Assessing Seedco's Lower Manhattan Small Business & Workforce Retention Program

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Seedco
Innovations in Community Development

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About Seedco—*Innovations in Community Development*

Seedco, a national community development operating intermediary, creates opportunities for low-wage workers and their families by engaging with community partners and anchor institutions to develop, operate, and learn from model programs of national significance that: 1) help people join the workforce and achieve economic self-sufficiency, 2) assist small businesses, and 3) promote asset building for residents and businesses in economically distressed communities. Seedco's technical and financial assistance complements the model programs and strives to build the capacity of community partners and small businesses through the introduction of sound, outcome-based management practices.

About National Community Capital Association

National Community Capital is a network of more than 170 private-sector community development financial institutions (CDFIs) that provide financing, training, consulting, and advocacy for CDFIs. Active in all 50 states, the National Community Capital network invests in small businesses, quality affordable housing, and vital community services that benefit economically disadvantaged people and communities. National Community Capital is committed to leading the community development finance system to scale through capital formation, policy, and capacity development.

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Preface

We had scheduled the publication of this report months ago, but a series of strange circumstances delayed its release. Perhaps it was fate—the rebuilding faced by the Gulf Coast in the wake of the devastation wrought by Hurricane Katrina makes it more relevant than ever. And the successes that are documented by the National Community Capital Association (NCCA) in this report can give some measure of hope to those entrepreneurs who now desperately await a response to their plight.

After Tuesday morning, September 11, 2001, New York City began the struggle to cope with and recover from the devastating personal and commercial losses created by the terrorist attack, just as the Gulf Coast and New Orleans have begun to do now. And while there are great differences between the man-made disaster that was 9/11 and the natural disaster of Hurricane Katrina, there are profound similarities as well.

We know now just as we knew then that among those who would be hardest hit and suffer the most are the types of clients Seedco was designed to serve—low-income individuals, community organizations, and small businesses.

More than 60,000 people lost their jobs in the 2001 disaster. The small businesses and nonprofit organizations that remained faced the marketplace equivalent of Ground Zero. Although aid to individuals began right away, the response to small businesses' needs took longer to set up. The support that did exist mostly targeted larger "small" businesses, not the ubiquitous mom-and-pop operations that were our concern. Without disaster plans, backup business records, or operations that could shift to another location or clientele, these enterprises had a very grim future.

In the days following the disaster, everyone in New York City and many beyond wanted to do something to help. When Frank de Giovanni, Vice President of the Ford Foundation, and Jack Rosenthal, President of the New York Times Company Foundation, called to see if Seedco could design an assistance program for small businesses in Lower Manhattan, we jumped at the chance.

Seedco had never worked in Lower Manhattan before. But the strategies we use to address the endemic problems of low-income communities in other boroughs and throughout the United States are applicable to any crisis. Furthermore, I knew Carl Weisbrod, then President of the Alliance for Downtown New York (a powerful business advocate and the manager of the Downtown Lower Manhattan Business Improvement District), as an extremely capable person with a long history of working in Lower Manhattan. Together, Carl and I outlined a partnership strategy for our organizations.

Within two days, we had a program design and within a week we had $6 million of initial funding, including more than $2 million from our own Loan Fund to launch the Lower Manhattan Small Business & Workforce Retention Program (LMSB&WRP). With the exception of four notices published *pro bono* by *The New York Times*, we never solicited money. Checks just flowed over the proverbial transom as people heard we were trying to do something for small businesses. Within six months, the program had attracted more than $40 million in public and private support, including funds from the Empire State Development Corporation and The September 11th Fund.

Over the next two and a half years, the LMSB&WRP worked with more than 1,400 businesses in Lower Manhattan. We combined grants to cover one-time losses of inventory or property with loans for working capital expenses at below-market interest rates. We also offered temporary wage subsidies so employers could keep low-wage workers that they would otherwise have to let go. But it wasn't just about money. Working one-on-one and with small groups of business owners—half of whom were immigrant, minority, or female entrepreneurs—our technical assistance experts provided financial and legal counseling, budget development, insurance assessment, business planning, and marketing advice to help business owners assess their situation and move forward.

As this report by the National Community Capital Association suggests, Lower Manhattan became a valuable, if inadvertent, proving ground for efforts to help small, urban businesses recover and flourish after a crisis. Hopefully, some of the lessons we learned can make the recovery efforts along the Gulf Coast more efficient and effective. In the final analysis, several factors contributed to the LMSB&WRP's success:

- **The program was an immediate response to an urgent crisis.**
  We put money in the hands of our first grantees and loan recipients just two months after 9/11. We didn't wait for rules and procedures to be set in stone before taking action—we created them as we went along and just kept moving forward. The quick response reassured business owners that someone was there to help while more traditional providers were still designing their protocols.

  In some cases, the value of simply *knowing* resources were available was as important as the resources themselves. This was especially true for the very small businesses we targeted—those with less than 50 employees, compared to the businesses with more tangible assets and collateral that are normally served by the federal Small Business Administration (SBA). (In fact, the average business that we assisted had fewer than a dozen employees at the time of the disaster.)

- **The assistance process was agile enough to respond to a variety of requests from unsophisticated and nonconforming business owners.**
  A willingness to be creative and a desire to avoid the mires of bureaucracy infused this program. While conventional assistance programs required applicants to fill out complex forms and meet rigid eligibility standards—conditions that excluded business owners who didn't keep regular business records, didn't understand the paperwork, or distrusted the government as many small entrepreneurs do—the LMSB&WRP turned normal due diligence practices upside down.

  We looked for the hardest loans to make, not the easiest. We searched for the person facing the greatest difficulties who nonetheless wanted to stay in business. Although our clients had typical businesses—shoe repair stores, neighborhood delis, sundry stores that catered to tourists, restaurants, bars, and small service businesses—many had never kept a set of accounting books. They might haul in large garbage bags filled with loose receipts and expenditures that they had salvaged from the wreckage. But our staff was ready and able to deal with it.

- **The approach was multi-pronged, so it had the best chance of reaching the most people in ways that worked for them over the long term.**
  It's trite but true—one size doesn't fit all. Even though many applicants said they just needed a grant to get back on their feet, we believed that grants had to be combined with loans so that business owners could afford to take on debt for rebuilding. A grant, in and of itself, would not have achieved that goal, and it would have been easy for businesses to leave Lower Manhattan after the grants ran out. Wage subsidies were essential if we were to maintain the area's workforce and reduce the chances of low-wage workers slipping back into welfare. And technical assistance was the key to solving both short-term problems, such as finding a way to transport products out of the area, and long-term challenges, such as developing a strategic business plan. In short, we didn't operate a giveaway program. We tried to confront the difficulties faced by these entrepreneurs and turn them into opportunities to keep the businesses alive and sustain them, and we used as many strategies as needed to do so.

- **Staff and consultants customized services to clients' specific needs.**
  The usual approach to disaster relief is to give everyone the same amount of money and not worry about differences in the amount of loss sustained by each business. We didn't do that. Our goal was to help the people who wanted to stay in business, regardless of how much or what kind of help they needed. To accomplish this we put experts on the ground that could assess applicants individually and customize their assistance. Grant amounts were tailored to actual, tangible losses that had occurred—an inventory of sundries, for instance, or a commercial refrigerator filled with restaurant food. Other businesses couldn't use a loan because they didn't project enough income to pay it back. But they could use a wage subsidy to keep one or two workers employed and so we offered that resource instead.

- **The program incorporated strategies and tools that had already proved successful in previous Seedco programs.**
  Although Seedco did not have vast experience in business lending, we did have an extensive record of working in economically isolated communities, places that have long-term problems similar to those that occur when disaster strikes a wealthier area. We were able to draw on our staff's knowledge of how local organizations operate, what communities need, and what resources may already exist to craft an appropriate response. We put to immediate use the tools developed for other Seedco programs such as the wage subsidy system used by the *EarnFair*SM workforce development program.

- **Funders already viewed Seedco as a credible, trustworthy, and effective organization, which enabled the program to attract large sums of money quickly.**
  We were fortunate that major funders knew about and valued Seedco's work in New York City and other locations around the country. Those funders' good will toward the organization paved the way for very rapid additional fundraising. And I am sure that Seedco's successful track record in operating programs in the City's poorest neighborhoods, if not in Lower Manhattan, made a difference to those supporters who didn't know us firsthand.

- **Seedco's pre-existing relationships with trusted local organizations helped to solicit clients in communities where we had little history.**
We knew we couldn't enter Lower Manhattan as a stranger; we needed to work with an organization that knew the territory very well and was trusted by local business owners. Our partnership with the Alliance for Downtown New York, a powerful business advocate and the manager of the Downtown-Lower Manhattan Business Improvement District, was crucial in that regard because small business owners in Lower Manhattan knew the Alliance as an organization with their best interests at heart. We stationed eight Seedco staff in the Alliance's offices for the first few weeks, where they held workshops and screened applicants.

  We had a similar partnership with Asian Americans for Equality to conduct outreach and lending in Chinatown. By the time we closed down the program in June 2004 LMSB&WRP's partners also included Henry Street Settlement, Garment Industry Development Corporation, Consortium for Worker Education, Brooklyn Economic Development Corporation, and New York Foundation for the Arts. As this assessment notes, one-third of referrals to the program came from partner organizations and word-of-mouth. Local partnerships have always been an important component of Seedco's work, and I feel very lucky that we had such capable and experienced partners for this particular effort.

- **Lending policies and practices were rigorous enough to manage risk and ensure accountability, but flexible enough to accommodate the extenuating circumstances caused by a disaster.**
The nature of the disaster meant this program could not require collateral for loans. The nature of the businesses we worked with required that we not insist on viewing business plans and accounting records, because they didn't exist. So we weren't too concerned about dotting every "i" and crossing every "t." However, we were adamant that this program was for people who had been in business a reasonable amount of time, wanted to stay in business, and were struggling to do so—not for people who just wanted compensation for their loss.

  Qualifying applicants wasn't easy. Owners of some long-running, cash-based businesses had tax returns that had never shown a profit but insisted that they wanted to keep operating. We required all applicants to write a statement of why they wanted to stay in business in Lower Manhattan and many of those handwritten statements are both poignant and inspiring. Finally, we created our own set of criteria for assessing a business owner's capacity and willingness to continue.

  The program had a standardized format for summarizing a business' financial history, but we were very flexible about the type of information needed for the assessment. Sometimes it was tax returns; sometimes it was an annual accounting audit or business plan. Seedco's financial analysts used whatever information applicants could provide to estimate cash flow needs and to gauge how much money the business would need to stay in business for three or six months (the terms of our support). The analysts presented their proposals to a review committee that met weekly. The committee reached a decision on each case within two weeks.

We acknowledged up front that we didn't know who was going to pay back their loans and who wasn't, and we warned our principal supporters that we could lose 40 percent of the loan money. After four years, however, only about 20 percent of our loan recipients are behind payments by at least 30 days, and we have completely written off nine percent of the loans to businesses that folded. (When businesses with loans ran into trouble, we tried to keep them going with a restructured deal rather than foreclosing.) That default rate is much better than we projected but still nowhere near good enough for commercial banking or SBA-type financing, especially since our average interest rate was two to three percent.

In the end, we served over 1,400 businesses; made over 450 small business loans totaling over $24 million; gave out about 800 grants totaling approximately $8 million; provided wage subsidies for almost 1,350 workers at 290 small businesses at a cost of $3.9 million; and provided technical assistance to 385 businesses valued at about $3.8 million. Looking back, I take the following lessons from the experience of implementing this program:

> ***Knowledge about helping chronically poor communities is very applicable to work in communities where a sudden disaster causes economic and physical crises, and vice versa.*** Just as the strategies Seedco had already used to address workforce development and retention in low-income communities guided the LMSB&WRP, the lessons we learned in Lower Manhattan about creating a customized package of options, services, and technical assistance has become Seedco's signature approach to working in all low-income communities. In fact, they led directly to the creation of Seedco Financial Services, a new Community Development Financial Institution that combines micro-lending, loans to faith-based and community organizations, and investment in anchor projects to bring more investment, job opportunities, and small business development to low-income communities.
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> ***The first response to any sudden disaster should include specialized assistance to small businesses, in addition to responses from fire, police, and medical specialists.*** The extent and the quality of business recovery improves when a flexible, quick-moving organization is available to help right away. Small businesses are the backbone of our economic system. They create most employment opportunities and employ low-wage workers. Often they are key members of the community itself. Their early recovery is both economically and symbolically important to any recovery effort.
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> ***Private organizations have an advantage over public agencies in helping very small businesses through a crisis.*** About half the business owners aided by the LMSB&WRP were immigrants, minorities, or women and their past experiences with governments here and abroad had not inspired trust. Those clients are wary of government support, especially when it requires them to put up their home—often the only asset acquired after years of hard labor—as security or be subject to extensive financial scrutiny. A private entity can be more approachable and flexible.

Alternative lending practices and policies can work better than conventional lending requirements during a disaster response while being just as rigorous. Most financial institutions that invest in community development rely on interest rates to sustain their financial base, which leads them to concentrate on the safest clients or to charge a high interest rate. The LMSB&WRP did the opposite and demonstrated that the normal due-diligence process for loans is unnecessary, even counterproductive, for very small businesses in a crisis. The NCCA authors suggest that Seedco should restructure the Lower Manhattan program using more conventional lending policies. Instead, I invite traditional lenders to rethink their point of view. Instead of relying on generated revenue to sustain the process, we need different strategies for our work in disasters *and* in areas of high economic need, including combined funding streams and subsidies.

In 2004, for example, Seedco received support from the New York City Department of Small Business Services to create Business Solution Centers. The Centers provide information and knowledge to help small business owners analyze their needs, and they also link clients with loans available through other Seedco programs. In effect, the City subsidizes this lending program by paying for the technical assistance, which takes a significant burden off our financial resources. For a government agency it is also a win/win situation because it secures the private resources we bring to the table to augment the government's own support.

Individualized, one-on-one interaction with business owners ensures the best use of resources. Too often, we lump people into categories or silos of assistance when we allocate resources, which is neither effective nor efficient. Taking time, up front, to assess each applicant's needs and make the best match with services had a lot to do with the LMSB&WRP's success.

Community-based partners are the key to reaching clients quickly. Having Seedco's infrastructure of tools, relationships, and administrative capacity already in place was a big factor in the program's ability to respond effectively. But the assets alone wouldn't have helped much if clients had been too wary to use them. Our partnerships with the Alliance for Downtown New York and other community organizations were essential, both for soliciting clients and for ensuring that we assessed their needs and capacities accurately.

One of my lasting memories of the months after 9/11 will be how the Lower Manhattan Small Business & Workforce Retention Program tapped into the entrepreneurial spirit of small business owners. As hokey as it sounds, the most heartening thing we experienced was their genuine belief in the proverbial American Dream and their determination to "make it." They had lost everything but still wanted to continue, and they'd be damned if they let some terrorist stop them. That enduring courage and strength may offer us the greatest lesson of all.

William J. Grinker
CEO, Seedco
President, Seedco Financial Services

Introduction

The September 11, 2001, attack on the World Trade Center resulted in the loss of 2,800 lives and the destruction of about 20 million square feet of commercial office space. Since 9/11 the press, elected officials, planning agencies, and the general public have paid substantial attention to the renewal of the World Trade Center site and to revitalizing the business and residential areas within Lower Manhattan. Plans are under way for a memorial to be built on the site where the Twin Towers previously stood; construction of the Freedom Tower began on July 4, 2004.

Lower Manhattan (the area below Canal Street) is primarily known as a financial district that is home to major financial institutions including The New York Stock Exchange, the Federal Reserve Bank of New York, Merrill Lynch, American Express, Goldman Sachs, JPMorgan Chase, and Deutsche Bank. Thousands of small retail, service, and manufacturing businesses—delis, shoe repair shops, clothing stores, accounting firms, garment factories, import-export businesses, office supply firms, and the like also operate in this district.

The presence of large public and private institutions in Lower Manhattan has been a significant factor in the growth of the area's small businesses. Over 20 businesses account for one-third of the 350,000 jobs south of Chambers Street, and these firms purchase goods and services directly from small businesses downtown. The employees who work in the large firms are a critical component of the customer base of the small shops located there. The retail small businesses in Lower Manhattan depend on foot traffic—the constant flow of workers, tourists, and residents coming and going—for business activity.

The attack itself destroyed 707 small businesses in the World Trade Center alone. In the aftermath, the massive rescue and recovery effort closed the immediate area around the World Trade Center site to the public. 3,400 businesses were inaccessible for up to 45 days. Access by subway and bus was severely restricted in certain areas, and rebuilding the PATH system, which connects Lower Manhattan to New Jersey, took about two years. The city closed parts of Greenwich and Murray Streets to upgrade infrastructure or do repairs, further delaying recovery efforts for businesses located there.

The sheer loss of 60,000 jobs that were in the World Trade Center or surrounding buildings damaged or destroyed has severely changed the business climate in Lower Manhattan, creating conditions that pose a difficult and enduring challenge for the small firms located there.

Within weeks of September 11, 2001, Seedco created and began to implement an ad hoc program to aid small businesses and nonprofits affected by 9/11. Seedco is a national Community Development Financial Institution (CDFI) that has historically developed and implemented programs in affordable homeownership, community development, and workforce development.

For almost three years following 9/11, Seedco provided financial and technical assistance to 1,029 businesses in Lower Manhattan, disbursing over $40 million in assistance to small businesses and nonprofits. Seedco offered a unique combination of interventions designed to assist small businesses and retain jobs in Lower Manhattan. These interventions included loans, grants, wage subsidies, and technical assistance.

Seedco worked primarily with small retail and service businesses, a sector mostly ignored by the large federal and state programs put into place to help New York recover from the tragedy.

The Seedco program was very successful in terms of:

- number of businesses assisted,
- repayment of loans,
- jobs retained, and
- customer satisfaction.

I. Small Business and Job Creation in New York City

New York City's 200,000 small businesses—defined as employing 100 people or fewer—make up 98 percent of all New York City businesses. They account for 50 percent of all private sector jobs in New York City and generate $4.5 billion in annual city tax revenues. Manhattan is home to about half of the city's small businesses; of these, 31,000, or not quite one-third, have fewer than 10 employees. They can be found in all sectors of the economy, manufacturing, retail, service, nonprofit, and for-profit.

Lower Manhattan stretches from the southern tip of Manhattan to Canal Street, bounded on the east and west by the East and Hudson Rivers. It can be divided into five distinct geographic areas:

- Battery Park City
- Chinatown
- The Financial District
- The World Trade Center area
- Tribeca

The mix of small businesses varies by area. Battery Park City is a mainly residential area with about 6,000 upper middle class residents, with a small number of retail establishments catering to the residents. Chinatown has a large concentration of women's garment factories, as well as hundreds of restaurants and wholesale and retail food markets. The financial district, south of Fulton Street, has a large number of retail stores as well as specialized business service firms, while the World Trade Center area has historically supported small retail establishments, tourist-oriented shops, and inexpensive restaurants. Tribeca's small businesses include film and design companies as well as personal service firms and retail stores catering to the immediate residential community.

Regardless of business type, these small firms typically had only one location. They did not have backup sites ready to be put into operation in the event of a disaster or business interruption; they didn't have disaster plans, and often did not keep backups of critical records or files off site. These businesses tend to be family-run and to serve a highly localized market. As a result, any interruption in their business operation and/or customer base meant a serious loss of revenues that could not be replaced easily by shifting to another location or customer base.

Small businesses play a major role in job creation, accounting for about two-thirds of all net new jobs in the United States for the past 35 years, according to the National Federation of Independent Business. Small businesses in Lower Manhattan are important sources of jobs for new immigrants settling in New York City. According to the United States Census of 2000, over 36 percent of New York City's population is foreign-born. As a result of changes in federal immigration laws over the past 40 years, New York City has witnessed a remarkable surge in population, due almost entirely to immigration. This immigration has led to a transformation of the city's workforce and its entrepreneurial base. Nowhere was this more apparent than in Lower Manhattan, where immigrants from all over the world have started fast-food operations, shoe repair shops, and the like, and found jobs as street vendors, in retail stores, in health care facilities, and in professional business service firms such as copy shops, courier services, housekeeping operations, and the like.

II. CDFIs' Unique Role Assisting Small Businesses after 9/11

Soon after September 11, 2001, the federal government announced that it would provide $21 billion to rebuilding and recovery efforts in Lower Manhattan. This package of aid included $7.9 billion from the Federal Emergency Management Agency (FEMA), of which $2.75 billion was earmarked for transit infrastructure projects; $2.3 billion from the Federal Transit Authority; $8 billion in tax-exempt financing for development projects; and $2 billion in Community Development Block Grants from the U.S. Department of Housing and Urban Development.

To retain both business firms and residents in Lower Manhattan, the New York State Economic Development Corporation and the Lower Manhattan Development Corporation provided incentives for individuals and firms to remain in or relocate to Lower Manhattan. Many large law firms and financial service companies chose to remain downtown as a result of these retention programs. In fact, the substantial recovery efforts of the federal, state, and city governments focused primarily on rebuilding infrastructure and serving large businesses and individuals. The small business sector in Lower Manhattan presented a special challenge in the post-9/11 environment. Small businesses and nonprofits needed innovative, flexible programs and special outreach that differed from the programs and outreach for infrastructure, large businesses, or residents.

Community Development Financial Institutions (CDFIs) and their partners played a critical role in assisting this different, and key, set of actors in Lower Manhattan. CDFIs are private sector intermediaries with unique expertise in serving disadvantaged people and communities. About 15 CDFIs were critical in reaching certain businesses and nonprofits that other disaster programs could not.[1] Of these, Seedco developed the largest and most comprehensive program serving small businesses in Lower Manhattan.

[1] Details of CDFIs' role assisting small businesses and nonprofits after 9/11 can be found in the National Community Capital Association report *Two Years After 9/11: A Report on the Unique Role Community Development Financial Institutions Are Playing in the Rebuilding of Lower Manhattan*

III. Seedco Intervention after 9/11

Founded in 1986, Seedco is a national community development operating intermediary that creates opportunities for low-wage workers and their families by engaging with community partners and anchor institutions to develop, operate, and learn from model programs of national significance that help people join the workforce and achieve economic self-sufficiency, assist small businesses, and promote asset building for residents and businesses in economically distressed communities. Seedco provides technical and financial assistance that complements the model programs and strives to build the capacity of community partners and small businesses through the introduction of sound, outcome-based management practices.

Seedco operated a CDFI prior to 9/11, but it mostly lent to nonprofits, and much of its lending was outside of New York City. Nonetheless, within weeks of the 9/11 disaster, Seedco designed, funded, and began to implement the Lower Manhattan Small Business and Workforce Retention Project. Seedco received initial funding and support for its 9/11 initiative from the New York Times Company Foundation and the Ford Foundation; their project funding grew tremendously and was supplemented by substantial capital from the Empire State Development Corporation and The September 11th Fund. By October 10, 2001, Seedco had more than $6 million in funding for the Lower Manhattan Small Business & Workforce Retention Project (LMSB&WRP), and by March 2002 had more than $40 million for the program. [2]

Several factors helped Seedco get the program up and running so quickly:

- **Funder relationships:** The initial project funders, the New York Times Company Foundation and the Ford Foundation, provided financial support for the program, and some initial guidance about eligibility for the program and the geographic area it would cover. Seedco was able to move quickly with these funders because of the strong civic relationships it had built with these partners over the years.

- **Strong partners:** Seedco developed and promoted the program with several key partner organizations. Initially, Seedco partnered with The Alliance for Downtown New York and Asian Americans for Equality, and in the subsequent months and years developed new partnerships including the Lower East Side Business Improvement District, the Henry Street Settlement, the Garment Industry Development Corporation, Consortium for Worker Education, Brooklyn Economic Development Corporation, and the New York Foundation for the Arts.

- **Experienced staff:** Seedco hired experienced business lenders and analysts to start the program, and these staff along with Seedco's partner organizations developed all aspects of the program in a short timeframe.

[2] Tom Seessel's report, *Back in Business: The Lower Manhattan Small Business and Workforce Retention Project,* provides an in-depth analysis of the inception, outreach, and first six months of operation of LMSB&WRP: www.seedco.org/publications.

- **Existing programs:** Seedco already offered loans, workforce development, and capacity building services to its clients. It was able to quickly adapt existing programs, knowledge, and experience to small businesses in disaster recovery mode.

Seedco led the effort to create LMSB&WRP, moving very quickly and calling on its own program experience and funder and civic relationships. The first grants and loans got out to small business owners in just over two months. Without Seedco's experience and relationships, and the extreme sense of urgency of the post-9/11 environment, getting a coordinated program of this nature off the ground could easily have taken one to two years.

Seedco's Unique Intervention Strategies

Seedco developed a multi-pronged program that responded to business owners' post-9/11 needs. The program included loans to supplement cash flow, grants to replace lost equipment and inventory, subsidies for wages, technical assistance, and information. This combination of products, unique among the offerings of the various groups responding to small business owners after 9/11, was also designed to address the public policy goals of retaining businesses and employment in Lower Manhattan. In each case, Seedco customized a combination of services that made the most sense for a particular business. Seedco partnered with The Downtown Alliance for outreach to small business owners and with Asian Americans for Equality (AAFE) for outreach and lending in Chinatown.

On October 23, 2001, Seedco issued a press release announcing financial assistance to small businesses. In the following week it began offering workshops for small business owners in partnership with The Downtown Alliance introducing the available products and services. By November 20 the first grants and loans were approved. During this time, Seedco recruited and organized a team of employees to run the project and hammered out guidelines for loan and grant eligibility, approval criteria, and disbursal processes. The program was initially housed in the offices of The Downtown Alliance but then moved to Seedco's downtown office on William Street, part of the area affected by the disaster.

There were two phases to LMSB&WRP. Phase I was a disaster-relief program to help retail and service businesses below Canal Street pay the one-time costs related to the attack and provide working capital for businesses to meet ordinary and necessary expenses and debt payments.[3] Phase II was assistance to stabilize, expand, or start new operations. In this second phase eligibility was expanded, both sectorally and geographically: 9/11-affected manufacturers and nonprofit arts organizations, in some cases as far north as 14th Street, became eligible for assistance.

Initially the underwriting challenge was enormous. Business owners often did not have financial records, and it was difficult to determine ongoing viability under the unprecedented circumstances. Over time the underwriting became more formal and uniform; however, Seedco continued to turn around requests flexibly and quickly. A committee met weekly to review and approve prospective clients, which provided maximum opportunity to move applications forward.

[3] Lower Manhattan Small Business & Workforce Retention Project Guidelines and Policies, November 2003.

Seedco designed and implemented the following services:

- ***Grants:*** Seedco initially offered grants up to $25,000 to defray one-time 9/11-related costs not covered by insurance. These included replacement of inventory, repair of damaged property, and relocation expenses within Lower Manhattan. Seedco later raised the limit on grants to businesses in the "frozen zone" (the World Trade Center and other immediately surrounding buildings) to $50,000.

- ***Loans:*** Seedco initially offered low-interest loans up to $100,000 for terms up to three years. These terms have since been increased to a maximum of $250,000 over seven years. Loans are primarily used to cover working capital expenses. Interest rates were determined on a case-by-case basis, but were generally below market rates ranging from zero to 5.5 percent.

- ***Wage Subsidies:*** Seedco offered wage subsidies to reduce employers' labor costs and help them retain low-wage employees (under $12 per hour) they may otherwise have had to lay off. The wage subsidy product, a natural outgrowth of Seedco's prior workforce development experience, is unique among CDFIs and other financial institutions. The subsidy was typically available for a three-month period, with an additional three-months possible for a certain number of wage slots.

- ***Technical Assistance:*** Seedco offered targeted ,one-on-one technical assistance and group support to help small businesses with a variety of needs. Examples of technical assistance services included financial and budgetary counseling, legal counseling, insurance assessment, business planning assistance, and marketing assistance. [4]

As of July 29, 2004, LMSB&WRP had provided financial and technical assistance to 1,541 businesses in Lower Manhattan providing more than $40 million in assistance to small businesses and nonprofits. Many businesses received multiple services. The loan program is the largest component of the initiative, providing 442 businesses with $21.8 million in low-cost loans.

Cumulative Seedco Assistance through July 29, 2004

Type of Assistance	Dollar Value	Number of Businesses Served
Grants	$8,159,427	806
Loans	$25,712,667	508
Wage Subsidies	$3,863,000	292
Technical Assistance	$6,403,107	385
Total	$40,034,770	1541

[4] For further discussion of Seedco's TA in Lower Manhattan, see *A Support Strategy for Small Businesses: Implications of Seedco's Technical Assistance in Lower Manhattan after September 11, 2001:* www.seedco.org/publications.

IV. NCCA Survey Methodology

In December 2003, Seedco contracted with National Community Capital Association (NCCA) to evaluate the effectiveness of the LMSB&WRP. As part of the assessment, NCCA conducted a survey with a sample of small businesses that received aid from the LMSB&WRP. NCCA met with Seedco program staff and management to further understand the research goals and to design the survey. The survey collected both qualitative and quantitative information. From the original database of 2,303 small businesses[5], 345 businesses were selected to be surveyed. The selected businesses received different combinations of services, but included as many as possible that received a combination of Seedco's four offered services—loan, grant, wage subsidy, and technical assistance. The sample was also selected to represent diverse geographic areas within Lower Manhattan *(see map, next page)* and different types of businesses.

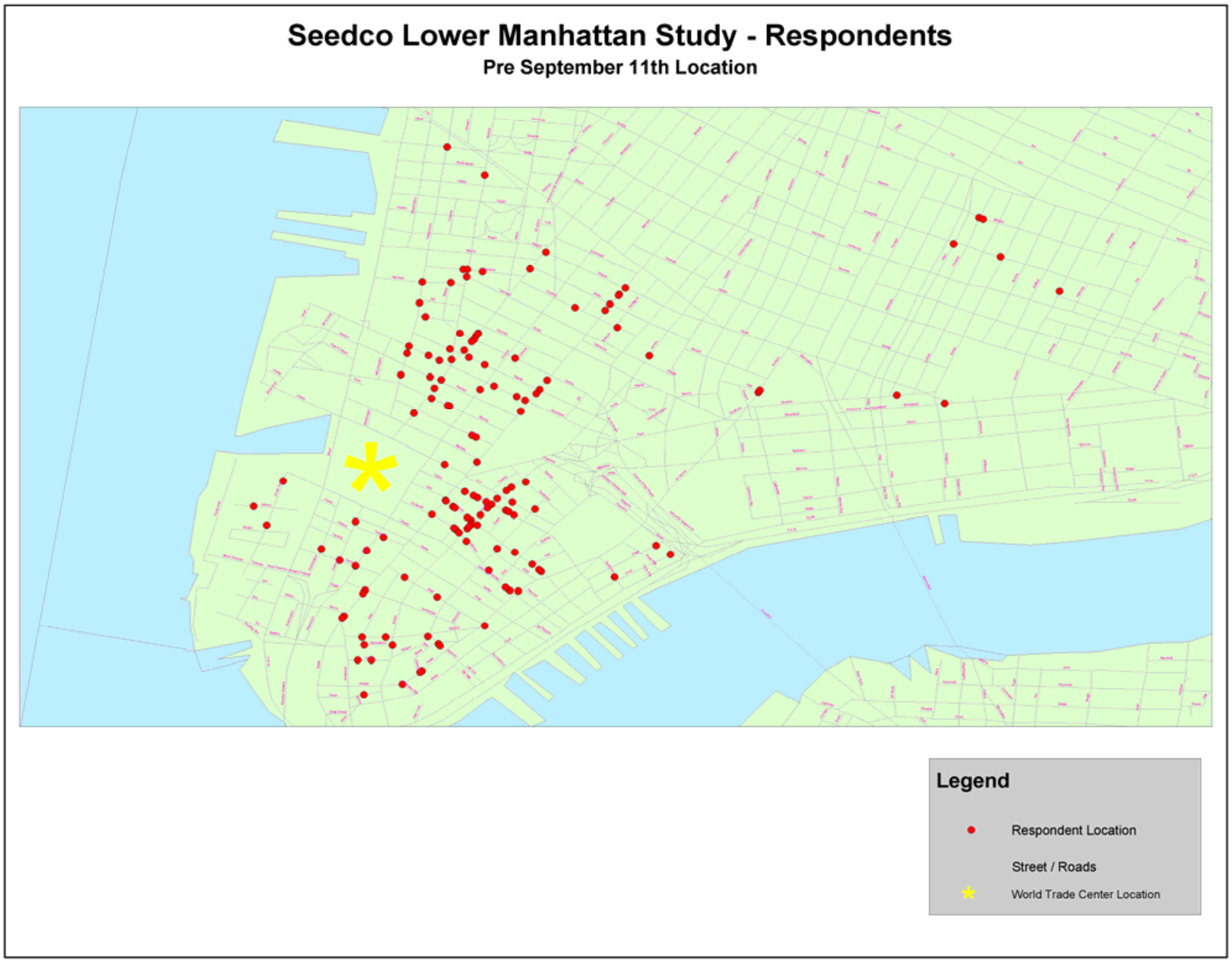
New York University graduate students from the Robert F. Wagner Graduate School of Public Service conducted surveys with the small business owners, either in person at their place of business or by phone, from February 17 to April 16, 2004. NCCA developed a long and a short interview; the short survey focused on quantitative, yes/no, and multiple-choice questions for business owners who could give only 10 minutes to the interview. The long survey had the same questions as the short interview, but also included several qualitative questions about the business owners' experience immediately after the 9/11 attack, their outlook for their business, and their experience with Seedco.

The students completed a total of 190 surveys: 154 long and 36 short. The completed surveys have a similar geographic and business type distribution as the original data set of 345. We acknowledge that the completed surveys are not a representative sample of all of the businesses assisted by Seedco. The students were unable to contact owners who had gone out of business, essentially eliminating these from the sample. We did survey some borrowers who were in collections; in these cases we sought Seedco staff approval to maximize the chances of repayment.

Of the 190 businesses surveyed, 169 received grants, 130 received loans, and 92 received wage subsidies. The average grant was $10,272, the average loan was $46,753 at 3.0 percent for 50 months, and the average business that received wage subsidies received four wage subsidy slots.

[5] This number includes all the businesses in the original database, not all of which received assistance from Seedco.

V. Locations of Survey Respondents



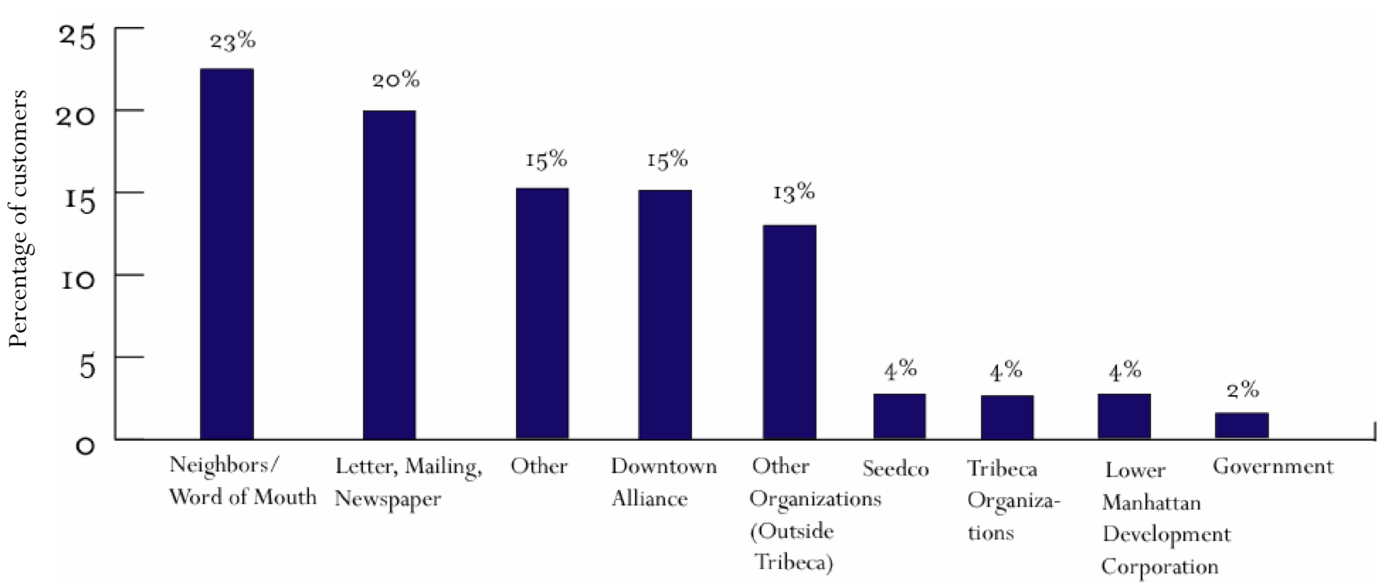
VI. Survey Results

Seedco announced the availability of its services through press releases, donated quarter- and half-page ads in *The New York Times,* in 9/11 resource guides, on Web sites, through partner organizations, in workshops, and through a variety of other means.

Seedco's customers learned about Seedco from a variety of sources. As indicated in Chart 1, the most common response was word of mouth; this indicates that many customers were referring their associates to Seedco.

Partnerships were also of critical importance in marketing Seedco's program. Approximately one-third of referrals came from partner organizations or other organizations marketing the Seedco program, with the most common being The Alliance for Downtown New York (15 percent).

Chart 1: Where Did the Customer Hear of Seedco?



Post-9/11 Challenges

Small business owners in Lower Manhattan faced a myriad of challenges in the days, months and years after 9/11. They lost equipment, records, and customers and in some cases experienced the death or injury of employees. Seedco assisted a total of 1,541 businesses, including a concentration of restaurants, coffee shops, small retail stores, vendors, and small service businesses. Most of these businesses have been very resilient, figuring out ways to adapt their business to the new circumstances. The great majority of the business owners NCCA interviewed are optimistic about the future, regardless of the current state of their business.

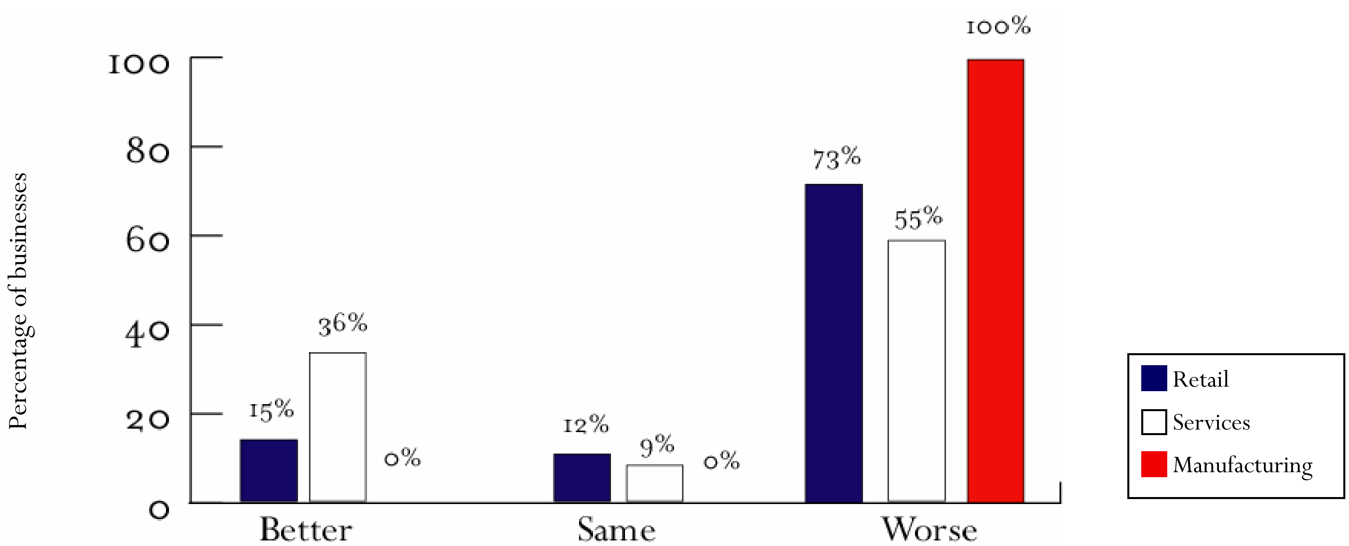
Business owners in the "frozen zone" (destroyed or severely damaged buildings including the WTC) found their business location, records, inventory, and equipment destroyed. In the area surrounding the frozen zone, business owners faced physical and technological barriers, such as lack of truck access for inventory deliveries, and intermittent or no phone service. Some business owners likened the situation to being "in a war zone."

The most immediate and pressing problem for businesses was sales lost on the days they were closed and/or recovering. Although insurance and grant programs (Seedco's and others) replaced some of these losses, the claims took time—time business owners didn't have as they scrambled to find a new location, replace equipment, contact employees and suppliers, and get back in business. Business owners had to find cash to pay the lease, other bills, and employees, despite lowered or no sales. Some employees would not return to Lower Manhattan and had to be replaced.

All businesses in Lower Manhattan that depended on foot traffic, including retail stores, restaurants, and service businesses such as shoe repair and copy shops, were affected by the decrease in customers. Many residents and businesses evacuated, and others left the area voluntarily. Some have come back, but many have not. Even as of this writing, almost 32 months after the event, fewer people work in Lower Manhattan. However, more people live in Lower Manhattan today, largely as a result of incentive programs. The number of visitors to Lower Manhattan has also risen dramatically; some want to see ground zero, while others are attracted by new cultural and promotional offerings.

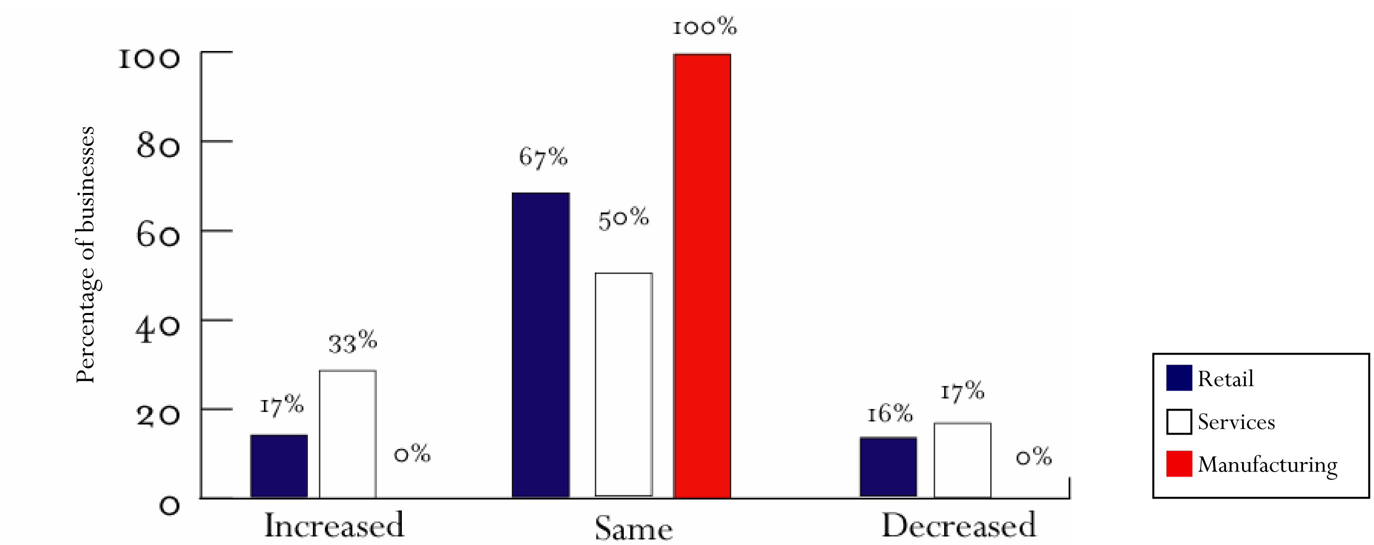
When asked whether business was better or worse overall than before 9/11, 21 percent said better, 11 percent said the same, and 68 percent said worse. Chart 2 breaks out responses to this question by sector. Service businesses are more likely than retail to answer that business is better; with more customers from outside the area, they do not necessarily require customers to come into Lower Manhattan. The seven manufacturing businesses interviewed unanimously called business worse. Despite the passing of about 30 months, business was still worse for the great majority of businesses regardless of sector, and for more than half of each type of business.

Chart 2: Is Business Better or Worse Than Before 9/11?



Interviewees were asked whether sales had increased or decreased since 9/11. Answers here paralleled those to the question of whether business overall was better or worse. Of all respondents, 21 percent said sales were better, 16 percent said they were the same, and 63 percent said they were worse. As detailed in Chart 3, service businesses are almost twice as likely as retail to say sales have improved: As noted above, service businesses can attract customers from outside Lower Manhattan. A few businesses who responded that the state of business is better, and/or that sales have improved, opened in the months just prior to 9/11 and had no real sales history on which to base their answers. Two-thirds of retail respondents and 100 percent of manufacturing respondents said sales were worse. Clearly, the small businesses of Lower Manhattan have not completely recovered.

Chart 3: Did Sales Increase or Decrease since 9/11?



Some comments from those who said business is better:

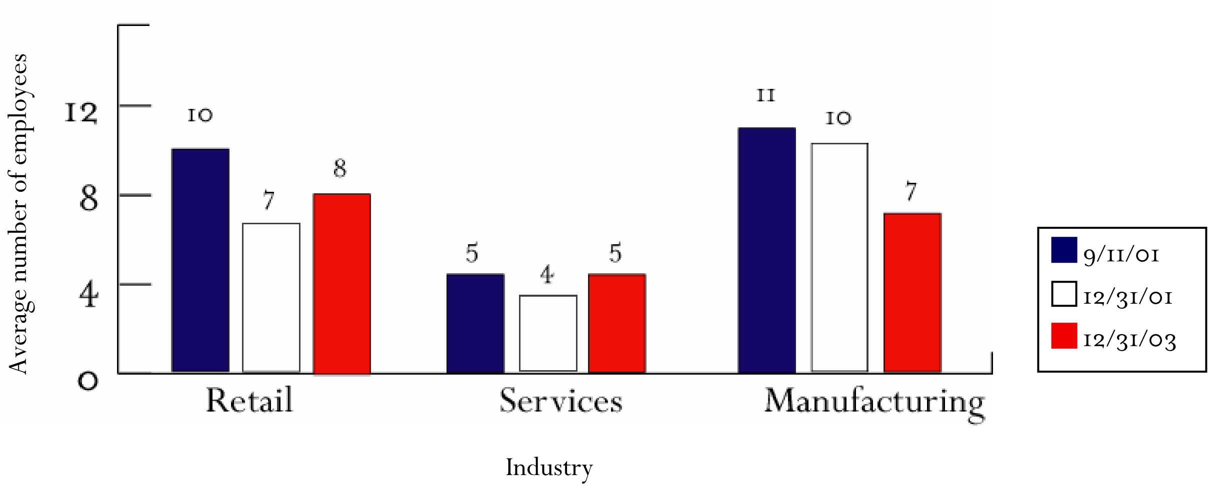
- *Business was just growing prior to 9/11. It dropped a bit and now it's growing again.*
- *Business is better, but I have less cash in the bank, lower reserves.*
- *My business is better-managed, with better capabilities.*

Some comments from business owners who called both business and sales worse:

- *Its not slow, it's at the bottom.*
- *It's probably the economy more than 9/11… the business spirit has disappeared.*
- *I'm in debt.*
- *Reopening in December 2001 was like starting from scratch.*
- *Bad, but much better than 2002.*

Since one of Seedco's goals was to retain employment in Lower Manhattan, we asked business owners about differences in their number of employees. Employment dipped through the end of 2001, but bounced back somewhat through 2003. However, on average, retail firms still have one fewer employee, and manufacturing businesses have an average net loss of four jobs. Service businesses average close to the same level as before 9/11.

Chart 4: Change in Average Number of Employees



Business Adaptation to the Difficult Environment

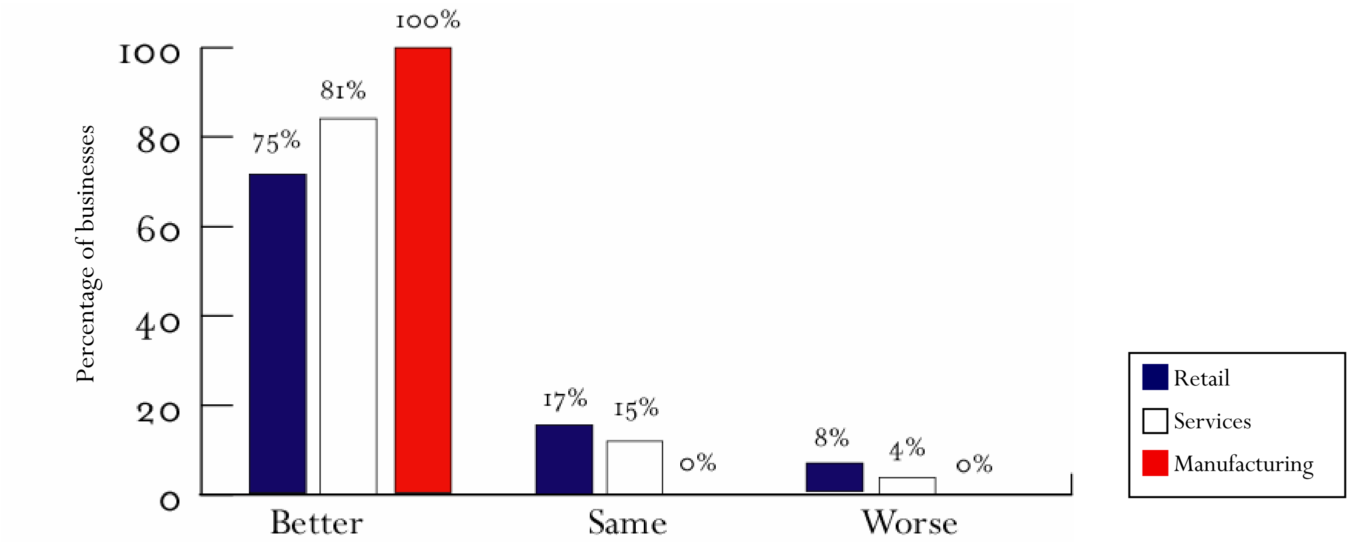
The strategies small business owners undertook, in some cases simultaneously, to survive the difficult post-9/11 environment can be broken into two basic approaches: cutting expenses and pursuing new markets or customers. Those cutting expenses cut employee hours, eliminated employee positions and overtime, reduced inventory, reduced menu options, closed a location, lowered prices, and cut other discretionary expenses. Those seeking new markets and customers expanded marketing, sales and promotions, established a presence on the Internet, added new products and services, and/or expanded hours of operation. One restaurant added Japanese food to the menu; another added a fixed price lunch. One business converted from a standard retail operation to a discount store with a lower profit margin.

To stay open over half of the respondents were compelled to use funds other than sales to augment cash flow. They paid bills out of personal funds, used personal credit cards, took less or no salary, and took out loans. Two poignant comments from business owners:

- *I have not taken salary since 9/11. I signed over the house, and don't want to lose it.*
- *I used personal funds and tax refunds for my business, which meant eating a lot of pasta.*

Despite these difficulties, the great majority of businesses are optimistic about the future, as shown in Chart 5. In part this reflects the "nowhere to go but up" attitude of some business owners, many of whom are optimists by nature.

Chart 5: Will Business Improve or Decline in Two Years?



Optimists' reasons for believing the future would be better included their view that the economy is improving, improved sales, and some blind faith. Pessimists made reference to decreasing numbers of customers, the decline in the national economy, and the number of businesses considering closing or moving out of the area.

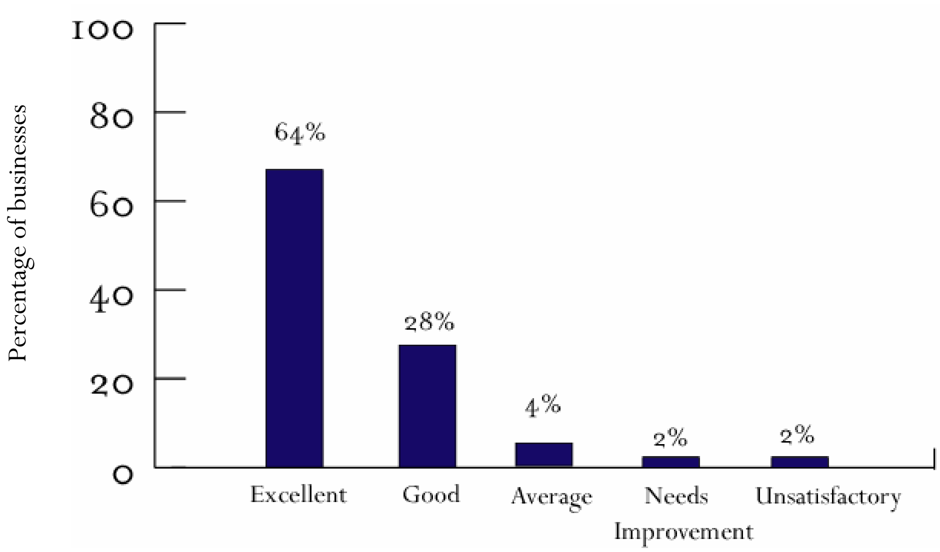
Seedco's Role and Customer Satisfaction

The survey results indicate that Seedco's assistance helped businesses remain operational and recover faster after 9/11; qualitative and quantitative results confirm a general positive response to Seedco's intervention. As indicated in Chart 6, 92 businesses, or 64 percent of those surveyed, rated their customer satisfaction as excellent. Another 28 percent called their level of satisfaction good.

Many businesses would have had to close their doors if not for Seedco's financial assistance; others would have had to layoff employees, look for other sources of funds, or tap into personal funds. Of Seedco's four strategies, the technical assistance was the least well known of the interventions and the intervention that received the most mixed results. A few sample responses to the question of what owners would have done without Seedco funds:

- *I would have closed—no choice.*
- *I would have borrowed from another source or tapped into savings.*
- *It scares me to think about it; I probably would have closed.*
- *I'd have had greater difficulty in retaining employees.*

Chart 6: Evaluation of Seedco's Assistance Overall



The survey evaluated customer satisfaction for a number of facets of Seedco's operation. Charts 7, 8, and 9 show the survey results for Seedco's financing program by response time, the application process, and the expertise of staff (respectively). The results show a striking consistency for customer satisfaction for these three different facets of Seedco's financing program; there is also a consistency between the results from the loan and grant programs.

Chart 7: Customer Satisfaction with Seedco's Response Time

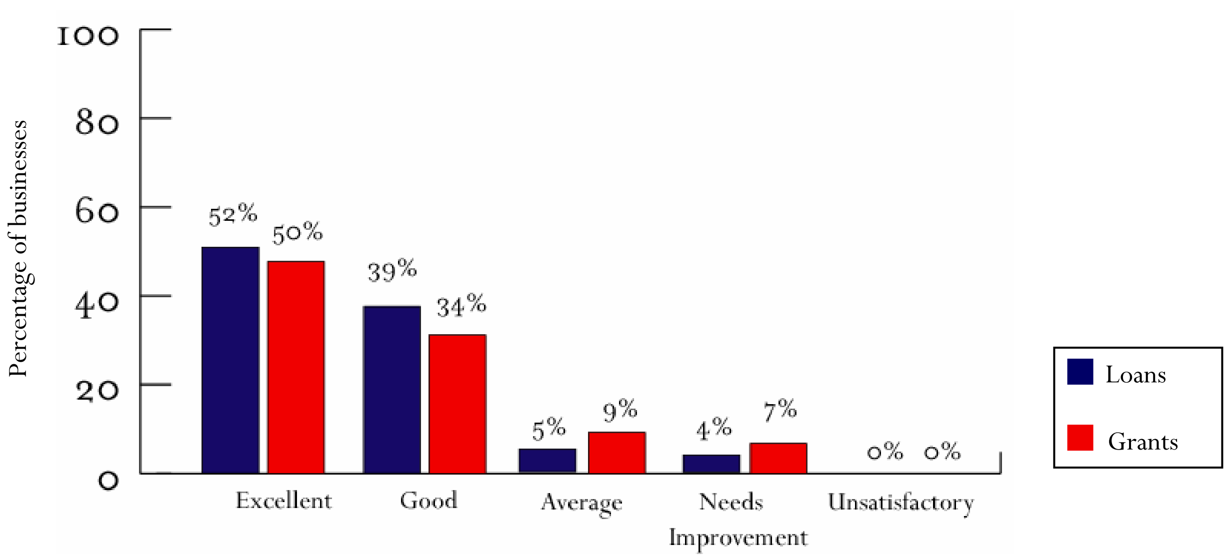


Chart 8: Customer Satisfaction with Seedco's Application Process

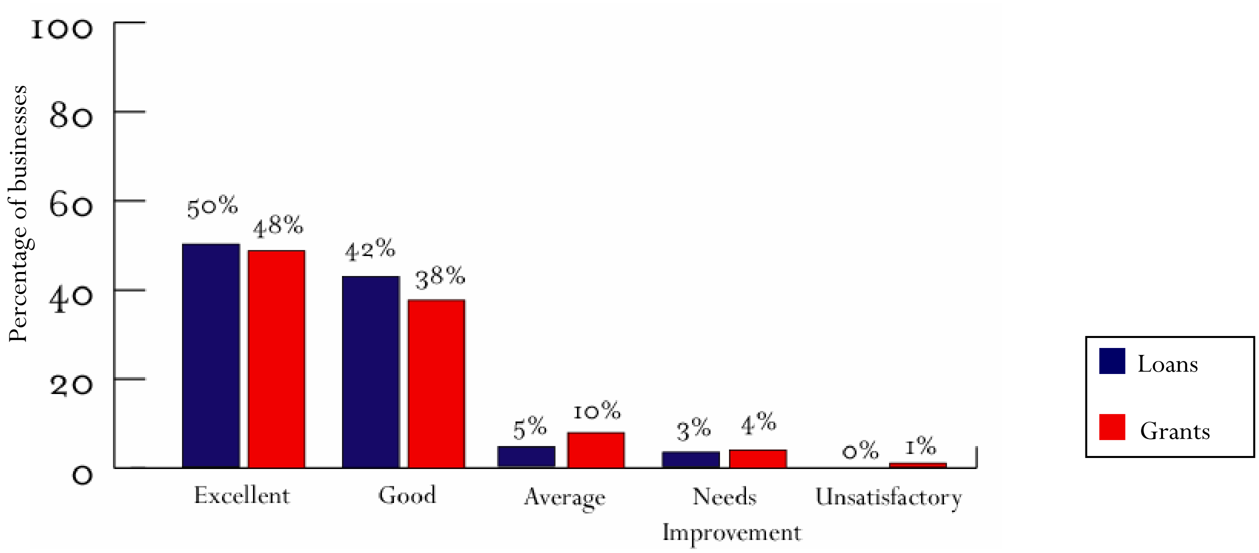
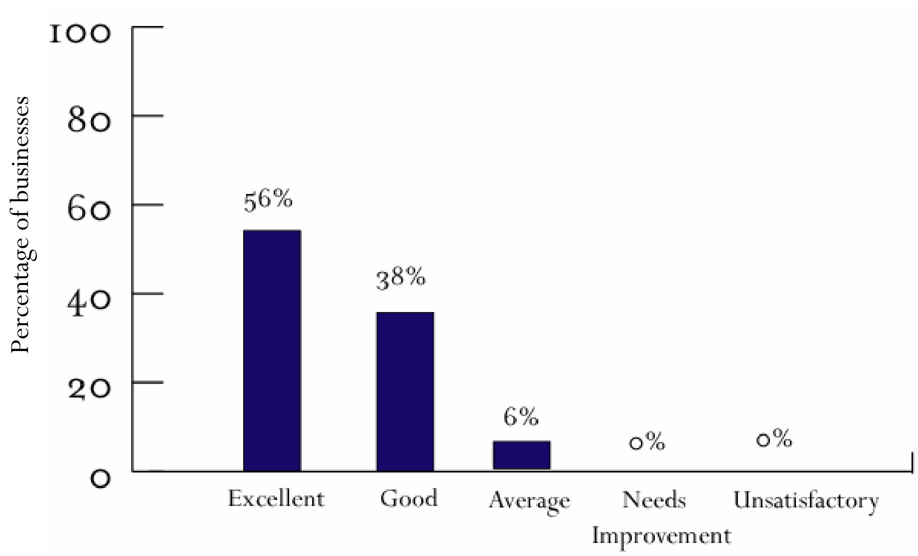
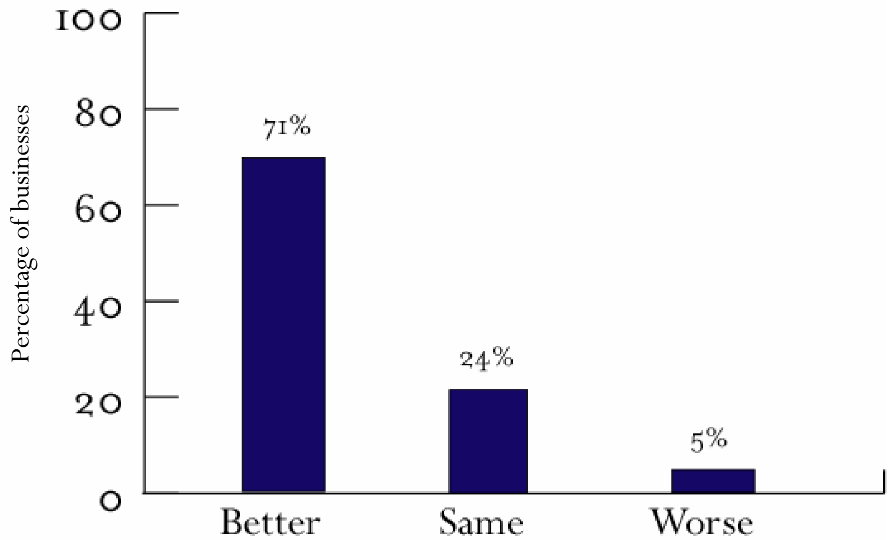


Chart 9: Loan Customer Satisfaction with the Expertise of Seedco Staff



In comparing Seedco's loan program to those of other organizations providing business services after 9/11, Seedco's program received very high marks. As shown in Chart 10, all aspects of Seedco's loan program were better than other providers for approximately 70 percent of Seedco's clients; the same as other providers for approximately 25 percent; and worse for 5 percent.

Chart 10: How Seedco Compared to Other 9/11 Providers

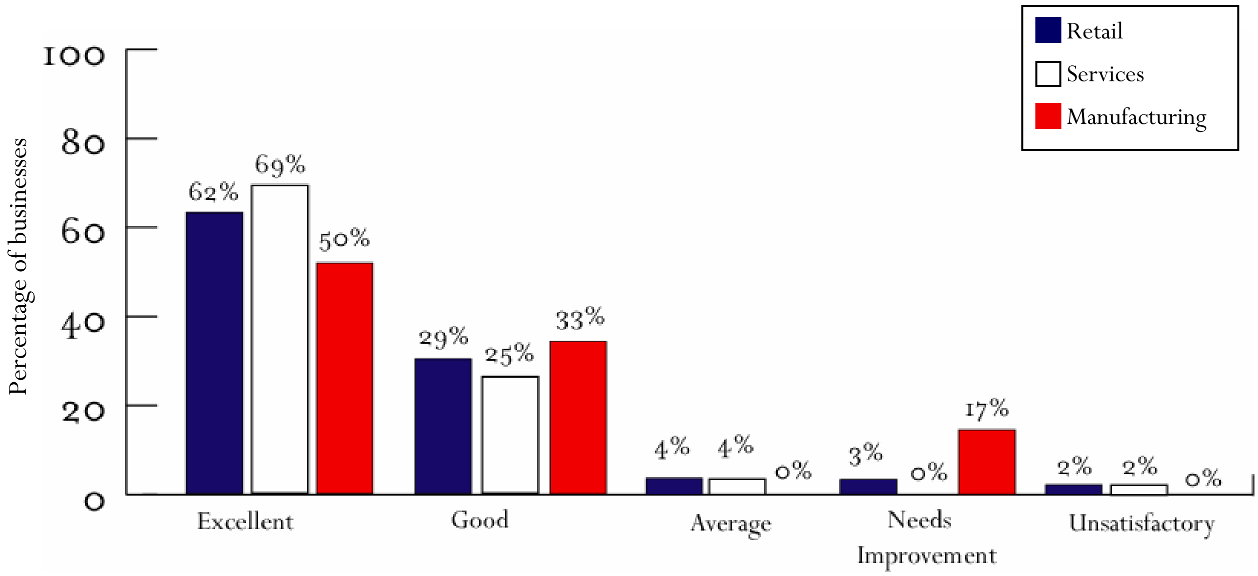


Among customers who provided comments on loan terms, most believed the loan terms and rates (significantly below market) were favorable. A few indicated that they could have used more money or a longer repayment term. Seedco initially made working capital loans, and the three-year term made sense for that kind of operating loan. In 2003, in response to customer demand and the receipt of larger amounts of flexible capital, Seedco expanded its loan term to offer loans up to seven years, and increased its maximum loan amount from $100,000 to $250,000. The great majority of Seedco's loans have a three- to five-year term.

Seedco also offered a one-percent interest deduction to borrowers who chose to pay for their loan using direct deposit. Most borrowers opted for this system, known as ACH, which is a likely contributor to the low default rate among Seedco's borrowers.

Chart 11 indicates customer satisfaction by business type. Service businesses had the highest customer satisfaction (69 percent "excellent," 25 percent "good"), followed closely by retail (62 percent "excellent," 29 percent "good"). The manufacturing businesses contributed the highest percentage of "needs improvement" (17 percent). Seedco, however, financed many fewer manufacturing businesses, and this sample represents only seven manufacturing businesses.

Chart 11: Customer Satisfaction by Business Type



Technical Assistance

Technical assistance (TA) was an important component of Seedco's services. It was targeted to help small business owners overcome specific needs including financial and business planning, legal and real estate issues, insurance and accounting issues and marketing. Seedco addressed these using a combination of one-on-one TA and group training.

The TA program was coordinated primarily by a single Seedco staff member, who identified the borrower's needs in conjunction with Seedco's financial analysts and referred clients to a series of contract providers (accountants, marketers, attorneys, etc.). While the expertise of the contract staff is a crucial benefit to this approach, the system was challenging to manage in terms of workload, quality control, and coordination with clients.

The TA component of Seedco's assistance package received mixed results. Some clients were not aware of the TA on offer; some might have forgotten about it over the course of the last two years. Other business owners indicated that they did not need TA. Many indicated that they did not have time for TA. These responses to TA are very common among small business owners.

Sample responses to NCCA's questions about Seedco's TA included:

- *We really were not sure what it would have done for us. We're a tech company.*
- *TA did not apply to this business.*
- *TA was too simple and fundamental.*

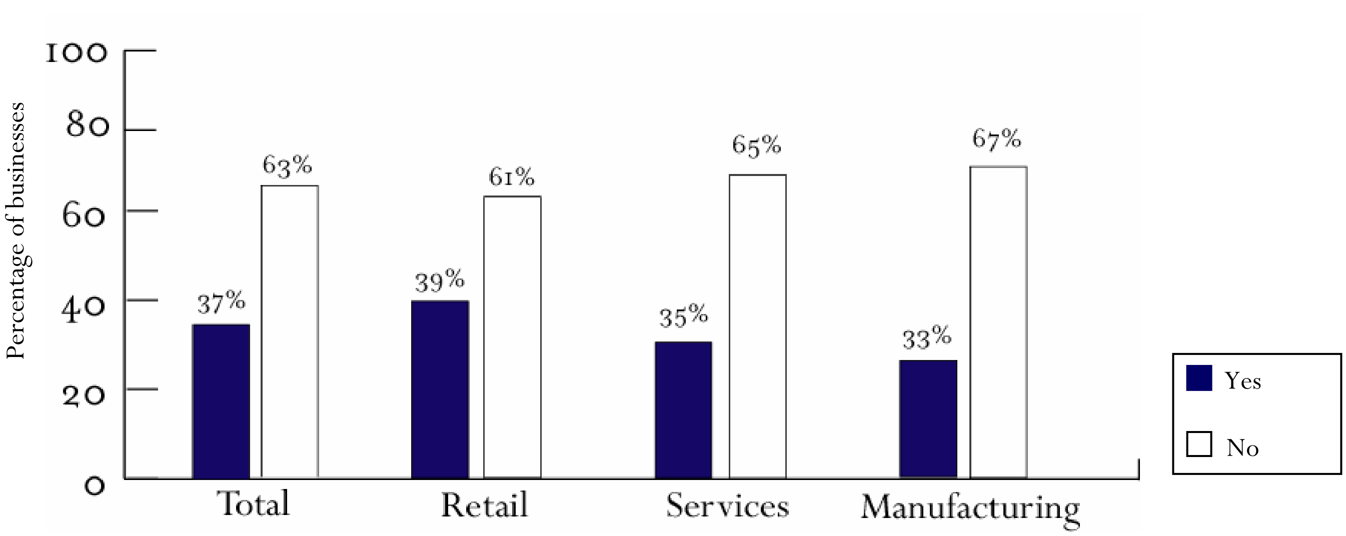
Of the 21 survey respondents who reported that they took advantage of Seedco TA, 17 responded to the question about what business practices learned from Seedco they still use. Business owners who received marketing assistance appeared to be the most satisfied: five of these indicated that the marketing assistance helped in some form:

- *Yes, helped enhance marketing.*
- *The marketing research is still helpful.*

Other respondents indicate that they are not using the assistance:
- *Try to, but it's easier on paper than in real life.*
- *Intend to use in future.*
- *Not really using it still.*

Chart 12 reflects business owners' responses to the question of whether Seedco helped them understand their business better. About two-thirds of respondents answered yes; the results are relatively consistent across the different sectors. Partly this stems from business owners' belief that they understand their business better than anyone, but some responses also probably reflect the inconsistent results of the TA.

Chart 12: Did Seedco Help Its Clients Understand Their Business Better?



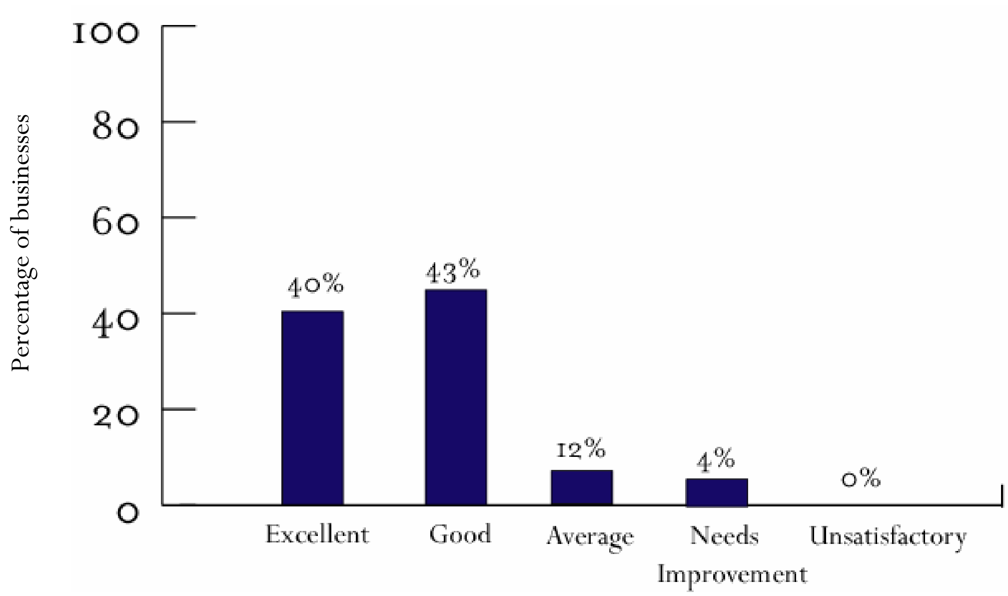
Wage Subsidy

Of the 190 businesses surveyed in this sample, 92 received wage subsidies. Seedco offered two forms of subsidy: direct and contract. Under the direct option, the employee remains on the payroll of the business, which submits invoices to Seedco for wages covered through the program. Under the contract option, employees are paid directly by Seedco; coverage includes health insurance benefits and paid leave. Of the 92 businesses receiving wage subsidies, 59 chose the direct option, 29 chose the contract option, and four were unsure. The 92 businesses had 349 employees covered, and an average of about four wage subsidy slots per business.

Business owners primarily had a positive experience with the wage subsidy program. As indicated in Chart 13, 83 rated the application process "excellent" (40 percent) or "good" (43 percent).

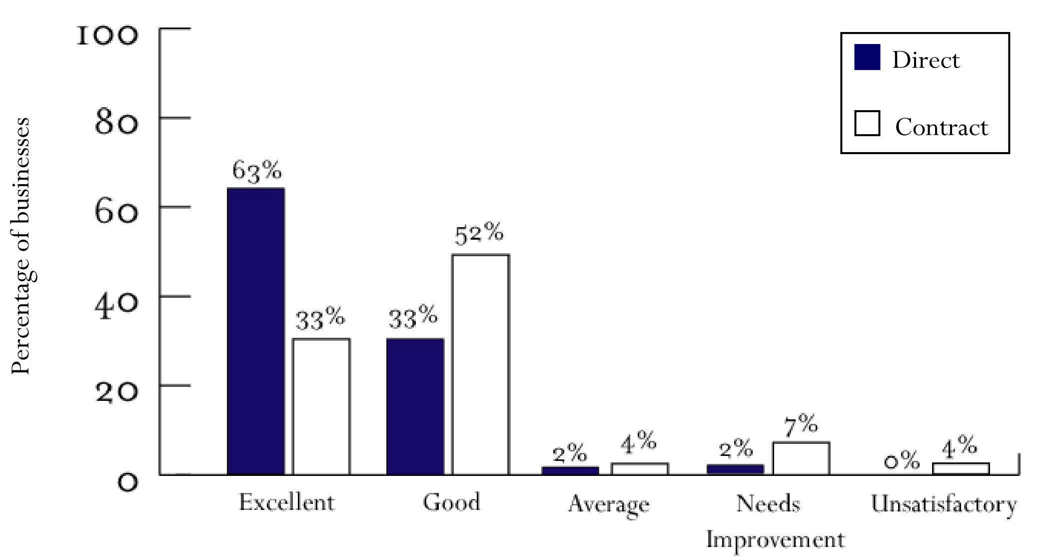
While slightly lower than results for the loan and grant processes, these results are still very positive. Twelve percent rated their experience "average," and four percent indicated that the process "needed improvements."

Chart 13: Evaluation of Wage Subsidy Process



As indicated in Chart 14, the direct option received many more "excellent" responses (63 percent) compared to the contract option (33 percent). For some respondents, it appears the direct option was simpler and easier to understand than the contract option.

Chart 14: Evaluation by Type of Wage Subsidy



The majority of respondents' comments on Seedco's wage subsidies were positive, with some challenges experienced by approximately 15 percent of companies. Positive comments focused on how Seedco helped retain employees or not cut hours, staff, or salaries. Of the 52 businesses owners who responded, 37 (71 percent) said Seedco's wage subsidy program prevented immediate layoffs at their business. Eleven businesses were forced to lay off employees after the program ended. These results indicate that the program was successful in retaining employees in many of the businesses served. The 15 percent experiencing challenges said that the process was complicated or that there were miscommunications.

Sample responses regarding wage subsidies:

- *It was easy for me; my accountant took care of it.*
- *Helped us not cut back hours.*
- *Beginning was okay, a lot of miscommunications. Was supposed to get direct option, but ended up with contract option which cost more.*

Would the Respondent Recommend Seedco or Contact Seedco Again?

Overall, as Chart 15 shows, over 75 percent of clients indicated that they would "definitely" (73 percent) or "probably" (four percent) recommend Seedco to other borrowers, while 23 percent said "maybe." For their own businesses, 48 percent indicated that they would definitely use Seedco again; 25 percent, "probably." Many small business owners are debt-averse and may not want to borrow again (from Seedco or another source). As Chart 16 shows, retail and service businesses are more likely to contact Seedco again for future services.

Chart 15: Recommending or Contacting Seedco Again

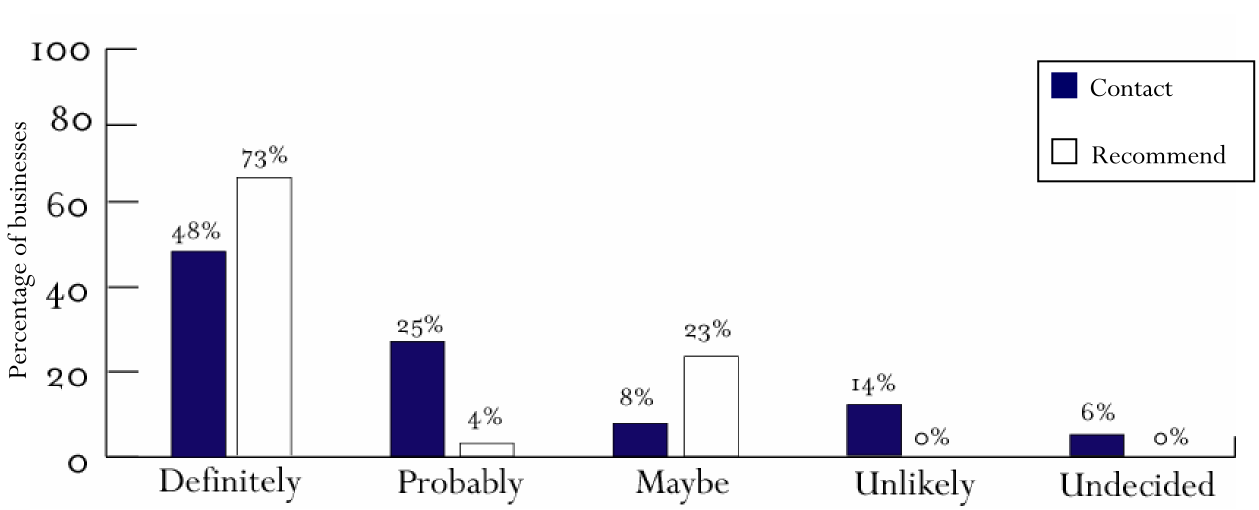
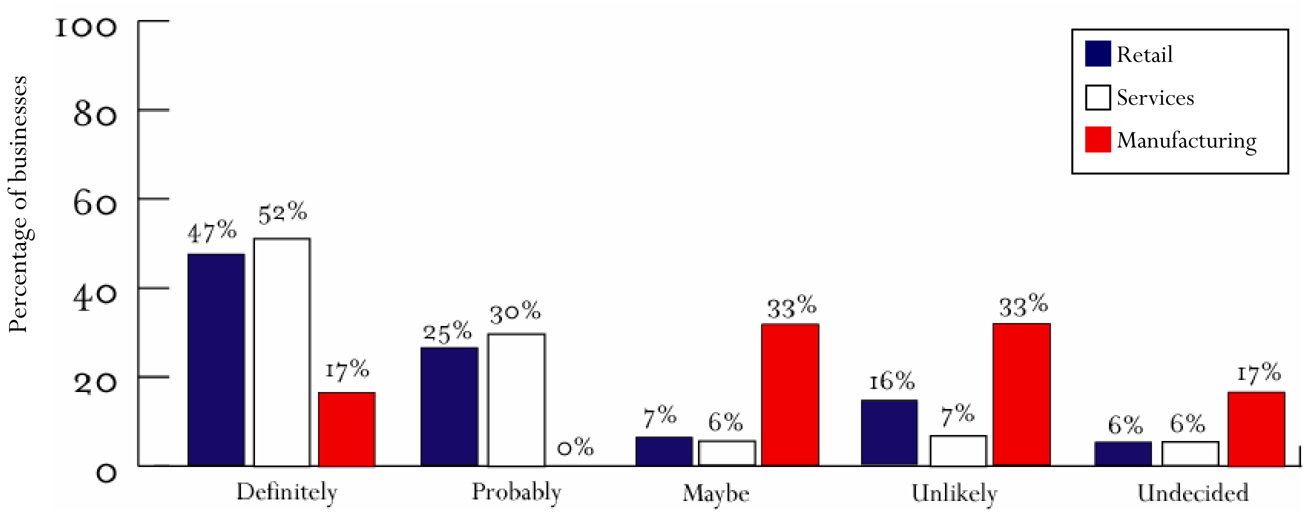


Chart 16: Using Seedco for Future Financing



VII. Recommendations and Policy Direction

NCCA's recommendations for future programmatic activity that grows out of Seedco's Lower Manhattan Small Business & Workforce Retention Program are based on analysis of the interviews NCCA conducted with business owners Seedco served and its comparative assessment of Seedco completed in March 2004.[6]

Lending Policies and Practices

Seedco's loan program worked extremely well in the context of an emergency assistance program after 9/11. NCCA has developed a series of recommendations for Seedco as it transitions its program to a permanent business financing initiative.

As of December 31, 2003, losses were at one percent, lower than many of Seedco's peers. However, the Seedco portfolio is still very young, and will undoubtedly incur further losses as it matures. When Seedco developed the program in the days immediately after 9/11, it was impossible to gauge how many businesses would remain viable going forward. Seedco staff told funders to expect losses as high as 40 percent. The high repayment rate to date leads NCCA to believe that loss rates will not be nearly that high, and that total losses will be in line with CDFIs' average losses in lending to small businesses under non-disaster circumstances. CDFIs making such loans average cumulative loss rates of about five percent.[7] Seedco has managed this risk very well through rigorous underwriting, aggressive pursuit of borrowers in default, and reserve against losses.

Underwriting and Closing

NCCA recommends a number of additions to strengthen Seedco's underwriting and closing process and bring it in line with more traditional business lending:

- analyzing the balance sheet in addition to the income statement,
- reviewing personal tax returns,
- taking collateral on loans,
- requesting additional credit references, and
- obtaining proof of insurance.

Monitoring

NCCA recommends that Seedco receive annual (or in some cases quarterly) financial statements from borrowers in order to obtain a better understanding of their status and potential technical assistance needs.

Loan Loss Reserve Policy

NCCA recommends developing a more comprehensive loan loss reserve policy that rates each loan and ties the loan loss reserve to the risk rating.

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[6] As part of its assessment of Seedco, NCCA selected a peer group of similar CDFIs and collected key data and information on them.

[7] Based on data collected by NCCA on over 130 CDFIs for fiscal year 2002.

Interest Rates and Sustainability

NCCA recommends that Seedco's LMSB&WRP develop self-sufficiency goals in an effort to cover a greater percentage of operating costs through earned income. A large piece of this will be to bring the pricing and fee structure more into line with other business lenders. Seedco currently charges rates ranging from one to 5.5 percent, with an average of approximately three percent; the peer group charged an average of 10.2 percent for microloans and 9.5 percent for business loans.

Technical Assistance

Technical assistance is difficult to offer to small businesses because of their wide variety of needs and owners' aversion to outside advisors; it is, however, one of the most important components of a strategy focusing on developing and growing small businesses.

NCCA recommends that Seedco develop resources to continue a scaled-back program of TA, as this will be critical to the success of the business lending program moving forward. Certain services Seedco offered were specifically related to 9/11 and would no longer be appropriate. In addition to using contractors, Seedco may want to develop the in-house capacity to provide some of the key types of TA required by businesses (i.e., budgeting, bookkeeping, and marketing).

VIII. Conclusion

Seedco's Lower Manhattan Small Business & Workforce Retention Project provided an important and unanticipated opportunity to learn about economic development priorities and needs in urban areas. Traditionally, workforce development programs have been aimed at large firms—the big employers who can take advantage of policies and programs aimed at job creation. Seedco's experience in Lower Manhattan was explicitly aimed at small businesses, which, although they compose the sector of the economy responsible for most new jobs, are often bypassed by workforce development initiatives.

Seedco lowered barriers to capital to provide loans to small business owners, most of whom would not have been able to obtain loans from traditional sources. Some of the ways Seedco did this, such as interpreting credit reports in a nuanced way, are common among CDFI business lenders. Seedco's decision not to require collateral made loans more attractive and simplified the borrowing process. Other methods it developed were more unusual. In particular, Seedco developed sophisticated methods for analyzing cash-based businesses and those with few or no financial records (a necessity since so many records were destroyed in the disaster). Seedco looked at bank statements and extracted information from conversations with employees.

Small business owners are notoriously independent, competitive, and even stubborn by nature. Every business owner facing challenges after 9/11 had to figure out his or her own solutions to survive. There is little collective learning among small business owners about how to adapt to changing circumstances; no publication or trade association provides common guidance to, for example, shoe repair shops facing a massive loss of customers. Nonetheless, it is evident from NCCA's research that small business owners in Lower Manhattan, facing a dire crisis in which their very survival was at stake, turned to one another for help, advice, and comfort. Simply put, NCCA's survey of small businesses in Lower Manhattan reveals that firms learned from each other about programs available to assist them in coping with the unprecedented post-9/11 environment. The crisis created a new set of networks that inadvertently fostered "social capital."

The evidence presented in this report highlights how a multi-pronged strategy can be effective in meeting the needs of small businesses. Seedco used wage subsidies along with loans, grants, and technical assistance to provide quick and essential aid to small firms. This combination of economic assistance filled a vital gap in the economic assistance programs available after 9/11. The businesses assisted by Seedco have for the most part survived and retained the majority of their jobs. Seedco played a major role as an economic recovery "first responder," a role no other organization was able to fill.