larger loan with much less profit. Our interviews with entrepreneurs and capital providers and our analysis of available credit products revealed a specific capital gap in credit amounts between $50,000 and $100,000, particularly for disadvantaged entrepreneurs. Many businesses need loans in this range in order to stabilize and expand. Our analysis of an array of products offered in the marketplace from 50 different suppliers and their range of terms and collateral requirements reveals that, although several products in the market fall within the range that small businesses need, most require good to excellent credit or some personal or business assets that can be collateralized. Unsecured lines of credit are primarily offered through credit cards, and the amounts depend on the credit score of the business or of the owners of the business.

Our interviews with staff at MDOs, with city officials at the DSBS, and with BSC staff support the finding that there is a lack of products available in this size range for small businesses that do not have good to excellent credit. For example, Jeremy Waldrup, assistant commissioner for business at the DSBS, told us that these loans are "too small for banks."[5] Vin Lenza, head of one of the Staten Island BSCs, which serves somewhat larger businesses on average than other BSCs, told us, "I don't see many people who need $10,000; I see a lot who need $50,000."[6] Steve Rodriquez and Nestor Reyes at the Bronx BSC see a gap in the range of $50,000 to $100,000, a range they told us is "very difficult."[7] Seedco, a national nonprofit organization, makes loans in this critical range, but Bill Grincker, then president and chairman at Seedco Financial Services, acknowledged that its resources are limited and that it cannot meet the demand.

Asset Gap

Perhaps the three most important assets that many entrepreneurs use to start and expand their businesses are (a) equity in their homes, (b) their good credit history, and (c) loans from family and friends. Given the current financial realities surrounding small businesses, the need for programs to assist entrepreneurs in these areas is vital. Rising real estate prices make homeownership less likely for many disadvantaged entrepreneurs and current credit constraints make accessing home equity almost impossible. In addition, the lack of expendable capital makes loans from family and friends a less feasible avenue through which to secure support. Further, the speculative perceptions that loaning to disadvantaged entrepreneurs helped create the financial crisis of October 2008 makes this gap perhaps one of the most important to entrepreneurs.

Although it is impossible to determine what percentage of home equity loans are used for small businesses, we know from the SSBF and SBO data sets that startup businesses frequently use this source of capital. Rates for home equity loans are generally the most affordable credit option for new businesses, and the owner receives tax benefits from the interest deduction on their personal income taxes. In addition, home equity loans and lines of credit are typically relatively easy to obtain, although there are usually upfront costs to the borrower. Home equity is an important source of capital for many businesses, but using this money involves substantial risk, including the loss of a personal home. It also requires owning a home to begin with, something that is less common in New York City and for disadvantaged entrepreneurs. The homeownership rate in New York City is 44.4% as compared with 81.2% nationally (U.S. Census Bureau, 2007). Low homeownership rates in New York City prevent many small business owners in New York City from accessing a key asset leveraged by small business owners nationwide.

Numerous studies have noted that disadvantaged entrepreneurs are often the least likely to own their own home.

Freeman and Hamilton (2002) note that low incomes, lack of wealth, and discrimination are among the primary challenges faced by non-Whites when they enter the housing market. The U.S. Census Bureau (2007) notes that whereas homeownership among non-Hispanic Whites was at 75.2% in 2007, among non-White communities these rates were much lower, with 56.9% of American Indians, 49.7% of Hispanics, and 47.2% of African Americans owning their own homes. Such discrepancies between White and non-White homeownership values nationally indicate that a lack of homeownership may pose implications for accessing capital for small business owners.

In addition, Freeman and Hamilton (2002) argue that subprime lending has disproportionately targeted Black and Hispanic communities. Subprime lending practices provide credit to individuals often considered too risky by conventional lenders. Although these practices have traditionally focused on refinancing, they have extended in the past 6 years to include provision of first-time home mortgages. These predatory lending practices and the strong influence they have had on the current economic crisis make accessing credit to buy or refinance homes even more difficult for disadvantaged entrepreneurs. In addition, the public articulation of blame for the current crisis on borrowers who used subprime mortgage lending has created a discourse with significant implications for future lending practices that will undoubtedly lead to even more challenges for disadvantaged entrepreneurs seeking to use or secure assets for their business endeavors.

Good credit is another critical asset for business owners, particularly at the startup phase of a business when credit scores are increasingly used to make loan decisions. As one small business owner told us,

> In the beginning I did ask for a loan [from] Chase but I didn't have well-established credit. I had never had credit cards or anything . . . therefore the bank didn't lend [to] me because I had low credit. I didn't have a bad history of credit but because I didn't have credit cards, there was no history.

Until recently, lenders evaluated small business loans using the same process as for larger commercial loans. Borrowers provided detailed information about business plans as well as the financial statements for the firm (Longenecker, Moore, & Petty, 1997). The lender then reviewed the data using time-consuming and expensive analytical processes. In general, only lenders with a detailed understanding of the local market characteristics could accurately assess the credit risk of the small business loan. As a result, small business lending has historically been more relationship-based than other commercial lending. Such is the case in the CDFI sector (Bowles & Colton, 2007).

Over the last decade, small business credit markets have undergone dramatic changes. Perhaps the most significant factor contributing to a shift in small business lending was the introduction of credit scoring in the mid-1990s to evaluate small business loan applications.[8] Small businesses credit scoring (SBCS) is a lending technology whereby institutions evaluate applicants for smaller loans, usually less than $250,000, using a statistical database that predicts the probability of default on a loan for a borrower based on several different variables. In developing SBCS models, banks found that information about the owner, particularly his or her credit history, is a powerful predictor of performance of small business loans (Board of Governors of the Federal Reserve System, 2002). This finding revolutionized the way lenders analyzed small business loan performance as information on business owners' credit histories is easily obtainable at low cost. As a result, many businesses that lack operating history but whose owners have good credit are able to access credit that they would otherwise be denied under the traditional underwriting methods. On the flip side, business owners with bad credit or no credit history are virtually shut out of the small business credit markets until their businesses have sufficient operating history to qualify for credit under traditional underwriting criteria.

The third asset disadvantaged entrepreneurs lack is personal savings or assets from family and friends that can be used as startup or expansion capital in the early growth stage of a business. According to the 2002 SBO, personal or family savings is the most common source of startup capital (55.2% of all businesses with fewer than 20 employees use it) and expansion capital (22.9% of all businesses of this size use it). This is a critical source of funds for most entrepreneurs but those who are disadvantaged lack networks of people who can provide them with financial assistance. Race also plays a role, even for those who are not low income. Chiteji and Hamilton (2002) find that interfamily connections affect even middle-class Black families' ability to accumulate wealth. According to Karen Michelle Murko, head of Lower Manhattan BSC, "Many of the entrepreneurs we see have no money to put skin in the game."[9]

Asset-poor entrepreneurs are forced to rely on more expensive, nontraditional sources of capital as they are unable to obtain loans from commercial banks, tap into a relatively asset-rich network of family and friends, or leverage home equity. If an entrepreneur lacks personal/family savings and has no or poor credit, his options for capital are limited to (a) microcredit providers that do character-based lending, (b) loan sharks, and (c) informal rotating savings and credit associations (ROSCAs). Each of these options is problematic. MDOs do not exist everywhere entrepreneurs need them, and many make only very small loans. Loan sharks charge exorbitant interest rates that may ultimately spell the demise of the business. And ROSCAs often do not have large-enough savings sizes to support business growth; these mechanisms are also tied to particular immigrant groups and are not available to all entrepreneurs.

Transitional Gap

Those fortunate entrepreneurs who have been able to access support from MDOs often experience difficulty transitioning from microcredit to larger and more traditional forms of credit. In general, alternative sources of capital do not help entrepreneurs establish credit with the national credit bureaus that will allow business owners to graduate to traditional forms of credit with lower costs. Some microlenders, such as Seedco, limit the number of loans clients can receive (Seedco has a two-loan limit) because they want their clients to achieve bankability. However, if the systems are not in place to transition these borrowers, such limits could work against them.

The failure or inability of alternative capital suppliers to report repayment histories to credit scoring companies prevents many businesses from building the credit history necessary to access more traditional forms of credit. Of the 23 MDOs we interviewed, only ACCION New York reports repayment data to credit bureaus. Microlenders often lack the technological systems necessary to effectively and consistently report data to the national credit bureaus and also lack the loan volume required to work with the credit bureaus. As a result, the small businesses that do achieve growth and can repay a microloan are often caught in the "transitional gap" whereby they need the next larger size of unsecured credit line but lack the key ingredient to accessing it: a good credit score. As more banks move to automated systems employing credit scoring, this gap will continue to widen unless important systemic changes are implemented that enable credit reporting.

This transition gap is compounded by a lack of transparency among the microproviders and banks as to the rates and terms of the various products they offer and the requirements made of the borrower. There is also a lack of communication and cooperation between microproviders and banks that prevents the establishment of referral networks so that information about the borrower and their business could be shared. This lack of transparency and lack of communication restricts the industry's ability to aggregate experience, create standards, and move client businesses between providers.

Information Gap

Many business owners are at a disadvantage in making informed decisions about their businesses because they lack access to critical pieces of information for one of the following reasons: (a) language and cultural barriers, (b) lack of awareness of available resources, and (c) lack of financial education and/or management experience.

With respect to language and culture, New York City is unique in that it has one of the largest foreign-born populations of any city in the United States; many of these immigrants are entrepreneurs. As a recent report by the Center for an Urban Future noted, "the number of self-employed foreign-born individuals in the city increased by 53 percent during the 1990s, while the number of native-born self-employed people *declined* by 7 percent" (Bowles & Colton, 2007, p. 4). The report also noted that many of these immigrant-owned businesses operate on thin margins and have no accounting or management systems to help them successfully manage their businesses. The tough environment faced by entrepreneurs in New York City is compounded for immigrant entrepreneurs by language and cultural barriers. BSC staff expressed a need for materials in other languages. According to Marla Pettinato, "every agency has one or two documents in Spanish. We have translated some other materials ourselves and have some materials in Mandarin. We still need materials in French and more materials in Spanish and Chinese."[10]

Second, our interviews made clear that many entrepreneurs are unaware of city resources that currently exist. The majority had no knowledge of the city's BSCs, for example. According to the staff at the Small Business Development Center at York College, "more entrepreneurs need to visit technical assistance providers before they get into trouble, but most do not know they exist."[11] Researchers studying the microenterprise field have long maintained that demand for service far exceeds supply, but programs have not found the best means to reach the groups that need their services (Edgecomb & Klein, 2005). And third, many entrepreneurs, both immigrant and native-born, are unfamiliar with the credit system and its importance in obtaining future financing. Seeking an understanding of how to establish credit worthiness may be an unfamiliar concept to foreign-born or low-income individuals.

This lack of knowledge within immigrant groups about the financial environment is compounded by a fear of banks. As a result, a large number of businesses operate outside of the "legal" system. These businesses deal exclusively with cash transactions and do not obtain traditional forms of credit; many do not pay taxes, resulting in a loss of revenue to the city (Venkatesh, 2006). Neither the BSCs nor many of the other MDOs have, as one MDO staff person told us, "the time or staff to do the kind of hand-holding these entrepreneurs need."[12] Developing systems that move businesses from the informal to the formal economy require substantial financial education. Financial literacy is vital to the ultimate success of small and microbusinesses. With respect to debt, when a business owner makes a decision to take on debt, he or she must know what capital products are available, what these options will cost, and how to manage his or her business to cover the cost of capital and debt service payments. Practitioners overwhelmingly cited the need for financial education and credit counseling for their clients, regardless of whether they needed a loan.

Institutional Capacity and Service Delivery Gap

Nonprofit small business development organizations and MDOs seek to address all of the gaps described above. They provide the essential inputs for business startup for thousands of low-income people, persons of color, and foreign-born entrepreneurs in New York City, especially those who have not been able to secure traditional bank financing. All the 50 nonprofits we identified in New York City provide underserved emerging entrepreneurs and very small businesses with a blend of key business skill development services, albeit to a varying extent.

Based on our research, it is clear that New York City nonprofits have made contributions to the sector in terms of innovative practices and products. However, overall the sector faces several capacity issues, such as (a) a high level of fragmentation and inefficiency, (b) duplication of services, (c) inadequate infrastructure in terms of systems and staffing to handle the demand for services, and (d) slow incorporation of emerging best practices in the industry (Servon, 2006).

The capacity gap also includes the limited ability of nonprofit providers to help emerging entrepreneurs move beyond startup to growth and expansion. These organizations are reasonably well equipped to teach basic business skills and help a client open their business. Overall, the nonprofits are less adept at helping clients build management and financial skills. This requires a combination of staff and resources and the ability of the organization to offer coaches and mentors to young businesses.

Many businesses need strong technical assistance at several stages of growth, including startup, expansion, and both before and after loan disbursement. As Murko told us, "the entrepreneurs we see have a unique skill set, which is what led them to start their businesses. What they lack are the business skills to realize the potential of their ideas." Most of the interviewed microenterprise service providers who offer technical assistance—including the BSCs—reported that postloan technical assistance is critical but that their organizations lack the capacity and resources to effectively provide this assistance. Understanding the financial and tax structures in which businesses operate is only the first step in helping businesses thrive.

Our interviews with entrepreneurs echoed this need. One woman we interviewed owned a retail store that also engaged in limited manufacturing. In her interview, she discussed the challenges she faced early on due to her lack of experience and knowledge of marketing: "Even though I understood design and I had experience in designing clothing and all that . . . I really didn't understand [the marketing] part of the business." Another person in the health and wellness sector echoed her: "We had this entire product and [we were] struggling because neither my partner nor myself are sales people."

Training becomes even more essential for businesses when they assume debt, especially debt from alternative credit sources that carry higher interest rates. These higher interest rates put business owners at a competitive disadvantage if they do not know how to manage the credit properly. These business owners need assistance to understand the financial impacts a particular type of debt will have on the business and whether the amount and terms are appropriate for the planned use of the capital. Once a business has decided to take on debt, it must establish effective management and accounting systems to manage that debt. The business must also develop a sound marketing plan so that it can achieve the growth necessary to sustain the debt it has incurred.

Part of the problem is that MDOs and their public counterparts are very small organizations trying to do too many things. Their cost of lending tends to be very high, and they cannot provide the depth and breadth of training and technical assistance that new businesses require. MDOs are trying to fill both the training and technical assistance gaps in the underserved geographic communities and populations they serve, but lack the organizational and resource capacity to fill these needs on their own.

Recommendations

To help small and microbusinesses more closely realize their potential, the programs that serve them must do a better job of addressing the obstacles they face. Although individual programs such as MDOs can clearly learn from our findings and adapt their programs, such changes would likely affect the market of small business support services only at the margin. Thus it is important to incorporate city governments and local economic development agencies into small business support efforts. Given the extreme fragmentation of the market of small business assistance providers and the inadequate capacity of the majority of individual programs to address these gaps (Servon, 2006) the inclusion of city government in key areas can help implement policies that will incentivize the industry to become more efficient and effective while minimizing cost. After reviewing our findings, we have identified two key areas where city governments can play important roles: brokering relationships and creating new programs or expanding existing initiatives. The incorporation of city government in these areas will help address the multiple gaps facing small business owners in municipalities across the nation.

The majority of the recommendations below address more than one of the gaps. Although the recommendations we make here draw from our New York City–specific research, the majority of these ideas are transferable to other large cities; given the size and density of New York City, some may be applicable at the state level as well.

Brokering Relationships

Fragmentation—both within the community of organizations and programs that assist small and microbusinesses and between this community and other relevant actors—contributes greatly to the transitional and institutional capacity and service delivery gaps and, to a lesser extent, the information gap. Connecting these small, low-capacity, and underresourced organizations to each other and to other key stakeholders could ameliorate some of the obstacles small and microbusiness owners currently face. Specific ways that cities can broker critical relationships include the following.

Partner with the Credit Builders Alliance to increase the number of MDOs reporting to credit agencies, which will improve the credit history of microbusinesses and enable them to obtain financial products from mainstream institutions. A major stumbling block in the MDO and CDFI industry is that the low volume of loans of most lenders prohibits them from reporting on their clients' loan repayment history, and therefore they cannot help improve their clients' credit score. A relatively new organization, Credit Builders Alliance (CBA), through its Credit Builders Alliance Reporter program, helps address the asset gap by assisting low- and moderate-income individuals currently served by nontraditional financial and asset building institutions to build their credit and access conventional financing in order to grow their businesses or personal assets.

CBA has created a cost-effective and sustainable way for small lenders to furnish data, primarily to the major credit bureaus. CBA functions as a credit bureau membership center and serves as a credit data processor and credit report reseller. CBA consolidates the data of nontraditional lenders and submits this aggregate data to the major credit reporting agencies. When a client pays on his or her loan, other lenders are able to see the loans a particular organization has made and the creditworthiness of that organization's clients. Enabling CBA's clients to report data to the credit bureaus expands the credit system to include many individuals who have not had the benefits of an established credit history in the past. Cities could broker the relationship between CBA and local alternative lenders such as MDOs by either requiring the lenders to report to CBA or by aggregating the local-level data and reporting the citywide data to CBA.

Develop a database of information regarding resources and services for small businesses that can be accessed and/or distributed through a Web site that will address the information gap. In many cities, including New York City, there is no single place for small business owners and potential entrepreneurs to go to learn about the entire range of resources available to them. The majority of business owners we interviewed did not know about the city's initiatives or about nonprofit programs that could assist them. New York City has an information line—311—that helps residents troubleshoot on a whole host of issues, ranging from how to get their lawn debris picked up to reporting noise problems. New York City and other cities that have these kinds of initiatives could also provide information to small business owners through these hotlines. In addition, cities should take additional steps, including sponsoring a marketing campaign, to make people aware of how to obtain this kind of information.

Encourage and support stronger relationships between banks and MDOs by facilitating relationships. Many MDOs receive support from banks, but there is no mechanism for formal contact with the express purpose of discussing how they can work together. This leads directly to issues that underscore the transitional gap identified above. Two possible ways to create stronger relationships between these key actors include holding an annual conference and developing and maintaining a database of responsive bank loan officers.

Many clients who initially seek assistance from a public or nonprofit program eventually need a bank loan. When we asked staff at public and nonprofit programs how they worked with banks, those that were most effective at helping their clients obtain loans told us they had relationships with a few loan officers at local banks. These relationships are critical and they require maintenance. Turnover in bank loan officer positions means that MDO program staff need to constantly nurture and develop these relationships. Local policy makers at small business assistance offices could maintain a database of loan officers who are willing to work with alternative lenders and public and nonprofit business assistance providers. If city agencies are responsible for maintaining this database and introducing these lenders to the providers (through an annual conference), overstretched public and nonprofit programs could be free to focus on other work, such as initiatives that would address the transitional and information gaps and, potentially, the capital gap, that small business owners face.

Creating New or Expanding Existing Programs

In addition to the need to create the correct incentive environment, there is also a need for innovation in the system of services. Helping to create new programs and expanding existing programs will help address the service delivery gaps. Such programs could include the following.

Encourage banks to refer clients to MDOs. One example of this was North Fork Bank's (NFB) Second Look program. Although the program was not continued after the bank was bought by Capital One, the program enabled mainstream financial institutions to refer clients to MDOs. Created in 2007, the purpose of Second Look was to give declined small business bank loan applicants a second opportunity to obtain financing through an alternative lender.

Through the program, declined small business loan applicants and applicants who did not meet the bank's underwriting guidelines were referred to select, approved nonprofit lenders for a "second look." If the organization was selected for the referral, the banker would submit a Second Look Referral Form and fax a copy of the form to the alternative lender and to NFB's CRA officer. After the loan was approved, the alternative lender would close the loan for the customer at the referring NFB branch**.** Branch managers earned CRA credit for referrals that led to closed loans.[13]

The program, which addressed the transition gap, was innovative because the financial institution and alternative lenders created a seamless process to assure that entrepreneurs can access the capital they need. Second Look reduced the likelihood that rejected applicants would "fall through the cracks" and granted them access to the capital they need to start or expand their businesses. When faced with one rejection, applicants were less likely to follow up on a referral to another lender they did not know.

This program gave banks an incentive to participate because it provided an opportunity for banks to earn CRA credit. According to an interview with Dan Delehanty, then vice president and economic and community development officer for NFB, "Second Look strengthen[ed] our ability to meet the small business credit needs of existing and potential customers, thereby strengthening deposit relationships and the ability to win new customers." Cities' small business assistance offices could implement this idea by convening the CRA officers of local banks to create a referral system of this type. The city could sponsor the initiative by launching a marketing campaign and creating promotional materials that could be available in branch banks.

Create a tax credit program for entrepreneurs. City officials could model a tax credit program on Nebraska's Advantage Microenterprise Tax Credit, which provides investment tax credits to individuals who create or expand microbusinesses. This program, initiated in 2006, requires that an eligible business contribute to the revitalization of an economically depressed area by expanding income, being self-employed, or creating new jobs. Approved applicants are entitled to a refundable investment tax credit equal to 20% of the taxpayer's new investment (up to $10,000 lifetime tax credit) in a microenterprise located in a community that qualifies based on local unemployment, per capita income, population loss, and other criteria.[14] According to Nebraska's Department of Revenue and Finance, the program was oversubscribed, with 350 applications for 240 slots. A bill has been submitted by the state legislature to increase the number of filings.[15]

The tax credit is innovative in that the state is using tax policy to encourage the development of microbusinesses in distressed areas. Also, it represents a potentially powerful tool to encourage informal businesses to move into the formal economy because it reduces the tax burden for very small business owners and frees up resources to invest in business growth. On filing, these businesses are also eligible for the Earned Income Tax Credit (EITC) and Childcare Tax Credit (CTC), which represent several thousand dollars that could be reinvested into their businesses.

Create a fund for real estate acquisition. In 2007 the city of Minneapolis, in partnership with banks and the Community Reinvestment Fund (CRF), created a new financing program to help newer businesses purchase and rehabilitate small commercial, multiuse, or industrial properties in the city. Under the program, the city may lend up to $400,000 or 40% of the appraised value to businesses 2 years old or less. A bank finances 50% (or greater) and holds a first mortgage. The business is required to provide an equity contribution of 10% and underwriting standards are slightly more lenient than for conventional commercial loans.

Loans may be used to (a) acquire and improve commercial or industrial properties, (b) finance rehabilitation of commercial or industrial properties in conjunction with property acquisition, (c) refinance contracts-for-deed for commercial or industrial properties in conjunction with acquisition, and (d) finance new fixed equipment.[16]

The program provides an opportunity for CRF to purchase loans that do not fit the credit criteria of CRF's small business loan product guidelines, and it reduces the risk to the banks of making these small business loans because banks can then sell them to CRF at a later date. The Emerging Entrepreneur Loans may include businesses that experienced a recent downturn in profits but appear to be in a turnaround mode. Or, the loans may include newer businesses without an existing track record (less than 2 years). These loans do not show the credit strength of an average CRF small business loan and also lack the payment history that an existing loan might have to support its worth.

This program addresses the capital gap we have identified for larger small business loans (greater than $100,000). A financing vehicle of this type might be attractive to New York City small business lenders such as Seedco and Greater New York Development Company that make larger loans and have expanded their loan activity in recent years.

Create a citywide microenterprise intermediary. In recent years, practitioners have developed State Microenterprise Intermediaries (SMIs) and State Microenterprise Associations (SMAs). SMIs are financial institutions created to attract new capital at a state or regional level; they raise and pool funds to support the capital and operational needs of small and microbusiness lending programs. In addition, they develop standardized data systems to collect and report aggregated data on client outcomes from the participating programs. As a result, SMIs can demonstrate the effectiveness of these programs in serving targeted populations and communities.[17]

Although SMIs and SMAs, to date, have been created only at the state level, large cities such as New York could benefit from the creation of a hybrid SMI/SMA at the local level. The city could seed the creation of a nonprofit organization that assists small and microbusinesses. Building on—but going beyond—similar efforts in California, Nebraska, and Oregon, this organization would (a) create a permanent citywide structure of support for these businesses, (b) serve as the vehicle for improving the performance of participating service providers, (c) develop a more coordinated and streamlined delivery of financial and support services, and (d) increase the impact and contribution of small businesses to New York's economy.

In effect, many of the other recommendations described here could be launched and managed by an SMI/SMA. The mission of this organization would be to increase opportunities for low-income people and neighborhoods by building the capacity of nonprofit financial institutions and business development organizations. As a hybrid organization, an SMI/SMA would have two primary functions: (a) serve as an industry association that conducts advocacy and public education on behalf of the sector, builds the skills of practitioners, and disseminates best practices; and (b) serve as a financial intermediary that mobilizes, allocates, leverages, and links local, state, and national resources—both public and private—with community-based organizations that provide financial and technical assistance to local businesses.

Conclusions

Small and microbusinesses are critical economic actors in local and national economies. Yet, these vital actors face unique challenges and the policies and programs that serve them focus too narrowly. As a result, these programs fail to understand and respond to the range of needs this population faces. This study has sought to illuminate the specific gaps in the system that entrepreneurs, especially disadvantaged entrepreneurs, face.

Our findings present a unique opportunity for policy intervention to more accurately address these needs. With the infusion of local actors and public agencies, this set of policy ideas will help introduce competition and incentives into the system, while also helping to provide critical resources to entrepreneurs when and where it is vital to their success. We argue that this unique role for city government is imperative given the importance of entrepreneurs in providing the innovation needed to create, stimulate, and fuel economic development. Through effective and efficient policy intervention, city governments can play a vital role in closing the gaps that currently exist in the support systems of entrepreneurial development and success.

At the same time, we acknowledge that our focus on New York City presents some limitations, similar to all case studies. The attributes that make New York City unique in this context include a large population of immigrants, high overhead and real estate costs, and a high level of diversity of small businesses. However, it is also these "unique" attributes that make the case even more important in light of the contemporary economic environment of the United States. As we enter a burgeoning credit and financial crisis, entrepreneurs, especially disadvantaged entrepreneurs, in cities across the United States will undoubtedly face similar circumstances (difficulty in accessing credit and the need to create more diversity in types of small businesses). As a result, our study is important in understanding how to better serve small businesses and identifies where support systems for entrepreneurs should focus their attention, energy, and resources in the face of critical economic times. Although the enactment of some of these policy recommendations may be difficult, addressing these gaps is vital to the growth and development of local economies and ultimately the larger national economy in which they are deeply integrated.

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Notes

1. Immigrants drove all the growth in the city's self-employed population between 1990 and 2000. The number of foreign-born individuals who were self-employed increased by 64,001, a 53% increase, whereas the number of native-born people who were self-employed decreased by 15,657, a 7% decline (Bowles & Colton, 2007). Although not typical of every city, increasing immigration characterizes many large cities, including Los Angeles, Houston, and Boston.
2. The rents for both retail and office space are often three times those of any other city in the United States (Grubb & Ellis Research, 2007). Office space in the outer boroughs and surrounding counties consistently ranks in the top 15 most expensive office markets in the country (Grubb & Ellis Research).
3. There is no easy way to identify this population. Given that the names of these entrepreneurs were taken from three sources, they are not representative of the entire population of New York City's small businesses. By identifying our universe of interviewees as those entrepreneurs who are already using the services of an MDO, we are clearly selecting a nonrepresentative sample of the population. Although this is not a perfect option, it is less costly and more feasible than available alternatives such as randomly calling New Yorkers or purchasing Dunn and Bradstreet data and calling the listed establishments.
4. Deeper analysis that controls for other factors such as education clearly needs to be done in order to understand the ramifications of this finding. Still, the difference clearly begs for such research to be done.

5. Interview with Jeremy Waldrup, January 17, 2007.
6. Interview with Vin Lenza, January 18, 2007.
7. Interview with Steve Rodriquez and Nestor Reyes at Bronx Business Solutions Center (BSC), January 25, 2007.
8. Although credit scoring models have been used for more than 30 years to underwrite consumer loans, it took longer to implement these models for small business lending due to the heterogeneity of commercial loans, the informational opacity problem, and lack of standardized loan documentation among institutions.
9. Interview with Karen Michelle Murko, January 18, 2007.
10. Interview with Marla Pettinato, director, Upper Manhattan BSC, January 29, 2007.
11. Interview with Alfred Titone, director, SBDC at York College.
12. Interview with Steve Rodriquez and Nestor Reyes at Bronx BSC, January 29, 2007.
13. Interview with Daniel Delehanty, vice president and economic and community development officer, North Fork/Capital One, April 18, 2007.
14. http://www.revenue.ne.gov/incentiv/statutes/micro_stat.htm
15. Conversation with Rose Jasperson, executive director, Nebraska Microenterprise Partnership Fund, May 16, 2007.
16. Loan terms and conditions include (a) up to 20-year amortization with a normal commercial rate and a 7-year balloon; (b) the interest rate on the city's portion is marketed to U.S. Treasuries; (c) all loans are secured with mortgages on the property and by personal guaranties of the owner(s), the city's loan being subordinate to the lender's first position; and (d) there is a $500 document preparation fee and a 1% origination fee charged on the city's portion. There are no servicing fees. A 1.5% prepayment penalty applies on the city's portion. The bank charges its normal commercial loan fees, but overall, fees are less than those incurred through the SBA 504 programs.
17. http://www.cfed.org/focus.m?parentid+32&siteid=56&id=170

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