

Minority Entrepreneurs in Bankruptcy

By Rafael Efrat*

ABSTRACT

Minorities join the entrepreneurial sector as an avenue of opportunity to address certain disadvantages they face in the labor market. Despite the increasing number of minorities becoming entrepreneurs, minority-owned businesses are underrepresented in the entrepreneurial sector in the United States. Furthermore, they also tend to have a higher failure rate relative to non-minority-owned businesses. Given the higher failure rate among minority business owners compared to non-minority business owners, one may hypothesize that minority-owned businesses would be overrepresented in the bankruptcy sample.

Data from this empirical research study, based on bankruptcy petitioners from the United States Bankruptcy Court in the Central District of California, however, do not support the hypothesis that minority entrepreneurs are overrepresented in the bankruptcy population. The data suggest that the challenges faced by minority entrepreneurs in the general population are mirrored by minority entrepreneurs in the bankruptcy sample. Minority entrepreneurs in the bankruptcy sample reported the same inferior human capital they report in the general population. Similar to the circumstances outside of bankruptcy, minority entrepreneurs in the bankruptcy sample were financially more fragile than their non-minority counterparts, with substantially lower levels of income and assets. Lastly, just as minority entrepreneurs outside of bankruptcy have less access to debt, they reported less debt in bankruptcy as well.

* Associate Professor, College of Business & Economics, California State University, Northridge. J.S.D., 2002, J.S.M., 1998, Stanford Law School; J.D., 1992 University of Southern California. I would like to express my gratitude to the National Conference of Bankruptcy Judges Endowment and the Kauffman Foundation for generous financial support for this empirical study. Also, I would like to acknowledge the vital cooperation I received from the Executive Office of the United States Trustee Office, the Clerk of the Court for the United States Bankruptcy Court in the Central District of California, as well as the Assistant United States Trustee for the San Fernando Valley Division of the United States Trustee Office, Jennifer L. Braun. Lastly, I would like to express my appreciation for the tremendous data gathering efforts in the field to my research assistants: Pilar Ahman, Joseph W. Berriman, Scott Cohn, Kiumars Imandel, Ryan McNicholas, Edward Morales, Collette Y. Schmidt, Cherilyn R. Teague, and Tanya Vannoy. I am particularly grateful to the invaluable contribution of my lead research assistant and project manager, Carlos Gallardo.

I. INTRODUCTION

With some limited exceptions, scholars have given little attention to the study of minority groups' financial well being at the point of ultimate financial distress—bankruptcy.¹ Moreover, no studies to date have examined minority entrepreneurs in bankruptcy. Such studies may shed some light on fundamental questions such as whether minority entrepreneurs tend to address their financial problems through the formal legal mechanism of bankruptcy to any greater extent than White entrepreneurs. Also, such studies would explore whether the reasons for resorting to bankruptcy are different for minority entrepreneurs when compared to White entrepreneurs. Further, such studies would enhance the understanding of whether minority entrepreneurs who do resort to bankruptcy are financially and demographically any different than White bankrupt entrepreneurs. This study attempts to shed some light on these questions by empirically examining minority and White bankruptcy entrepreneurs in the Los Angeles area.

Historically, a considerable number of disadvantaged members of minority groups have been prompted to become self-employed as a way of overcoming certain disadvantages in the labor market. Under the disadvantage theory, minorities join the entrepreneurial sector as an avenue of opportunity to address these labor market disadvantages.² There are more than three million minority-

1. See generally, e.g., TERESA A. SULLIVAN ET AL., *THE FRAGILE MIDDLE CLASS: AMERICANS IN DEBT* (2000) [hereinafter *THE FRAGILE MIDDLE CLASS*] (describing the plight of certain minority groups, women, and divorcees in U.S. bankruptcy); TERESA A. SULLIVAN ET AL., *AS WE FORGIVE OUR DEBTORS: BANKRUPTCY & CONSUMER CREDIT IN AMERICA* 147-65 (1989) [hereinafter *AS WE FORGIVE OUR DEBTORS*] (considering the experiences of women debtors in the U.S. bankruptcy system); Rafael Efrat, *The Disadvantaged in Bankruptcy*, 19 *BANKR. DEV. J.* 71 (2002) (examining minorities and women in Israeli bankruptcy); Elizabeth Warren, *What is a Women's Issue? Bankruptcy, Commercial Law, & Other Gender Neutral Topics*, 25 *HARV. WOMEN'S L.J.* 19 (2002) (discussing likely impact of proposed bankruptcy legislation on women in the U.S.); Karen Gross et al., *Ladies in Red: Learning from America's First Female Bankrupts*, 40 *AM. J. LEGAL HIST.* 1 (1996) (reporting on the first women debtors in the United States); Daniel L. Skoler, *The Elderly and Bankruptcy Relief: Problems, Protections, and Realities*, 6 *BANKR. DEV. J.* 121 (1989) (discussing the effects of bankruptcy on the American elderly); Kathy R. Davis, *Bankruptcy: A Moral Dilemma for Women Debtors*, 22 *LAW & PSYCHOL. REV.* 235 (1998) (examining the financial condition of women in U.S. bankruptcy); Sheila Driscoll, Note, *Consumer Bankruptcy and Gender*, 83 *GEO. L.J.* 525 (1994) (examining the profile of women petitioners in Washington D.C.); Teresa A. Sullivan et al., *From Golden Years to Bankrupt Years*, *NORTON BANKR. L. ADVISER*, July 1998, at 1 (reporting on the elderly in U.S. bankruptcy).

2. See WILLIAM J. DENNIS, JR., *NAT'L FED'N OF INDEP. BUS.*, *THE PUBLIC REVIEWS SMALL BUSINESS* 18 (2004), available at www.nfib.com/object/publicReview.html (last visited Jan. 1, 2008) ("Minorities are most apt to see business ownership as an avenue of opportunity. Eighty-one (81) percent of minorities . . . claim that business ownership is one of the best ways to get ahead. A comparatively slim 62 percent of the majority population express the same opinion."); Ivan Light, *Disadvantaged Minorities in Self Employment*, 20 *INT'L J. COMP. SOC.* 31, 32 (1980) ("Disadvantage theory began from the observation that exclusion of minorities from the labor market compels them to seek a livelihood in trade."). But see Robert W. Fairlie & Bruce D. Meyer, *Ethnic and Racial Self-Employment Differences and Possible Explanations* 31 *J. HUM. RESOURCES* 757, 787 (1996) (finding that "while it may be important for some groups, discrimination and language difficulties do not usually lead to self-employment").

owned businesses in the United States today, generating close to \$600 billion in gross receipts.³ Twenty percent of the minority-owned businesses are employer firms, employing approximately 4.5 million employees with a combined annual payroll of just under \$100 billion.⁴ These minority-owned businesses have made important contributions to the United States economy.⁵

Over the past twenty-five years, the number of minority-owned businesses has dramatically grown, increasing at an annual rate of 17% in the decade from 1987 to 1997.⁶ As a result, the share of minority-owned businesses in the entrepreneurial sector more than doubled between 1982 and 1997.⁷ For example, in 1982 less than 7% of all businesses in the United States were minority-owned; by 1997 almost 15% of businesses in the United States were minority-owned.⁸ This swift growth took place across all minority groups.⁹

The spectacular growth in minority-owned businesses in the United States over the past twenty-five years is partly a product of the growth of the minority population in society. Between 1982 and 2002 the percentage of minorities in American society rose from 21% to 32%.¹⁰ However, even after taking into account the high minority population growth over this period, the rise in the number of minority-owned businesses is still significantly higher than the growth among White-owned businesses.¹¹

3. See MINORITY BUS. DEV. AGENCY, U.S. DEP'T OF COMMERCE, THE STATE OF MINORITY BUSINESS: 1997 SURVEY OF MINORITY-OWNED BUSINESS ENTERPRISES 2 (2001), available at <http://www.mdba.gov/documents/mbda2.pdf> (last visited Jan. 1, 2008).

4. See YING LOWREY, U.S. SMALL BUS. ADMIN., DYNAMICS OF MINORITY-OWNED EMPLOYER ESTABLISHMENTS, 1997-2001 6 (2005), available at <http://www.sba.gov/advo/research/rs251tot.pdf> (last visited Jan. 1, 2008).

5. See OFFICE OF ADVOCACY, U.S. SMALL BUS. ADMIN., MINORITIES IN BUSINESS 12 (2001), available at <http://www.sba.gov/advo/stats/min01.pdf> (last visited Jan. 1, 2008) ("Like other businesses, minority-owned businesses produce goods and services, create innovations, absorb labor and generate jobs, provide wages and salaries, and contribute to the support of government services through taxes. All of these business activities are important contributions to the dynamic American economy.").

6. See GLENN YAGO & AARON PANKRATZ, MILKEN INST. & U.S. DEP'T OF COMMERCE MINORITY BUS. DEV. AGENCY, THE MINORITY BUSINESS CHALLENGE: DEMOCRATIZING CAPITAL FOR EMERGING DOMESTIC MARKETS 1 (2000), available at <http://www.milkeninstitute.com/pdf/minbus2.pdf> (last visited Jan. 1, 2008) (indicating that the annual growth rate of minority-owned businesses grew six times faster than all businesses in the United States between 1987 and 1997); OFFICE OF ADVOCACY, U.S. SMALL BUS. ADMIN., MINORITIES IN BUSINESS 1 (1999), available at <http://www.sba.gov/ADVO/stats/min.pdf> (last visited Jan. 1, 2008) ("Minority-owned businesses are a fast-growing segment of the U.S. economy. By 1997, there were an estimated 3.25 million minority-owned businesses in the United States, generating \$495 billion in revenues . . ."); Robert W. Fairlie, *Recent Trends in Ethnic and Racial Business Ownership*, 23 SMALL BUS. ECON. 203, 203 (2004) ("The Survey of Minority-Owned Business Enterprises (SMOBE) indicates that the number of minority-owned businesses grew rapidly over the 1980s and early 1990s.").

7. LOWREY, *supra* note 4, at 5 (reporting that the share of minority-owned businesses increased in the United States from 6.8 percent in 1982 to 15.1 percent in 1997).

8. *Id.* at 8.

9. *Id.*

10. *Id.* at 5.

11. See MINORITY BUS. DEV. AGENCY, U.S. DEP'T OF COMMERCE, ACCELERATING JOB CREATION AND ECONOMIC PRODUCTIVITY 6 (2004), available at http://www.mdba.gov/?content_id=3268 (last visited May 12, 2008) (stating that the growth of minority-owned businesses outpaced that of White-owned

There is some debate as to why minority-owned businesses have increased in recent decades. Aside from population growth, minority-owned businesses increased partly because of the rapid growth in the 1970s of federal and state set-asides and preferential procurement policies targeting minority firms.¹² Others have contended that cultural and entrepreneurial values such as hard work, independence, thrift, family ties, and group solidarity of certain growing minority groups have contributed to the rise in minority-owned businesses.¹³ Another plausible explanation for the rapid growth in minority-owned businesses is the significant rise in revenue growth for most minority-owned business owners, which may have attracted other minorities to join the entrepreneurial sector.¹⁴ Lastly, the growth in minority-owned businesses may have been fueled by the corresponding rise of the minority consumer market, which has afforded more business opportunities for minority-owned firms.¹⁵

Despite this recent growth among minority entrepreneurs, minorities remain significantly underrepresented in the self-employment sector. In 1997 minorities made up 27% of the general population in the United States but only 15% of the entrepreneurial sector and only 3% of the nation's gross business receipts.¹⁶ However, the extent of the underrepresentation among the various self-employed minority groups is not uniform; certain ethnic minorities display higher rates of self-employment than others. The largest discrepancy exists among Blacks, who make up 12% of the general population but less than 4% of all businesses in the United States. Similarly, Hispanics make up almost 11% of the general population but less than 5% of all businesses.¹⁷ In contrast, Asian Americans have representation in business greater than their proportion in the general population.¹⁸

Minorities are similarly underrepresented in the self-employment sector in Los

businesses during that time period by more than 16%, after taking into account the growth in the general population).

12. See Timothy Bates, *Entrepreneur Human Capital Endowments and Minority Business Viability*, 20 J. HUM. RES. 540, 541 (1985).

13. See VIRGINIA S. ZUIKER, *HISPANIC SELF-EMPLOYMENT IN THE SOUTHWEST: RISING ABOVE THE THRESHOLD OF POVERTY* 29-30 (1998); Light, *supra* note 2, at 32-33.

14. See MINORITY BUS. DEV. AGENCY, *supra* note 11, at 7 ("[From 1992-1997 a]ll U.S. firms grew revenues at a rate of 40 percent; American Indian businesses grew at 179 percent, Asian/Pacific Islander businesses at 68 percent and Hispanic businesses at 49 percent. Only African-American-owned businesses had a gross receipts growth rate (33 percent) less than the all U.S. firm growth rate.").

15. See MINORITY BUS. DEV. AGENCY, U.S. DEP'T OF COMMERCE, *THE NEW REALITIES FOR MINORITY BUSINESS*, 14 (1999), available at http://www.mbda.gov/?content_id=18 (last visited Jan. 1, 2008) (finding that between 1990 and 1997 the buying power of minority consumers rose rapidly: Blacks by 54.2%, Hispanics by 58%, and Asians by 72%).

16. See LOWREY, *supra* note 4, at 5.

17. See YAGO & PANKRATZ, *supra* note 6, at 2; see also OFFICE OF ADVOCACY, *supra* note 5, at 12 (finding that the business participation rates of each minority group (especially Blacks and Hispanics) in the United States falls below the business participation rate of Whites).

18. See OFFICE OF ADVOCACY, *supra* note 5, at 10 ("Asians and Pacific Islanders in the United States made up 3.6 percent of the total population and 12.3 percent of the total minority population in 2000, and owned 4.4 percent of all U.S. business firms and 30.0 percent of all minority-owned firms in 1997.").

Angeles County. In 2002 the various minority groups made up almost 70% of the population in Los Angeles County.¹⁹ In contrast, only 37% of the small business owners in Los Angeles County were members of minority groups.²⁰

There are a number of reasons for the underrepresentation of minorities in entrepreneurship. First, some have suggested that the underrepresentation is due to the absence of a robust tradition in the business sector among certain minority groups.²¹ Specifically, some research has suggested that lack of entrepreneurial experience among parents play a pivotal role in determining whether minority individuals will become self-employed.²² Additionally, some have contended that low levels of asset holdings have contributed to a lower entrepreneurial rate among minorities.²³ Similarly, others have pointed to the lack of access to debt financing as the central cause of the underrepresentation.²⁴

Minority-owned businesses not only are underrepresented in the entrepreneurial sector, but also tend to have a higher failure rate relative to White-owned businesses.²⁵ The success of a business is directly connected to the skills and qualifications of the entrepreneur.²⁶ The higher failure rate among minority

19. See U.S. Bureau of the Census, Table DP-1, Profile of General Demographic Characteristics: 2000, Los Angeles County, California (2000) (reporting the composition in the general population in Los Angeles County of the following groups: Blacks: 9.8%; Native Americans: 0.8%; Asians: 11.9%; Hispanic: 44.6%).

20. See U.S. Bureau of the Census, State and County QuickFacts: Los Angeles County, California, available at <http://lapublichealth.org/spa7/docs/LACQuickfacts.htm> (last visited on March 13, 2008) (reporting that in 1997, minority-owned firms in Los Angeles County represented 37.2% of the total firms in the county).

21. See Fairlie & Meyer, *supra* note 2, at 775.

22. See Robert W. Fairlie, *The Absence of the African-American Owned Business: An Analysis of the Dynamics of Self-Employment*, 17 J. LAB. ECON. 80, 84 (1999).

23. See *id.*

24. See U.S. Dep't. of Commerce, Expanding Financing Opportunities for Minority Businesses, 2, 3, & 11 (2004) (unpublished manuscript, on file with author) (identifying the reasons for the difficulty for minority businesses to acquire financing).

25. See LOWREY, *supra* note 4, at 9 ("Between 1997 and 2001, the survival rate of all minority-owned employer establishments was about 4 percentage points lower than that of non-minority-owned establishments."); David L. Torres, *Success and the Mexican American Businessperson*, 6 RES. IN THE SOC. ORGS. 313, 314 (1988) ("The Department of Commerce's Minority Business Development Agency estimates that the failure rates for minority firms are two to four times higher than those for similar nonminority firms."); Arnold C. Cooper et al., *New Business in America: The Firms and Their Owners* 4 (1990) (unpublished manuscript, on file with author) (finding that, all other factors being equal, minority-owned firms were less likely to survive). *But see* Robert D. Hisrich and Candida Brush, *Characteristics of the Minority Entrepreneur*, 24 J. SMALL BUS. MGMT 1, 2 (1986) (finding that with few exceptions, "minority firms were no less profitable, no less liquid and no more in debt than their non-minority counterparts"); Alicia Robb, *The Role of Race, Gender, and Discrimination in Business Survival* 5 (2000) (unpublished Ph.D. dissertation, University of North Carolina at Chapel Hill) (on file with author) ("A number of empirical studies have examined whether or not businesses owned by women and minorities had above average failure rates. Unfortunately, work on this topic has varied greatly in terms of quality and their conclusions.").

26. See Teresa V. Menzies et al., *A Study of Entrepreneurs' Ethnic Involvement Utilizing Personal and Business Characteristics*, 20 CAN. COUNCIL FOR SMALL BUS. & ENTREPRENEURSHIP 5 (2003) (referring to studies that have reported that higher educational qualifications and business experience enhances business success); Robb, *supra* note 25, at 30.

entrepreneurs has been attributed in part to inferior human capital as certain groups of minority entrepreneurs have lower education and lower managerial experience.²⁷

Also, minority entrepreneurs' higher failure rate has been blamed on limited access to credit.²⁸ Previous research has demonstrated that higher levels of capitalization have a positive effect on survival rates of small businesses.²⁹ The limited access to financial capital is partly due to the lower asset levels the minority entrepreneurs have accumulated, the discrimination they face from some financial institutions, fewer ties to financial institutions, lower loan application submissions, and a higher financing rejection rate.³⁰ Those minority entrepreneurs who do obtain financing tend to rely on high-cost capital to operate their businesses, which tends to forestall their businesses' growth.³¹

The higher failure rate among minority business owners is also the result of the limited market many minority-owned businesses face in their co-ethnic market. Under the ethnic enclave theory, many minority entrepreneurs are naturally inclined to open a business within their own ethnic community, hoping to capitalize on their awareness of unique local consumer preferences and to benefit from their ability to offer local consumers the comfort of conducting business in their own culture and language.³² However, the low income of many consumers

27. See U.S. Dep't of Commerce, *supra* note 24, at 13, 25 (referring to previous studies that have found that black and Hispanic entrepreneurs have lower levels of human capital, including education and managerial experience).

28. See *id.* (referring to studies that have found that minority entrepreneurs are more likely to have unmet credit needs).

29. See Brian Headd, *Redefining Business Success: Distinguishing Between Closure and Failure*, 21 SMALL BUS. ECON. 51, 55 (2003) (finding that factors which best explain the likelihood of survival include starting capital greater than \$50,000 and having a college degree); Timothy Bates, *Exiting Self-Employment: An Analysis of Asian Immigrant-Owned Small Business*, 13 SMALL BUS. ECON. 171, 171 (1999) ("Particularly successful entrepreneurs tend to be highly educated, their firms are well capitalized . . .").

30. See KARLYN MITCHELL & DOUGLAS K. PEARCE, U.S. SMALL BUS. ADMIN., AVAILABILITY OF FINANCING TO SMALL FIRMS USING THE SURVEY OF SMALL BUSINESS FINANCES, 1-2 (2005), available at <http://www.sba.gov/ADVO/research/rs257tot.pdf> (last visited Jan. 1, 2008) ("We found that for ethnic minorities as a group, evidence of discriminatory lending exists in outstanding transaction loans from banks and nonbanks and in outstanding transaction loans from banks."); Ivan Light et al., *Korean Rotating Credit Associations in Los Angeles*, in IMMIGRANT AND MINORITY ENTREPRENEURSHIP: THE CONTINUOUS REBIRTH OF AMERICAN COMMUNITIES, 171, 171 (John S. Butler & George Kozmetsky, eds., 2004) ("Obtaining loan capital poses an obstacle for all small business ventures, but the problem is especially severe for immigrant or ethnic minority entrepreneurs, who lack credit ratings, collateral, or are the victims of ethno-racial discrimination."); Marla Dickerson & Don Lee, *Business is 'Robust' for Small L.A. County Firms*, L.A. Times, Sept. 15, 1999, at A1 (finding that minorities were struggling more with financing, with some minority groups experiencing double the loan rejection rate of White business owners).

31. See CMTY. DEV. TECH. CTR., THE SOUTHERN CALIFORNIA MINORITY BUSINESS ATLAS 11 (2000), available at <http://www.californiapartnership.ml.com/pdf/atlas.pdf> (last visited Jan. 1, 2008) (reporting that many minority entrepreneurs in southern California rely on high-cost capital, including credit cards, to finance their businesses).

32. See ZUIKER, *supra* note 13, at 30-31.

in the ethnic enclave, combined with the fierce competition displayed by other ethnic entrepreneurs in the same enclave, may actually result in greater vulnerability.³³

In addition, self-employed minorities may be prone to failure at a greater rate than White business owners because of their relatively small size (in terms of number of employees and gross receipts) and their chosen business entity.³⁴ In 1997 over one quarter of White-owned businesses in the United States had paid employees compared with only one fifth of minority-owned businesses.³⁵ Similarly, White-owned firms had an average of twenty-one employees; in contrast, minority-owned-firms had an average of between seven and nine employees.³⁶ Also, while minority-owned businesses represent 15% of all businesses in the United States, they employ only 4% of American employees and produce only 3% of business revenues in the United States.³⁷

The minority-owned businesses' relatively small size is likewise evident among minority entrepreneurs in southern California. Self-employed minorities in the southern California area tend to be small in size and are predominantly sole proprietors.³⁸ Almost 55% of minority enterprises in the southern California area report that they have five or fewer employees.³⁹ Also, almost two-thirds of minority enterprises in southern California are sole proprietorships.⁴⁰ Studies have found that at least two factors are associated with whether some businesses grow and thrive: the small size of a business and whether the business is organized as a sole proprietorship.⁴¹

33. See CMTY. DEV. TECH. CTR., *supra* note 31, at 18 (finding that 35% of minority-owned businesses in southern California report that over 75% of their market base consists of "ethnic customers"); Menzies, *supra* note 26, at 5 (suggesting that ethnic entrepreneurs are less successful than native-born entrepreneurs partly because of limited markets when operating within their ethnic enclave as a product of market saturation and fierce competition among ethnic entrepreneurs chasing the same market); Robb, *supra* note 25, at 24 ("Relying on the ethnic enclave as the sole source of demand can limit growth potential because of the limited market size. It can also affect a business survival prospects because many individuals from the same enclave could opt for business ownership for the same reasons and result in excess competition, causing some of the locations to go out of business.").

34. See John S. Butler & Patricia G. Greene, *Ethnic Entrepreneurship: The Continuous Rebirth of American Enterprise*, in *ENTREPRENEURSHIP 2000* (D.L. Sexton & R.W. Smilor, eds., 1997) (finding that ethnic entrepreneurs have smaller and less successful businesses than mainstream entrepreneurs).

35. See LOWREY, *supra* note 4, at 7 ("[O]nly 26 percent of non-minority-owned firms and 20 percent of minority-owned firms had paid employees in 1997."); MINORITY BUS. DEV'T AGENCY, *supra* note 3, at 1 ("The average size of minority-owned businesses is substantially lower than non-minority firms in terms of both gross receipts and employment.").

36. See MINORITY BUS. DEV'T AGENCY, *supra* note 3, at 1.

37. See *id.*

38. See CMTY. DEV. TECH. CTR., *supra* note 31, at 14; Dickerson & Lee, *supra* note 30, at A-1 (finding that immigrant and minority-owned businesses in Los Angeles County are generally smaller in size than the businesses of non-minority native entrepreneurs).

39. See CMTY. DEV. TECH. CTR., *supra* note 31, at 14.

40. See *id.*

41. See Timothy Bates & Alfred Nucci, *An Analysis of Small Business Size and Rate of Discontinuance* 13 (U.S. Bureau of the Census, Working Paper No. CES 90-2, Jan. 1990) ("Yet when firm age is controlled for, . . . we observe that a very strong, direct relationship exists between firm size

Lastly, minority entrepreneurs would seem to be more prone to business failure compared to White entrepreneurs because minority entrepreneurs are underrepresented in the high-value and growth industry sectors. Several studies have found self-employed minorities to be significantly more likely to pursue business in the non-growth sectors, such as the service and the retail industries, as compared to White self-employed businesses.⁴² In southern California, for example, a significant portion of minority entrepreneurs is engaged in the retail and service industries.⁴³ Studies have documented that businesses in the retail and service industries have lower growth rates and decreased profitability; they also suffer the highest business turnover rates.⁴⁴

Given the higher failure rate among minority business owners compared to White business owners, one may hypothesize that minority-owned businesses would be overrepresented in the bankruptcy sample.

II. METHODOLOGY

Data for this research study were based on information obtained in 2005 and 2006 from surveys completed by bankruptcy petitioners in the Central District of California San Fernando Valley Division.⁴⁵ The San Fernando Valley is a geographic area that includes several cities and a large portion of the City of Los

and the likelihood of continuing business operations.”); Ricketts Gaskill et al., *A Factor Analytic Study of the Perceived Causes of Small Business Failure*, 31 J. SMALL BUS. MGMT. 18 (1993) (referring to studies that have tied higher rates of business failure to small size and status as a sole proprietorship); Menzies, *supra* note 26, at 5 (“In general, businesses owned and operated by ethnic entrepreneurs are reported in the literature as smaller and less successful than mainstream businesses.”).

42. See U.S. Dep’t of Commerce, *supra* note 24, at 2 (“The majority of minority entrepreneurs are in non-asset based industries, such as services In sectors such as manufacturing, which generate greater wealth in the United States than many other industries, minority entrepreneurs are significantly under-represented.”); Margaret C. Simms & Lynn C. Burbridge, *Minority Business Formation and Failure by Industry and by Location*, 9 (1985) (unpublished manuscript, on file with author) (“Almost 70 percent of minority firms are to be found in retail trade and services, compared to 55 percent of all firms.”).

43. See CMTY. DEV. TECH. CTR., *supra* note 31, at 14 (finding that 27% of minority-owned small businesses in southern California were engaged in the retail industry and 53% in the service industry). See also Dickerson & Lee, *supra* note 30, at A-1 (reporting that immigrant and ethnic minority entrepreneurs in Los Angeles County tend to concentrate in low margin retail businesses).

44. See Headd, *supra* note 29, at 55 (finding that factors that best explain the likelihood of business closure include operating a business in the retail or service industry); Arnold C. Cooper et al., *A Resource-Based Prediction of New Ventures Survival and Growth*, ACAD. MGMT. BEST PAPER PROC. 68, 72 (1991) (“[A]voiding retail and personal services businesses make[s] it more likely for the venture to achieve substantial growth.”); Robert W. Fairlie & Alicia M. Robb, *Why Are Black-Owned Businesses Less Successful than White-Owned Businesses? The Role of Families, Inheritances, and Business Human Capital* 18 (U.S. Census Bureau Center for Economic Studies, Working Paper No. 6, 2005), available at http://www.ces.census.gov/index.php/ces/1.00/cespapers?down_key=101719 (summarizing previous studies that found that businesses in the retail and service industries have higher business turnover rates than others).

45. Since the data for this study were collected in the San Fernando Valley Division of the Central District Court of California, the results are contrasted with relevant characteristics of the general population or the small business owner population of the San Fernando Valley. However, when the

Angeles. The San Fernando Valley has approximately 1.7 million residents; 45.2% are White, 38% are Hispanic, and 10% are Asian; a third of the population is foreign-born.⁴⁶ The Los Angeles area also has the greatest concentration of small businesses in the United States.⁴⁷

This study relied on information from surveys rather than bankruptcy schedules because vital data for this research project—such as ethnicity, education, cause of bankruptcy and various characteristics of petitioners' businesses—would not be available in the bankruptcy schedules. The questionnaire was purposefully drafted to be only one and a half pages long to minimize the time necessary to complete it.

The questionnaire was composed of a list of twenty-one questions, with an additional supplement of ten questions for petitioners who had owned a business prior to their bankruptcy filing. Most of the questions in the survey solicited non-narrative answers and asked petitioners to check a box from among several options. However, questions concerning the cause of the bankruptcy filing or business distress were open-ended.

The questionnaire included questions concerning age, gender, educational background, marital status, country of origin, racial/ethnic background, religious affiliation, number of dependents, occupation, household income, home ownership, value of assets, amount and type of debts, cause of bankruptcy, and entrepreneurship background. Former business owners were also asked a number of questions about their business operation. Among other things, they were asked to identify the problems, if any, their business faced; the number of years they engaged in the business; the type of business entity they owned; the type of business financing; the number of employees; the number of family members working in the business; the nature of the business industry; the number of business ventures owned beforehand; and their plans for future business ownership.

Before commencing with the collection of the questionnaires in the field, we submitted the questionnaire and procedures to the California State University, Northridge's office charged with the protection of human subjects. As part of this procedure, we promised to maintain the respondents' confidentiality. Similarly, in asking for cooperation from the U.S. Trustee to conduct the study, we also promised confidentiality for our respondents. All of the personnel engaged in the

relevant data from the San Fernando Valley was not available, relevant data from the City of Los Angeles or the County of Los Angeles were used instead.

46. See Joel Kotkin & Erika Ozuna, *The Changing Face of the San Fernando Valley 3* (2002), available at <http://publicpolicy.pepperdine.edu/davenport-institute/reports/changing-face/content/changing-face.pdf> (last visited Apr. 6, 2008).

47. See Ivan Light and Elizabeth Roach, *Self Employment: Mobility Ladder or Economic Lifeboat?*, in *ETHNIC LOS ANGELES* 193, 193 (Roger Waldinger & Mehdi Bozorgmehr, eds., 1996); Karen B. Leonard & Chandra S. Tibrewal, *Asian Indians in Southern California: Occupations and Ethnicity*, in *IMMIGRATION AND ENTREPRENEURSHIP: CULTURE, CAPITAL, AND ETHNIC NETWORKS* 141, 141 (Ivan Light & Parminder Bhachu, eds., 1993).

research in any capacity also pledged to protect the confidentiality of the respondents.

In 2004, the Executive Office of the U.S. Trustee granted permission to access and distribute the questionnaire at the mandatory creditors' hearing in the Central District of California San Fernando Valley Division.⁴⁸ The Assistant U.S. Trustee in the Central District of California San Fernando Valley Division cooperated in facilitating the distribution of the questionnaires at the site. A total of ten student assistants attended the mandatory 341(a) hearing beginning in January 2005 and ending January 2006 for the purpose of distributing and collecting completed questionnaires from bankruptcy petitioners. The vast majority of petitioners surveyed had filed during 2005. Because the mandatory creditors' hearings are often scheduled sometime after the initial filing, some of the questionnaires that were collected were for petitioners who had filed for bankruptcy in late 2004.

Each student assistant was assigned to cover different hearing dates either in the morning or in the afternoon. The student assistants were given a script to address bankruptcy petitioners while they were attending their mandatory creditors' meeting. The student assistants arrived to the creditors' meeting approximately fifteen minutes before the beginning of each session and were instructed to approach petitioners as they entered the waiting area for the creditors' meeting hearing room. Each student was asked to identify him or herself, briefly describe the purpose of the research project, and ask the petitioner whether he/she would be willing to participate in the study by completing the survey.

The survey was available in English and in Spanish due to the large Hispanic population in the local area. The English questionnaire was first translated by a research assistant who is fluent in both Spanish and English. That translation was then verified by another bilingual research assistant. It is possible that some petitioners, who are immigrants and speak neither Spanish nor English, did not complete the survey. However, based on feedback from the research assistants, there were very few petitioners who appeared not to understand the questions in the questionnaire.

Respondents were not asked for their names or case numbers. The student assistants were asked to mention to the petitioners that participation in the study

48. In January 2004, we contacted the Executive Office of the U.S. Trustee and requested permission to distribute surveys at the 341(a) hearing in the Central District of California. Later that year, the Executive Office of the U.S. Trustee rejected the request to grant access citing privacy concerns for the debtors. As a result, surveys were mailed to a randomized sample of bankruptcy petitioners in the Central District of California San Fernando Valley Division. Unfortunately, the response rate for the mailed survey was unacceptably low. We subsequently submitted a request for re-consideration to the Executive Office of the U.S. Trustee. In December 2004, the Executive Office of the U.S. Trustee granted us permission to distribute surveys at the creditors' meeting in the Central District of California San Fernando Valley Division. Since the results of the small sample of the completed mailed surveys were not significantly different than the results of the completed surveys that were collected in person, the completed mailed surveys were included in the final sample.

was completely voluntary and anonymous. In addition, a statement to that effect was included at the top of each of the survey instruments provided to respondents.

Some debtors came to the creditors' meeting with their attorneys, and there was often a lengthy wait in a waiting area for their hearing to begin, during which the debtors had the opportunity to consult with their legal counsel about completing the questionnaire. The debtors were asked to return their completed questionnaires to the research assistant attending the hearing that day. Debtors in this study did not receive any monetary compensation in exchange for their services. Most debtors who completed the questionnaire did so while waiting, although some asked to take the survey home and mail it back upon completion.

We selected a bankruptcy court in Los Angeles County because the Los Angeles area has one of the highest concentrations of small businesses in the United States.⁴⁹ According to Census data, more than 37% of the firms in Los Angeles County are minority-owned.⁵⁰ This diversity makes the bankruptcy courts in the Central District an excellent setting for an empirical investigation of minority entrepreneurs in bankruptcy.

We received 1,500 completed questionnaires. The average response yield rate was approximately 21%.⁵¹ The total number of surveys completed constitutes 12% of the total bankruptcy petitions that were filed during the period of this study.⁵² The sample reflected the approximate composition of bankruptcy filings under Chapter 7, Chapter 13 and Chapter 11 in the Central District of California.⁵³ The original goal was to obtain at least 150 completed questionnaires from former small business owners. The final number of small business entrepreneurs in our sample was 208. This sample size is approximately the same as or larger than the sample sizes in similar studies of economic or financial

49. See Light & Roach, *supra* note 47, at 193-94; Leonard & Tibrewal, *supra* note 47, at 141; Pyong Gap Min & Mehdi Bozorgmehr, *Immigrant Entrepreneurship and Business Patterns: A Comparison of Koreans and Iranians in Los Angeles*, 34 INT'L MIGRATION REV. 707, 708 (2000) (indicating that Los Angeles is one of the top metropolitan areas in the United States in self-employment rate).

50. See U.S. Bureau of the Census, *supra* note 20 (finding that minority-owned firms constituted 37.2% of the small business owners in the Los Angeles County in 1997).

51. The yield rate was calculated by dividing the number of surveys collected by the total number of petitioners present at the hearings attended by research assistants in this study.

52. During the period of this study, from January 2005 through January 2006, there were 12,049 bankruptcy filings. The 1,500 surveys collected represent a yield of 12.45%.

53. During the period of this study, from January 2005 through January 2006, there were a total of 11,929 bankruptcy petitions filed in the San Fernando Valley Division of the United States Federal Bankruptcy Court for the Central District of California. Approximately 94% of the filings were under Chapter 7 (N=11,162), approximately 5.5% were filed under Chapter 13 (N=696), and 0.5% were filed under Chapter 11 (N=71). See U. S. Bankr. Cts., C.D. of California, 2005 and 2006 Statistics, *available at* <http://www.cacb.uscourts.gov/> (last visited Feb. 2, 2007). In the bankruptcy sample, a total of 1,500 surveys were completed. Similar to the chapter composition, over 97% of the surveys were under Chapter 7 (N=1,465), 0.5% were filed under Chapter 11 (N=8), and the balance were filed under Chapter 13 (N=27).

issues.⁵⁴

The completed surveys that were collected during each session were sequentially numbered and tabulated into an Access database. Following the tabulation of the data, the ten student assistants participating in the data collection phase were paired and instructed to exchange the hard copies of the questionnaires they had collected. The paired students were then asked to validate the data tabulated by their counterparts and to identify and correct any detected data entry error or missing values. Those surveys that were completed in Spanish were tabulated and validated by one of the four Spanish-fluent research assistants.

For the questions asking about the cause of bankruptcy, the cause of the petitioner's business financial distress, and the type of business owned by the petitioner, we developed content codes based on the answers included in a random sample from the completed questionnaires. Analysis in this study was done using R and SPSS statistical packages. Analyses included frequencies of all variables. *t* tests were performed to investigate differences between minority and non-minority entrepreneurs. The statistical significance of the interaction variables was tested by the usual *t* test ($p < 0.05$).

III. THE RESULTS

A. *The General Population in Bankruptcy*

Demographically, the bankruptcy petitioners in the sample were similar in many respects to the general population in Los Angeles.⁵⁵ Similar to the population as a whole, males and females were roughly evenly represented in the bankruptcy sample.⁵⁶ The median age of the bankruptcy petitioner was forty, compared to a median of thirty-eight in the San Fernando Valley.⁵⁷ The education level of the bankruptcy petitioners also resembles the educational level in the general local population, with 62% of survey participants having at least some college education.⁵⁸ Also, similar to the marital status of the population outside of

54. See AS WE FORGIVE OUR DEBTORS, *supra* note 1, at 345.

55. Since the bankruptcy court in this study is located in the San Fernando Valley, comparisons from the bankruptcy sample were made to the general population in the San Fernando Valley. However, where no recent comparable data from the San Fernando Valley is available, comparisons from the greater Los Angeles area have been used.

56. See SAN FERNANDO VALLEY ECON. RESEARCH CTR., SAN FERNANDO VALLEY ECONOMIC REPORT 69 (2003), available at <http://www.csun.edu/sfverc/reports/pdfs/04/social60-87.pdf> (last visited Apr. 6, 2008) (reporting that males made up 49.2% of the population in the San Fernando Valley in 2000). In the bankruptcy sample, 47% of the petitioners were identified as male.

57. See ECON. ALLIANCE, SAN FERNANDO VALLEY ALMANAC 59 (2000), available at http://www.valleyofthestars.net/Library/Almanac_2000/SFV%20Almanac%202000%20Rev%205.indd.pdf (last visited Apr. 6, 2008) (reporting that the median age of residents in the San Fernando Valley was projected at 38 in 2004).

58. See *id.* at 61 (reporting that in 1999, 55.4% of the adult population in the San Fernando Valley had at least some college education).

bankruptcy, over 37% of the bankruptcy sample identified as single.⁵⁹ Lastly, the entrepreneurship rate of 14% in the bankruptcy population mirrors the self-employment rate in the local region.⁶⁰

While the bankruptcy population in our sample is demographically indistinguishable in many respects from the general population, it is financially remarkably different. Its earnings are considerably lower, with a median annual household income of \$33,600, compared to a median household income in the San Fernando Valley of \$53,723.⁶¹ Reliance on public assistance is another important contrast between the general local population and the bankruptcy sample. Twelve percent of the bankruptcy petitioners that were surveyed reported receiving public assistance, while only 6.4% of the population in Los Angeles County received such benefits in 1999.⁶²

A more dramatic example of the differences between the two groups is reflected in homeownership rates. Outside of bankruptcy, almost half of the population of Los Angeles County owns a home, compared to a mere 8% in the bankruptcy sample.⁶³ Similarly, the fair market value of the houses owned by the bankruptcy petitioners is remarkably low, with a median of \$290,000, compared to a median of \$600,000 in the local housing market.⁶⁴

Moreover, the bankruptcy petitioners were deep in debt, owing an average of

59. See U.S. Bureau of the Census, *supra* note 20, at 2 (reporting that in 2000, 37% of the population over fifteen years of age in Los Angeles City was single, 45% was married, 11.9% was divorced or separated, and 5.4% was widowed). In the bankruptcy sample, 37.2% were identified as single; 32.2% were identified as married; 24.5% were identified as divorce or separated; and 3.5% were identified as widowed.

60. See SAN FERNANDO VALLEY ECON. RESEARCH CTR., *supra* note 56, at 66.

61. The median monthly household income in the bankruptcy sample was \$2,800, with a monthly mean of \$3,710 (\$3,070 without outliers), and a standard deviation of 5,631. See ECON. ALLIANCE, *supra* note 57, at 62. The median household income reported in this bankruptcy sample was higher than the median household income of \$20,172 found in a recent national bankruptcy study. See Teresa A. Sullivan et al., *Less Stigma or More Financial Distress: An Empirical Analysis of the Extraordinary Increase in Bankruptcy Filings*, 59 STAN. L. REV. 213, 223 (2006) [hereinafter *Less Stigma or More Financial Distress*].

62. See U.S. Bureau of the Census, *supra* note 20, at 3. In the bankruptcy sample, 178 of the bankruptcy petitioners (11.9%) reported receiving government assistance.

63. See U.S. Bureau of the Census, Los Angeles County Quickfacts, available at <http://quickfacts.census.gov/qfd/states/06/06037.html> (last visited on January 31, 2007) (reporting a homeownership rate of 47.9% in Los Angeles County in 2000). The homeownership rate reported in the bankruptcy sample was particularly low compared to findings in other studies. For example, in a study focusing exclusively on Chapter 7 petitioners, researchers found a homeownership rate of about 30% among bankruptcy petitioners. See Marianne B. Culhane & Michaela M. White, *Taking the New Consumer Bankruptcy Model for a Test Drive: Means-Testing Real Chapter 7 Debtors*, 7 AM. BANKR. INST. L.REV. 27 (1999).

64. See SAN FERNANDO VALLEY ECON. RESEARCH CTR., *supra* note 56, at 34 (reporting that the median value for a single family residence in the San Fernando Valley was \$600,000 in August 2005). The average value of the house in the bankruptcy sample was \$313,923 (\$302,368 without outliers), with a median of \$290,000 and a standard deviation of 201,245. While the homeowners in the bankruptcy sample owned homes with substantially lower values than homeowners in the general local population, the home value of the bankruptcy petitioners in this study was substantially higher than the median value of homes for families in bankruptcy in other national bankruptcy studies of merely \$90,000. See *Less Stigma or More Financial Distress*, *supra* note 61, at 226.

over \$86,000 and with a median outstanding debt of \$35,000.⁶⁵ A significant portion of the total debts consisted of credit card obligations. On average, the bankruptcy petitioner had more than \$30,000 worth of credit card debts, with a median of \$20,000.⁶⁶ In fact, over two-thirds of the petitioners reported more than \$10,000 in credit card debts.⁶⁷ This heavy debt burden, when combined with particularly low income levels, has contributed to a large debt-to-income ratio for the households in the bankruptcy sample with a median of 1.2.⁶⁸ Hence, at the median, a petitioner's family owed debts greater than one year's worth of income.

The heavy debt burden, along with the low homeownership rate, contributed to the large negative net worth in the bankruptcy sample. A debtor's net worth is a vital indicator used to assess his or her relative financial well being.⁶⁹ The mean net worth of the bankruptcy petitioner in the sample was negative \$54,504, and the median net worth was negative \$29,840.⁷⁰ An overwhelming 89.2% of the sampled population had a negative net worth compared to only 12.6% in the general population outside of bankruptcy.⁷¹

65. The mean was \$86,246 (\$48,389 without outliers). The standard deviation was 317,745. A recent national bankruptcy study has found a similar outstanding debt amount for the bankruptcy petitioners with an average of \$90,894 and a median of \$63,486. See *Less Stigma or More Financial Distress*, *supra* note 61, at 233.

66. The average credit card debt of the bankruptcy petitioner in the sample was \$30,471 (\$25,229 without outliers), with a median of \$20,000 and a standard deviation of 44,467. Previous empirical studies have found similar results. See *THE FRAGILE MIDDLE CLASS*, *supra* note 1, at 121 (stating that the range of average credit card debt among bankruptcy petitioners in the United States was between \$14,260 and \$28,955).

67. See *Less Stigma or More Financial Distress*, *supra* note 61, at 233 (finding that 56.2% of all bankruptcy petitioners owed more than \$10,000 in credit card debt at the time of filing for bankruptcy protection).

68. The average debt-to-income ratio of the debtor's household in the bankruptcy sample was 2.3 (1.7 without outliers), with a median of 1.2. To make the debt-to-income ratio a useful account of the financial condition of the petitioner, we did not measure total debt of all petitioners against total income of all petitioners. Instead, we measured the debt-to-income ratio on a debtor-by-debtor basis and then averaged the ratios. Also, we omitted from the sample petitioners reporting no income since arithmetically we would not be able to divide total debt by zero. Hence, the debt-to-income ratio reported here understates the true debt-to-income ratio of the sample. A recent empirical bankruptcy study across a number of districts has found a higher debt-to-income ratio with a median of 3.04, with an average ratio of 4.35. See *Less Stigma or More Financial Distress*, *supra* note 61, at 230. It is plausible that the lower debt-to-income ratio reported in this study is due to the higher average household income reported by petitioners in this study.

69. See *AS WE FORGIVE OUR DEBTORS*, *supra* note 1, at 70.

70. The average without the outliers was $-\$38,753$. The standard deviation was 493,768. In order to make the net worth calculation a useful account of the financial condition of the petitioner, we did not measure total assets of all petitioners against total liabilities of all petitioners. Instead, we measured the net worth on a debtor-by-debtor basis and then averaged the results. Similar general findings were reported in previous studies of bankruptcy petitioners, although the extent of negative net worth was measurably higher in this study. See *THE FRAGILE MIDDLE CLASS*, *supra* note 1, at 72 (finding that the mean net worth of the bankrupt debtors was $-\$16,819$, and their median net worth was $-\$10,542$). It is plausible that the higher negative net worth reported in this study as compared to previous studies is due to the lower homeownership rate reported in this sample.

71. This finding is consistent with the findings from previous empirical studies in the United States. See, e.g., *THE FRAGILE MIDDLE CLASS*, *supra* note 1, at 72 ("Only 12.6 percent of the total United States population has a net worth of zero or negative value, compared with nearly all of the bankrupt debtors.").

B. Minorities in Bankruptcy

Before examining the data relating to minority entrepreneurs, we scrutinized whether minority petitioners in general were overrepresented in the bankruptcy sample. The data suggest that Hispanics and Asians are underrepresented in the bankruptcy sample, while Blacks and Whites are overrepresented in the bankruptcy sample.

As of 2004, there were at least 1,798,912 people residing in the San Fernando Valley: 42% of the population was Hispanic (759,611), 42.8% was White (774,989), 10.7% was Asian (193,520), 4.1% was Black (74,152), and 0.3% was Native American (5,425).⁷² The following table shows the actual and expected data on the racial make-up in the bankruptcy sample in Los Angeles:

	Actual Data	Expected
White	738 (49.2%)	616 (42.8%)
Black	123 (8.2%)	59 (4.1%)
Asian	99 (6.6%)	154 (10.7%)
Hispanic	472 (31.5%)	605 (42.0%)
Native American	7 (0.5)	5 (0.3%)
Total	1439	1439

The expected numbers of people who filed for bankruptcy were calculated based on the null hypothesis that regardless of race, probability of filing for bankruptcy is the same. Given the Chi-square test statistic $\chi^2=140.44$ with four degrees of freedom, p-value is close to 0%. Thus, the null hypothesis is quite strongly rejected at a significance level of 99.9%, i.e., $\alpha = 0.001$.⁷³

To test the hypothesis whether Hispanics and Asians are equally or overrepresented in the bankruptcy sample, we employed the lower tail population proportion test to each one of these ethnic group's expected and observed frequency in the sample. Using the table of areas for the standard normal distribution, we found that the area between the mean and Z (7.3 for Hispanics and 4.7 for Asians) is larger than 0.4990. Thus, the p-value for both hypotheses is less than 0.001. Since the p-value is significantly lower than alpha, there is sufficient statistical evidence to reject strongly both null hypotheses that Hispanics and Asians are equally or overrepresented in the bankruptcy sample at the $\alpha=0.05$ (and $\alpha=0.01$) significance. Hence, we were able to adopt the alternative hypothesis that Hispanics and Asians are underrepresented in the

72. SAN FERNANDO VALLEY ECON. RESEARCH CTR., SAN FERNANDO VALLEY ECONOMIC REPORT 66-67 (2005), available at <http://www.csun.edu/sfverc/reports/pdfs/05/socialP60-81.pdf> (last visited Apr. 6, 2008).

73. The chi-squared test is used to test the hypothesis that each proportion in column (2) is equal to the corresponding proportion in column (3).

bankruptcy sample.

In contrast, to test the hypotheses whether Whites and Blacks are equally or underrepresented in the bankruptcy sample, we employed the upper tail population proportion test to each one of these ethnic groups' expected and observed frequency in the sample. Using the table of areas for the standard normal distribution, we found that the area between the mean and Z (87 for Whites and 8.4 for Blacks) is larger than 0.4990. Thus, the p-value for both hypotheses was less than 0.001. Since the p-value is significantly lower than alpha, there is sufficient statistical evidence to reject strongly both null hypotheses that Whites and Blacks are equally or underrepresented in the bankruptcy sample at the $\alpha=0.05$ (and $\alpha=0.01$) significance. Hence, we were able to adopt the alternative hypothesis that Blacks and Whites are overrepresented in the bankruptcy sample. Previous studies of minorities in bankruptcy have similarly found that Whites and Blacks are overrepresented in bankruptcy, while all other minority groups are underrepresented.⁷⁴

Some of the demographics of these ethnic petitioners in the bankruptcy sample are consistent with their respective demographics in the local general population. For example, the gender make-up of the minority and non-minority bankruptcy petitioners is generally evenly divided, just as it is in the general population.⁷⁵ Similarly, just as the minority population tends to be younger compared to the non-minority population, minority petitioners in the bankruptcy sample were on average four years younger than their non-minority counterparts.⁷⁶ Likewise, the religious affiliation of the minority and non-minority bankruptcy petitioners corresponds to a large extent to their religious affiliation outside of bankruptcy, with the minority population tending to be more affiliated with Christianity.⁷⁷

74. See, e.g., THE FRAGILE MIDDLE CLASS, *supra* note 1, at 46 (finding that White composition in the five-state population was 65.6%, compared to 69.3% in the bankruptcy population; Blacks made up 10.2% of the general population compared to 17.5% of the bankruptcy population; Hispanics composed 18.5% of the general population in the five states but were only 9.8% of the bankruptcy population; and Asian/Pacific Islanders were 5.1% of the general population in the five states but were only 2% of the bankruptcy sample).

75. In the bankruptcy sample, 53% of the minority and non-minority petitioners were women. In the general population in Los Angeles County in 2005, women made up 50.3% of the non-minority population, 54% of the black population, 52.5% of the Asian population, and 49.7% of the Hispanic population U.S. BUREAU OF THE CENSUS, 2005 AMERICAN COMMUNITY SURVEY, SELECTED POPULATION PROFILES, LOS ANGELES COUNTY, CALIFORNIA (2005) (data obtained by restricting to the following population groups: White alone, Asian alone, Hispanic or Latino (of any race), and black or Black alone). This roughly equal distribution of gender in the bankruptcy sample was not present among the Asian and the Black petitioners. Less than a third (31%) of the Black petitioners were male. In contrast, more 55% of the Asian petitioners were male.

76. The median age of minority petitioners in the bankruptcy sample was 39, compared to an average age of 43 among the non-minority petitioners. This difference is significant at $p=0.002$. In Los Angeles County in 2000, the average age of the White population was 36; 32 among the Blacks; 35 among Asians; and 25 among the Hispanics. See *id.*

77. Among the non-minority petitioners in the bankruptcy sample, 71% were reportedly Christian, 13% were Jewish and 0.5% were Muslim. Among the minority petitioners in the bankruptcy sample, 92.3% were Christian, .04% were Muslim and 0.7% were Jewish. This difference is statistically

Nonetheless, unlike the general population, both minority and non-minority petitioners (with the exception of Blacks) in the sample reported a substantially higher divorce rate and a much lower marriage rate than their counterparts in the general population.⁷⁸

Just as minority groups face challenges in society at large, they also face similar challenges in bankruptcy. As a group, more of the minority bankruptcy petitioners were first-generation immigrants. Whereas almost 90% of the non-minority bankruptcy petitioners were born in the United States, less than half of the minority bankruptcy petitioners were native-born.⁷⁹ This disparity is particularly strong among Asian and Hispanic bankruptcy petitioners, with only a third of them being native-born.⁸⁰

Aside from the challenges of being largely a group of first-generation immigrants to the United States, minority petitioners in the bankruptcy sample reported significantly inferior human capital characteristics. For example, almost 40% of the White bankruptcy petitioners were classified as educated, with at least an Associate of Arts degree. In contrast, only a quarter of the minority bankruptcy petitioners have reportedly earned at least an Associate of Arts degree.⁸¹

Despite being largely first-generation immigrants with limited educational backgrounds, a smaller number of minorities in the bankruptcy sample reported receiving government assistance.⁸² Also, significantly fewer minority bankruptcy

significant at $p=0.000$. The religious affiliation of residents in Los Angeles County was similar, with 85% affiliated as Christian, 8.6% affiliated as Jewish, and 1.4% affiliated as Muslim. See Los Angeles Almanac, Religious Affiliation by Religious Body: Los Angeles County (2000), <http://www.laalmanac.com/religion/re01.htm> (last visited on Feb. 15, 2007).

78. Among the non-minority petitioners in the bankruptcy sample, 34% were single, 28% were married, 30% were divorced, and 0.5% were widowed. Among the minority petitioners in the bankruptcy sample, 42% were single, 35% were married, 19% were divorced, and 2% were widowed. These differences are significant at $p=0.000$. In contrast, among Whites in the general population, 49.1% were married, 5.7% were widowed, 12.2% were divorced or separated, and 33% were single. Among Blacks in the general population, 29.7% were married, 6.9% were widowed, 17.5% were divorced or separated, and 45.9% were single. Among Asians in the general population, 56.9% were married, 5% were widowed, 7% were divorced or separated, and 31.2% were single. Among Hispanics in the general population, 48.2% were married, 3.6% were widowed, 9.4% were divorced or separated, and 38.8% were single. See U.S. BUREAU OF THE CENSUS, *supra* note 75.

79. Among the non-minority bankruptcy petitioners, 89% were native-born. In contrast, only 46% of the minority petitioners were native-born. This difference is statistically significant at $p=0.000$.

80. Among Asian petitioners, only 29% were native-born; among Hispanic petitioners, only 36% were native-born. This difference is statistically significant at $p=0.000$.

81. Among non-minority bankruptcy petitioners, 38% had an Associate of Arts degree or a more advanced degree. In contrast, among minority bankruptcy petitioners, only 26% were similarly educated. This difference is statistically significant at $p=0.000$. A similar educational achievement disparity exists in the general population between the minority and non-minority populations (except for Asians). In 2005 in Los Angeles County, 30.9% of the White population had at least a Bachelor's degree, compared to 22.4% of the black population and 8.6% of the Hispanic population. Among Asians, 46.8% had at least a bachelor's degree. See U.S. BUREAU OF THE CENSUS, *supra* note 75.

82. Among the non-minority bankruptcy petitioners, 13% reported receiving some kind of government assistance. In contrast, among minority bankruptcy petitioners, only 10.7% of the petitioners in the sample received government assistance. This difference is not statistically significant.

petitioners were assisted by an attorney in the bankruptcy process.⁸³

By far the most conspicuous disparities between minority and non-minority petitioners in the bankruptcy sample relate to their financial condition. The household income of minority bankruptcy petitioners was almost a quarter less than their White counterparts in the bankruptcy sample.⁸⁴ While minority petitioners had substantially lower household incomes, they also had significantly higher numbers of dependents to support.⁸⁵ Similarly, minority petitioners reported significantly less ownership of capital. For example, the homeownership rate among minority petitioners was almost half the rate of that among White petitioners.⁸⁶ Among the homeowners in the bankruptcy sample, White petitioners reported somewhat higher (but not statistically significant) home values than the minority petitioners.⁸⁷ These gaps in homeownership rates contributed to the disparity in total value of assets between the two groups, where the total value of assets reported by the minority petitioners was less than half of the value reported by the White petitioners.⁸⁸

While minority petitioners displayed inferior income and wealth acquisition, they reportedly owed significantly less than their non-minority counterparts. On average, White petitioners in the sample owed well over \$100,000 (with a median of \$40,000), while minority petitioners owed less than \$50,000 (with a median of

83. Among non-minority bankruptcy petitioners in the sample, 52.3% were represented by an attorney, compared to only 43% among minority petitioners. This difference is statistically significant at $p=0.004$.

84. Among non-minority bankruptcy petitioners in the sample, the average household annual income was \$51,180 (\$41,796 without outliers), with a median of \$38,400, and a standard deviation of \$7,182. In contrast, among minority bankruptcy petitioners, the average household annual income was \$38,280 (\$32,004 without outliers), with a median of \$28,944, and a standard deviation of \$3,733. The difference is not statistically significant.

85. Among non-minority bankruptcy petitioners in the sample, the average petitioner had 1.1 dependents (1.05 without outliers) with a median of 1 and a standard deviation of 1.3. In contrast, among minority petitioners in the sample, the average petitioner had 1.7 dependents (1.5 without outliers), with a median of 2 and a standard deviation of 1.5. This difference is statistically significant at $p=0.000$.

86. Among non-minority bankruptcy petitioners in the sample, the average homeownership rate was 10%, compared to only 5.7% among minority petitioners. This difference is statistically significant at $p=0.002$. Similar disparity in homeownership rates between minorities and non-minorities (except for Asians) exists in Los Angeles. In 2005, the homeownership rate among Whites in Los Angeles County was 54.5%, compared to 38.7% among Blacks, 39.9% among Hispanics, and 50.5% among Asians. See U.S. BUREAU OF THE CENSUS, *supra* note 75. This disparity in homeownership rates is partly a product of the lower human capital characteristics displayed by some minority groups. See *id.*

87. Among non-minority bankruptcy petitioners, the average home value was \$309,146 (\$300,465 without outliers), with a median of \$300,000 and a standard deviation of 200,378. In contrast, among minority bankruptcy petitioners, the average home value was \$285,655 (\$281,959 without outliers), with a median of \$275,000 and a standard deviation of 151,182. The difference is not statistically significant. Similarly, in the general population, minorities (except for Asians) in Los Angeles County reported lower home values than non-minorities. In 2005, the median value of a home among Whites was \$519,700, compared to \$390,600 among Blacks, \$408,200 among Hispanics, and \$497,600 among Asians. See *id.*

88. Among non-minority bankruptcy petitioners, the average worth of assets reported was \$38,417 (\$12,530 without outliers), with a median of \$5,000 and a standard deviation of 147,586. Among minority bankruptcy petitioners, the average value of assets was \$15,793 (\$6,669 without outliers), with a median of \$2,634, and a standard deviation of 54,123. The difference is significant at $p=0.000$.

\$30,000).⁸⁹ Both minority and non-minority petitioners disclosed sizable credit card debts. The non-minority petitioners reported greater credit card debt at an average of \$36,261 (\$24,000 median), compared to \$22,574 (\$17,000 median) among the minority.⁹⁰ Nonetheless, relative to the non-minority petitioners, minority petitioners' credit card debt constituted a greater share of their total debt.⁹¹ The appreciably higher level of debt undertaken by the White petitioners was also manifested in their higher debt-to-income ratio, as well as in their lower overall net worth compared to the minority petitioners in the bankruptcy sample.⁹²

The higher level of debt reported by the non-minority bankruptcy petitioners may be due in part to minority groups' potentially limited access to credit.⁹³ Also, the higher debt level among non-minority petitioners may be the result of their greater tendency to engage in entrepreneurship as compared to minority petitioners. Indeed, the self-employment rate among non-minority petitioners in the bankruptcy sample was 19%, more than twice the 8% self-employment rate among minority petitioners.⁹⁴ Similarly, business failure was cited as the cause of bankruptcy much more often among non-minority petitioners than among

89. Among non-minority bankruptcy petitioners, the average total debt was \$109,324 (\$61,562 without outliers), with a median of \$40,000 and a standard deviation of 412,132. Among minority bankruptcy petitioners, the average total debt was \$48,348 (\$35,530 without outliers), with a median of \$30,000 and a standard deviation of 89,759. This difference is statistically significant at $p=0.000$.

90. Among non-minority bankruptcy petitioners, the average total credit card debt was \$36,261 (\$29,609 without outliers), with a median of \$24,000 and a standard deviation of 53,470. In contrast, among minority bankruptcy petitioners, the average total credit card debt was \$22,574 (\$20,616 without outliers), with a median of \$17,000 and a standard deviation of \$19,854. The difference is statistically significant at $p=0.000$.

91. Among non-minority bankruptcy petitioners, the mean ratio of credit card debt to total debt was 0.63 (0.62 without outliers), with a median of 0.66 and a standard deviation of 0.42. Among minority bankruptcy petitioners, the mean credit card debt to total debt ratio was 0.7 (0.63 without outliers), with a median of 0.66 and a standard deviation of 1.2. The difference is not statistically significant. This particularly high credit card debt to total debt ratio is likely be the result of the low number of petitioners in the sample that were homeowners ($N=122$) or that had a home mortgage ($N=103$). To make the credit card debt to total debt ratio a useful account of the financial condition of the petitioner, we did not measure total credit card debt of all petitioners against total debt of all petitioners. Instead, we measured the credit card debt to total debt ratio on a debtor-by-debtor basis and then averaged the ratios.

92. Among the non-minority bankruptcy petitioners, the average household debt-to-income ratio was 2.8 (2 without outliers), with a median of 1.3 and a standard deviation of 5.2. Among minority petitioners in the bankruptcy sample, the average household debt-to-income ratio was 2 (1.5 without outliers), with a median of 1.1 and a standard deviation of 3.1. Among the non-minority bankruptcy petitioners, the average net worth was $-\$83,994$ ($-\$46,271$ without outliers), with a median of $-\$33,000$ and a standard deviation of 457,040. Among minority petitioners in the bankruptcy sample, the average net worth was $-\$39,905$ ($-\$30,648$ without outliers), with a median of $-\$25,650$ and a standard deviation of \$105,401. These differences are not statistically significant.

93. See generally Angela C. Lyons, *How Credit Access Has Changed Over Time for U.S. Households*, 37 J. CONSUMER AFFAIRS 231 (2003) (describing progress made in the 1990s in accessibility to credit by households that have traditionally been constrained in accessing credit).

94. There were 140 non-minority entrepreneurs in the bankruptcy sample and 56 minority entrepreneurs. This difference is statistically significant at $p=0.000$.

minority petitioners.⁹⁵

C. *Minority Entrepreneurs in Bankruptcy*

Just as Hispanics and Asians were underrepresented in the bankruptcy sample, minority entrepreneurs were also underrepresented in the bankruptcy sample. As of 2000, there were 341,295 self-employed people in Los Angeles County.⁹⁶ Of these, 37% were minority-owned business owners.⁹⁷ The following table shows the actual and expected data on minority and non-minority small business owners in the bankruptcy sample in Los Angeles:

	Actual Data	Expected
Non-minority Small Business Owners	140 (67.3%)	123 (63%)
Minority Small Business Owners	55 (27%)	72 (37%)
Total	195	195

The expected numbers of entrepreneurs who filed for bankruptcy were calculated based on the null hypothesis that probability of a small business owner filing for bankruptcy is the same for minorities and non-minorities, regardless of race. Given the Chi-square test statistic $\chi^2=6.36$, with one degree of freedom, the p-value is close to 0%. Since the p-value is lower than alpha, there is sufficient statistical evidence to reject strongly the null hypothesis that minority entrepreneurs are equally represented in the bankruptcy sample at a significance level of 99.9%, i.e., $\alpha=0.001$.

To test the hypothesis that minority entrepreneurs are equally or overrepresented in the bankruptcy sample, we employed the lower tail population proportion test to the minority entrepreneurs' expected and observed frequency in the sample. Using the table of areas for the standard normal distribution, we found that the area between the mean and Z (6.9) was greater than 0.4990. Thus, the p-value for the hypothesis was less than 0.001. Since the p-value was lower than alpha, there is sufficient statistical evidence to reject strongly the null hypothesis that minority entrepreneurs are equally or overrepresented in the bankruptcy sample at the $\alpha=0.05$ (and $\alpha=0.01$) significance. Hence, we were able to adopt the alternative hypothesis that minority entrepreneurs are underrepresented in the bankruptcy sample.

95. Among the non-minority bankruptcy petitioners, 12.3% reported business failure as the cause of their bankruptcy filings, compared to only 5.4% among the minority petitioners in the sample.

96. See U.S. Bureau of the Census, DP-3 Profile of Selected Economic Characteristics, Los Angeles County, California, SF-3, (2000), available at American Factfinder, <http://factfinder.census.gov/>.

97. See U.S. Bureau of the Census, California Quick Facts: Los Angeles County 2 (2007) (finding that minority-owned firms constituted 37.2% of small business owners in Los Angeles County in 1997), available at <http://lapublichealth.org/spa7/docs/LACQuickfacts.htm>.

The White small business owners were similar in some respects to the minority small business owners in the bankruptcy sample. Both groups were made up primarily of men, and the business owners in both groups were mostly married.⁹⁸ Nonetheless, the minority small business owners were different in most other respects. They were six years younger on average,⁹⁹ almost seven times more likely to be immigrants,¹⁰⁰ and twenty percent more likely to be spiritually affiliated with Christianity than their White counterparts.¹⁰¹ Minority entrepreneurs also relied less on government support and attorney representation in the bankruptcy process.¹⁰² Overall, minority small business owners were well-educated, with 37% of them possessing at least an Associate of Arts degree, but they were dramatically less educated than their White counterparts in the sample, with over half of the non-minority small business owners possessing similar educational background.¹⁰³ This finding is consistent with the educational

98. Sixty-five percent of the White entrepreneurs in the bankruptcy sample were men. Similarly, 60% of the minority entrepreneurs in the bankruptcy sample were men. Also, the predominant marital status among both White and minority entrepreneurs in the bankruptcy sample was "married," at 41% and 43%, respectively.

99. The average age among non-minority entrepreneurs in the bankruptcy sample was 47, with a median of 46 and a standard deviation of 13 (n=140). The youngest petitioner was 23 years old, and the oldest was 85 years old. Among minority entrepreneurs in the sample, the average age was 41, with a median of 40 and a standard deviation of 11 (n=54). The youngest petitioner in that group was 24 years old and the oldest was 78 years old. The age difference between the two groups is statistically significant at p=0.002.

100. Only 9% of non-minority business owners were foreign born. In contrast, 62% of minority business owners in the sample were foreign born. This difference is statistically significant at p=0.000. Among the minority entrepreneurs in the sample, none of the Black entrepreneurs were foreign-born, but 55% of the Asian business owners were foreign-born (n=11), and 75% of the Hispanic business owners were foreign-born (n=38). Similarly, outside of bankruptcy, a significant portion of Hispanic and Asian entrepreneurs tend to be immigrants. See YAGO & PANKRATZ, *supra* note 6, at 6 ("[I]n 1992, 48% of the Latino business owners in the United States and 68% of the Asian business owners were immigrants, while less than one tenth of African-American owners were foreign born."); Marla Dickerson, *The State of Small Business in Los Angeles County*, L.A. TIMES, C-1 (Sept. 16, 1999) (reporting that only 8% of Black entrepreneurs in Los Angeles were foreign-born, compared to 75% of Asian entrepreneurs in Los Angeles); Vicki Torres, *Small Business Strategies*, L.A. TIMES, C-2 (Sept. 15, 1999) (finding that 43% of Mexican small business owners in Los Angeles were immigrants).

101. Among the non-minority bankruptcy petitioners in the sample, 53% self-identified as Christian, 1.3% self-identified as Muslims and 24% self-identified as Jewish; the balance identified other religions or did not disclose. In contrast, among the minority bankruptcy petitioners, 79% self-identified as Christians, 2.6% as Muslims, and none as Jewish; the balance identified other religions or did not disclose. This difference is statistically significant at p=0.007.

102. Among non-minority small business owners in the bankruptcy sample, the percentage of government dependents was 1.24, compared to 1.46 among minority business owners. This difference is not statistically significant. Also, 51% of the non-minority small business owners in the bankruptcy sample reported being represented by an attorney, compared to only 39% of minority entrepreneurs. This difference is not statistically significant.

103. Among minority entrepreneurs in the bankruptcy sample, 37% were educated with at least an Associate of Arts degree. This relatively high educational attainment among minority entrepreneurs in the bankruptcy sample is consistent with the educational attainment of minority entrepreneurs not in bankruptcy. See CMTY. DEV. TECH. CTR., *supra* note 31, at 11 (finding that minority business owners in the southern California area are well-educated). Nonetheless, the educational attainment of the non-minority

disparity between minority and non-minority entrepreneurs outside of bankruptcy.¹⁰⁴

Minority entrepreneurs most dramatically lagged behind their non-minority counterparts in terms of financial characteristics. Similar to the earnings disparity between minority and non-minority entrepreneurs in general, minority entrepreneurs in the bankruptcy sample reported on average less than half the household earnings of the White entrepreneurs.¹⁰⁵ Also, minority entrepreneurs were two-thirds less likely to own a house than were White small business owners.¹⁰⁶ This disparity contributed in large measure to the minority entrepreneurs' noticeably lower capital ownership at the time of the bankruptcy filing, with their assets valued at less than a third of the value of assets held by the non-minority bankruptcy petitioners.¹⁰⁷

While not statistically significant, minority entrepreneurs in the bankruptcy sample were much less indebted compared to the non-minority entrepreneurs, with total debts less than half of the debts reported by the White business owners.¹⁰⁸ Overall, while not statistically significant, the minority entrepreneurs exhibited a weaker financial condition in terms of a higher debt-to-income ratio,

bankruptcy petitioners in the sample significantly exceeded the educational level of the minority counterparts. Among the non-minority bankruptcy petitioners in the sample, 55% were educated with at least an Associate of Arts degree. This difference is statistically significant at $p=0.002$.

104. See U.S. Dep't of Commerce, *supra* note 24, at 13, 25 (referring to previous studies finding that black and Hispanic entrepreneurs have lower levels of human capital, including education and managerial experience).

105. The average monthly household income of non-minority business owners in the bankruptcy sample was \$6,252 (\$4,098 without outliers), with a median of \$3,800 and a standard deviation of \$13,453. Among the minority small business owners in the sample, the average monthly household income was \$2,912 (\$2,579 without outliers), with a median of \$2,100 and a standard deviation of \$2,768. See MINORITY BUS. DEV. AGENCY, *supra* note 3, at 2 (reporting that minority-owned businesses have average gross receipts that are only one-fifth of the gross earnings reported by non-minority business owners).

106. Among non-minority bankruptcy petitioners in the sample, 9.3% were homeowners ($n=13$), compared to only 3.6% among minority entrepreneurs ($n=2$). This difference is not statistically significant.

107. The assets of non-minority entrepreneurs in the bankruptcy sample had an average fair market value of \$64,017 (\$25,178 without outliers), with a median of \$7,595 and a standard deviation of \$225,446 ($n=106$). In contrast, the assets of minority entrepreneurs in the bankruptcy sample had an average fair market value of \$19,733 (\$4,758 without outliers), with a median of \$3,000 and a standard deviation of \$87,620 ($n=35$). This difference is not statistically significant.

108. White small business owners in the bankruptcy sample had an average of \$280,840 in total debt (\$154,184 without outliers), with a median of \$75,000 and a standard deviation of \$890,382. In contrast, minority small business owners in the bankruptcy sample had accumulated, on average, \$131,236 in debt (\$85,481 without outliers), with a median of \$63,250 and a standard deviation of \$249,639. This disparity in debt level is consistent with findings that minority small business owners outside of bankruptcy are supplied less credit from various credit sources. See Robb, *supra* note 25, at 20 ("While 75.7 percent of small businesses used some type of credit in 1993, only 67 percent of minority-owned firms did so. The rate was even lower for [B]lacks at 63.3% percent."); Dep't of Commerce, *supra* note 24, at 13, 25 (referring to studies that have found that minority entrepreneurs are more likely to have unmet credit needs).

but a higher net worth as compared to non-minority entrepreneurs.¹⁰⁹

Similar to small business owners outside of bankruptcy, approximately half of both minority and non-minority small business owners in the bankruptcy sample were organized as sole proprietors.¹¹⁰ The typical business in the bankruptcy sample was in the retail or service industry, with minority business owners tending to operate a retail establishment and non-minority business owners operating a service establishment.¹¹¹

The main source of initial financing for the small business owners in the bankruptcy sample was credit card debt, which constituted over 40% of the business financing among the non-minority business owners and over 30% among the minority business owners in the sample.¹¹² Close behind credit card debt, minority entrepreneurs relied heavily on loans from family and friends, whereas non-minority entrepreneurs resorted to savings to finance the launching of their business.¹¹³

109. The debt-to-income ratio of the household (n=41) of the non-minority entrepreneur was 4.3 (3.8 without outliers), with a median of 2.3 and a standard deviation of 4.6. In contrast, the debt-to-income ratio of the household of the minority entrepreneur (n=17) was 5.5 (4.6 without outliers), with a median of 2.8 and a standard deviation of 6.9 (n=98). However, minority entrepreneurs in the sample fared better in terms of net worth. The average net worth of non-minority entrepreneurs in the sample was -\$261,063 (-\$124,281 without outliers), with a median of -\$61,000. In contrast, minority entrepreneurs' average net worth was -\$134,234 (-\$100,340 without outliers), with a median of -\$66,155 and a standard deviation of 298,804 (n=32). This difference is not statistically significant.

110. Among the non-minority entrepreneurs in the bankruptcy sample, 56% were sole proprietors, 19% were formed as a corporation, 8% were formed as partnerships, and 4% as other business entities. Among the minority bankruptcy petitioners in the sample, 50% were formed as sole proprietors, 7% as corporations, 11% as partnerships and 2% in other forms of business entities. The difference between the two groups is statistically significant at p=0.025. Similarly, most minority business owners in the United States in general, and in Los Angeles in particular, are sole proprietors. See OFFICE OF ADVOCACY, *supra* note 5, at 16; CMTY. DEV. TECH. CTR., *supra* note 31, at 14-15 (finding that 62% of minority small business owners in the southern California area were sole proprietors).

111. Among non-minority business owners in the sample, 20.7% operated a retail establishment, 3.6% engaged in manufacturing, and 75% engaged in service. Among minority business owners in the sample, 42% operated a retail establishment and 58% managed a service enterprise. The difference between the two groups is not statistically significant. The high tendency of small business owners to operate a retail or service enterprise likewise exists outside of bankruptcy, albeit at a lower rate than in the bankruptcy sample. See CMTY. DEV. TECH. CTR., *supra* note 31, at 14-15 (finding that most minority business owners in Los Angeles are operating in the retail and service sectors); Roger Waldinger et al., *Opportunities, Group Characteristics, and Strategies, in ETHNIC ENTREPRENEURS: IMMIGRANT BUSINESS IN INDUSTRIAL SOCIETIES*, 57 (Roger Waldinger et al., eds., 1990) (finding that minority-owned firms are overrepresented in retail and service sectors and underrepresented in manufacturing); Simms & Burbridge, *supra* note 42, at 9 (reporting that almost 70% of minority firms are to be found in retail and services compared to 55% of all firms).

112. Among non-minority bankruptcy petitioners, credit card financing composed on average 43.77% of the entrepreneurs' initial financing (43.08% without outliers), with a median of 30% and a standard deviation of 42 (n=91). In contrast, among minority bankruptcy petitioners, credit card financing composed on average 32.21% of the entrepreneurs' initial financing (30.23% without outliers), with a median of 0 and a standard deviation of 42. This difference between the two groups is not statistically significant.

113. Non-minority business owners in the bankruptcy sample resorted to personal savings to provide an average of 17% of the initial capital of the business, compared with only 7% among minority

Over the course of operating the business, credit card debt apparently remained a dominant source of financing for small businesses, particularly among the minority business owners. The prominence of credit card financing among small business owners in bankruptcy is consistent with the pattern of growing reliance by small business owners on credit cards outside of bankruptcy.¹¹⁴ Over two-thirds of the small business owners in the bankruptcy population reported using credit cards.¹¹⁵ Minority entrepreneurs reported an average of \$39,004 (\$33,000 median) in credit card debt at the time of filing bankruptcy protection, which constituted over 50% of their total debts.¹¹⁶ In contrast, non-minority business owners reported a higher average credit card debt at the point of filing the petition (\$57,303, with a median of \$38,000), which similarly constituted the majority of the entrepreneurs' debts.¹¹⁷ The credit card debts of both the minority and non-minority business owners in the bankruptcy sample substantially exceed the \$17,000 average balance outstanding among small business owners outside of

entrepreneurs. This difference is statistically significant at $p=0.001$. In contrast, among the non-minority business owners in the bankruptcy sample, initial capital from family and friends constituted only 9% of initial capital, compared to 27% among minority entrepreneurs. This difference is statistically significant at $p=0.005$. Although declining in frequency, reliance on family and friends to provide for business financing remains an important source of financing to more than a quarter of all new businesses. See JONATHAN A. SCOTT ET AL., CREDIT, BANKS, AND SMALL BUSINESS—THE NEW CENTURY 19 (2003), <http://www.nfib.com/attach/2427> (“Other loan sources, most prominently family and friends, were used much less often in the late 1990s than in the early 1990s.”); Arnold C. Cooper et al., *supra* note 25, at 6 (“Family and friends helped capitalize more than one-quarter.”). Corresponding to the finding in this bankruptcy sample, others have reported that minority small business owners tend to rely on financial support from family and friends to open and maintain an enterprise. See Jimmy Sanders & Victor Nee, *Immigrant Self Employment: The Family as Social Capital and the Value of Human Capital*, 61 AM. SOC. REV. 231, 235-236 (1996).

114. See Ronald J. Mann, *The Role of Secured Credit in Small Business Lending*, 86 GEO. L.J. 1, 14 (1997) (concluding that credit card debt is becoming the most visible borrowing alternative to many small business owners); SCOTT ET AL., *supra* note 113, at 23 (“During the late 1990s, integrated financial services companies like American Express aggressively marketed small business services and specialized bank lenders focused on marketing credit cards The change in credit card importance showed the biggest increase between 1995 and 2001. Fifteen (15) percent of owners reported credit card as the most important source for working capital in 2001, up from 11 percent in 1995.”).

115. Of the small business owners in the bankruptcy sample, 72.6% reported some credit card debt at the time of filing (77.9% among non-minority bankruptcy petitioners and 62.5% among minority bankruptcy petitioners). A similar composition (82%) of small business owners outside of bankruptcy reportedly use credit cards to finance their operations. See SCOTT ET AL., *supra* note 113, at 23.

116. Without outliers, the average credit card debt among minority bankruptcy petitioners was \$37,333, with a median of \$33,000 and a standard deviation of 31,161 ($n=35$). Hispanic entrepreneurs in the bankruptcy sample had the lowest credit card debt at \$36,614 ($n=23$), compared to \$41,000 among Blacks ($n=4$) and \$44,875 among Asians ($n=8$). The average ratio of credit card to total debt was 0.54 (0.55 without outliers), with a median of 0.52, and a standard deviation of 0.36. To make the credit card debt to total debt ratio a useful account of the financial condition of the petitioner, we did not measure total credit card debt of all petitioners against total debt of all petitioners. Instead, we measured the credit card debt to total debt ratio on a debtor-by-debtor basis and then averaged the ratios.

117. Among White entrepreneurs in the bankruptcy sample, the average credit card debt was \$57,303 (\$49,207 without outliers), with a median of 38,000 and a standard deviation of 59,980 ($n=109$). The difference in credit card debts between the two groups is not statistically significant.

bankruptcy.¹¹⁸

Minority entrepreneurs in the bankruptcy sample were typically operating a somewhat smaller size enterprise compared to their non-minority counterparts. On average, minority-owned businesses had just under three employees, whereas White-owned small businesses employed over seven employees.¹¹⁹ This difference was not statistically significant. Both minority and non-minority-owned businesses in the bankruptcy sample were much smaller than the average small business in Los Angeles of seventeen employees.¹²⁰ Consistent with the practices of their counterparts outside of bankruptcy, minority entrepreneurs in the bankruptcy sample reportedly relied more frequently on family members to assist them with their business operations.¹²¹

Aside from operating larger businesses, White-owned businesses enjoyed the benefit of greater prior business ownership experience. On average, the non-minority entrepreneur had over twelve years (with a median of ten years) of business ownership experience under his belt, compared to less than six years (with a median of four years) for the minority entrepreneur in the sample.¹²²

Similar to the challenges faced by their businesses outside of bankruptcy, the

118. See SCOTT ET AL., *supra* note 113, at 27 (“[The] average balance outstanding for those [business owners] carrying balances beyond the monthly billing cycle was almost \$17,000 with a median balance of \$4,000.”).

119. Non-minority small business owners had an average of 7.3 employees (3.7 without outliers), with a median of one employee and a standard deviation of 22 (n=120). In contrast, minority small business owners had on average 2.7 employees (1.8 without outliers), with a median of one employee and a standard deviation of 4.6 (n=43). This difference is not statistically significant. Similar disparity in the number of employees between minority and non-minority-owned businesses exists outside of bankruptcy. See LOWREY, *supra* note 4, at 7 (“The average number of employees for non-minority-owned employer firms was 21 in 1997. The average number of employees for minority-owned employer firms was lower ranging from 7 to 9 employees.”); MINORITY BUS. DEV. AGENCY, *supra* note 3, at 8 (finding that minority-owned firms have lower number of paid employees compared to non-minority-owned businesses).

120. See Paul Ong and Tania Azores, *Asian Immigrants in Los Angeles: Diversity and Divisions*, in THE NEW ASIAN IMMIGRATION IN LOS ANGELES AND GLOBAL RESTRUCTURING 100, 115 (Paul Ong et al., eds., 1994) (finding that on average firms in Los Angeles employ 17 employees).

121. On average, non-minority self-employed petitioners in the bankruptcy sample had 0.47 family members employed in the business (0.33 without outliers, a median of 0, and a standard deviation of 0.869), compared to 0.69 family employees among the minority petitioners (0.57 without outliers, with a median of 0, and a standard deviation of 1.08). This difference is not statistically significant. This greater reliance on family labor among minority entrepreneurs has also been documented outside of bankruptcy. See Amsun Assoc., *Socio-Economic Analysis of Asian American Business Patterns* 61 (1977) (unpublished manuscript, on file with author) (finding that Asian business enterprises commonly use family and friends as labor).

122. Non-minority business owners in the bankruptcy sample reported 12.5 years of business ownership experience (11.7 years without outliers, with a median of 10 years and a standard deviation of 10), compared to 5.6 years among minority entrepreneurs (5.1 years without outliers, with a median of 4 years and a standard deviation of 5.2). This difference is significant at p=0.000. Minority entrepreneurs outside of bankruptcy similarly have many fewer years of business experience compared to the non-minority business owners. See Robb, *supra* note 25, at 62 (summarizing previous research that has found that White small business owners had much more business experience than minority business owners).

bankruptcy entrepreneurs cited competition and internal business problems as the two top reasons for their business failure.¹²³ The third most frequently cited reason by non-minority small business owners for their business demise was tax-related problems.¹²⁴ Among the minority small business owners, personal problems were cited as the third most common cause for their business failure.¹²⁵

Many of the entrepreneurs in the bankruptcy sample could be considered serial entrepreneurs.¹²⁶ Over a third of both the non-minority and the minority small business owners in the bankruptcy sample had owned at least one business prior to the one at hand.¹²⁷ Also, approximately half of the bankruptcy entrepreneurs

123. Among White self-employed in the bankruptcy sample, 50% identified competition as the cause of their business failure, 12.7% identified internal business problems, 12.7% identified tax related problems, and 9.1% identified personal problems. Among minority self-employed in the bankruptcy sample, 32.1% identified competition as the cause of their business failure, 21.4% identified internal business problems, 21.4% identified personal problems, and 3.6% identified tax related problems. Similarly, a telephone survey of 2,514 small business owners in Los Angeles County in 1999 found that the top three identified problems for small business owners were as follows: (a) competition (foreign and local), with 19.1% of the small business owner population identifying it as the most serious problem facing their business; (b) internal challenges (e.g., availability of skilled workers, access to technology, access to business information, etc.), with 13.69% identifying it as the most serious problem facing their business; and (c) taxes (e.g., federal, state, county, city and property taxes), with 13.77% identifying it as the most serious problem facing their business. See The Roper Center: L.A. Times Poll #427: LA County Small Businesses 8-20, 55 (1999), [hereinafter The Roper Center] available at <http://roperweb.ropercenter.uconn.edu/cgi-bin/hsrun.exe/Roperweb/Catalog40/StateId/RINdDIr7PLs0aEnMt6x40OMsY9pJI-VV5T/HAHTpage/file?fi=25333>.

124. Among White self-employed petitioners, 12.7% identified tax-related problems as the source of their business failure. In contrast, among the minority entrepreneurs in the bankruptcy sample, only 3.6% identified tax-related problems as the source of their business collapse. This difference is not statistically significant. Similarly, White business owners outside of bankruptcy cited tax-related problems as the second most serious problem facing their businesses. See Susan Pinkus, *Poll Analysis: Los Angeles County Small Business Survey*, L.A. TIMES, Sep. 15, 1999 (“White business owners also thought [the issue of federal taxes] was of utmost importance to them. It ranked second on their list. Nearly half (46%) thought federal taxes was an important issue, including 21% who thought it was very important.”).

125. Among minority entrepreneurs in the bankruptcy sample, 21.4% identified various personal problems as the source of their business failure. In contrast, only 9.1% of the White small business owners in the bankruptcy sample identified personal problems as a main source of their business failure. This difference is not statistically significant.

126. See Douglas G. Baird & Edward R. Morrison, *Serial Entrepreneurs and Small Business Bankruptcies*, 105 COLUM. L. REV. 2310, 2337 (2005) (“[A]mong businesses that were liquidated in bankruptcy (‘shutdowns’), the owner-operator had founded a similar business before or went on to found a similar business in the future in nearly 80% of the cases.”); Richard F. Fullenbaum & Mariana A. McNeill, *The Function of Failure* 13 (1994) (unpublished manuscript, on file with author) (finding that 37% of the Chapter 7 bankruptcy petitioners interviewed in the U.S. Bankruptcy Court for the District of Maryland in the 1987-1993 timeframe had been entrepreneurs before).

127. Among the non-minority small business owners in the bankruptcy sample, 34.1% had previously owned at least one business venture (n=42). Similarly, among minority small business owners in the bankruptcy sample, 36.3% had previously owned at least one business venture (n=16). Past studies have found that more than a fifth of small business owners previously owned another small business. See U.S. BUREAU OF THE CENSUS, 1992 ECONOMIC CENSUS: CHARACTERISTICS OF BUSINESS OWNERS 102 (1997), available at <http://www.census.gov/prod/3/97pubs/cbo-9201.pdf> (reporting that 20.6% of small business owners had owned another business beforehand); Nat’l Fed’n of Indep. Bus., *Pre-ownership Experience*, 2 NAT’L SMALL BUS. POLL Issue 8, at 7-9 (2002), available at <http://www.nfib.com/object/3663050.html> (finding that 36% of small business owners owned and operated at least one business grossing \$5,000 or

expressed an interest in remaining entrepreneurs at the conclusion of the bankruptcy process, although minority entrepreneurs were markedly less enthusiastic.¹²⁸

IV. DISCUSSION

In a number of ways, the findings from this study confirm the results of previous empirical studies on bankruptcy. Demographically, bankruptcy petitioners are very similar to the general population. Nonetheless, the bankruptcy petitioners are financially much more vulnerable. With lower earnings, higher dependency on government assistance, lower homeownership rates, higher debts, and negative net worth, bankruptcy petitioners are in an inferior financial position in comparison to their counterparts in society at large.¹²⁹ Also, the findings from this study reaffirm the previously detected emerging trend of bankruptcy petitioners' growing reliance on credit cards.¹³⁰

Similarly, the findings from this study validate the results of a previous empirical examination of minority composition in the bankruptcy population. Similar to the previous study, this project has found that Hispanics and Asians are underrepresented in the bankruptcy sample, while Whites and Blacks are overrepresented.¹³¹ Furthermore, this study has found that many of the vulnerabilities and challenges minorities experience outside of bankruptcy are likewise reflected in the bankruptcy sample. Similar to findings outside of bankruptcy, most minority bankruptcy petitioners are foreign-born and have inferior human capital, monetary capital, and earnings compared to their non-minority counterparts.¹³² Similar to findings about minorities' limited access to credit, minority bankruptcy petitioners in this study reported remarkably lower indebtedness than their non-minority counterparts.¹³³

The findings from this study did not confirm our original hypothesis regarding the overrepresentation of minority entrepreneurs in bankruptcy. Despite the documented higher rate of business failure outside of bankruptcy among minority business owners,¹³⁴ minority entrepreneurs were underrepresented in the bank-

more prior to their current business); Saras D. Sarasvathy & Anil R. Menon, *Failing Firms and Successful Entrepreneurs: Serial Entrepreneurship as a Temporal Portfolio* 9 (Darden Graduate Sch. of Bus. Admin., Working Paper No. 04-05, 2003), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=571921 (concluding, based on a review of the entrepreneurship literature, that at least one third of new small businesses are founded by entrepreneurs who have started businesses beforehand).

128. Among the non-minority entrepreneurs, 50.7% of the bankruptcy petitioners expressed an interest in remaining entrepreneurs following the bankruptcy process, whereas only 42.6% of the minority entrepreneurs expressed similar sentiments. This difference is not statistically significant.

129. See *supra* notes 58-74 and accompanying text.

130. See *supra* notes 69-70 and accompanying text.

131. See *supra* notes 72-74 and accompanying text.

132. See *supra* notes 81-90 and accompanying text.

133. See *supra* notes 91-92 and accompanying text.

134. See *supra* notes 20-39 and accompanying text.

ruptcy sample.¹³⁵

There may be a number of plausible reasons for this counterintuitive finding. First, minority entrepreneurs may be underrepresented in the bankruptcy population because, as outsiders to the legal system, they have less access to legal counsel.¹³⁶ Indeed, results from this study support the hypothesis that minority entrepreneurs in bankruptcy were less likely to have been represented by an attorney in the bankruptcy process than their non-minority counterparts.¹³⁷ The underrepresentation of minority entrepreneurs in bankruptcy may also be attributed to stronger social peer pressure and shame associated with bankruptcy filing.¹³⁸

Perhaps the main reason for minority entrepreneurs' underrepresentation in bankruptcy is their diminished access to and lower levels of debt financing. Previous research has found that minority entrepreneurs are more likely to have unmet credit needs. Many minority entrepreneurs lack credit histories or required collateral, have a lower loan application submission rate, have fewer ties to financial institutions, and suffer from ethno-racial discrimination by some financial institutions.¹³⁹ Furthermore, some minority entrepreneurs may simply have less debt by choice due to culturally embedded aversions to undertaking debt.¹⁴⁰ Encumbered with less debt, minority small business owners may find it less imperative, compared to more highly leveraged non-minority establishments, to pursue bankruptcy protection when confronted with difficult financial periods, even when faced with a business closure. Similarly, minority entrepreneurs' greater reliance on family members to meet their labor and financing requirements¹⁴¹ reduces the need to seek bankruptcy protection in the event that

135. See *supra* notes 98-99 and accompanying text.

136. See THE FRAGILE MIDDLE CLASS, *supra* note 1, at 42.

137. See *supra* note 83 and accompanying text.

138. See, e.g., Thomas M. Begley et al., *The Socio-Cultural Environment for Entrepreneurship: A Comparison Between East Asian and Anglo-Saxon Countries*, 32 J. INT'L BUS. STUD. 537, 539 (2001); Augustin Landier, *Entrepreneurship and the Stigma of Failure* 20-22 (November 8, 2005) (unpublished manuscript, on file with author) (citing a large body of anecdotal evidence suggesting that failure is highly stigmatized in Europe and in certain Asian countries, whereas the American social norms are more forgiving).

139. See *supra* notes 23-25 and accompanying text.

140. See Timothy Bates, *Financing Small Business Creation: The Case of Chinese and Korean Immigrant Entrepreneurs*, 12 J. BUS. VENTURING 109, 120-122 (1997) (finding that Korean and Chinese entrepreneurs were the least reliant upon debt and most reliant upon owner equity investment); Timothy Bates, *An Analysis of Korean-Immigrant-Owned Small-Business Start-Ups with Comparisons to African-American and Nonminority-Owned Firms*, 30 URBAN AFF. Q. 227, 231 (1994) (finding that Korean immigrants relied much less on debt to finance their business compared to Black and non-minority males); see also ECMC GROUP FOUND., CULTURAL BARRIERS TO INCURRING DEBTS 19 (March 2003), available at <http://www.ecmcfoundation.org/documents/CulturalBarriersDocument.pdf> (finding qualified support for the proposition that ethnic groups have different attitudes towards debt).

141. See JAMES P. ALLEN & EUGENE TURNER, THE ETHNIC QUILT: POPULATION DIVERSITY IN SOUTHERN CALIFORNIA 206 (1997) ("Many ethnic groups which have high rates of self-employment share special ethnic resources not available to outside"); Timothy Bates, *Social Resources Generated by Group Support Networks May Not Be Beneficial to Asian Immigrant-Owned Small Businesses*, 72 SOC. FORCES

the business fails. The results from this study support this explanation of minority business owners' underrepresentation in the bankruptcy population. Minority entrepreneurs in the sample reportedly accumulated about half of the debts reported by the non-minority entrepreneurs.¹⁴² Also, minority entrepreneurs in the bankruptcy sample reportedly relied more heavily on family members to provide them with cheap labor and credit.¹⁴³

Non-minority and minority entrepreneurs in the bankruptcy sample exhibited some similarities. Both groups were primarily organized as sole proprietors, operated in the retail or service industries, and relied heavily on credit card debts.¹⁴⁴ However, by and large, minority entrepreneurs in the bankruptcy sample exhibited many of the same disadvantages they face outside of bankruptcy. Compared to non-minority entrepreneurs, the minority entrepreneurs in bankruptcy were more likely to be foreign-born and less likely to have advanced educational attainment; they also had fewer years of business ownership experience and a smaller enterprise size.¹⁴⁵ These disadvantages manifested themselves in that minority entrepreneurs reported vastly inferior financial characteristics as compared to their non-minority counterparts in bankruptcy. Minority entrepreneurs in bankruptcy reported less than half the household earnings, less than a third of the fair market value of assets, higher debt-to-income ratio, and less than half the homeownership rates as compared to their non-minority counterparts.¹⁴⁶

V. CONCLUSION

Confirming the findings from previous empirical research, this study has found that bankruptcy petitioners are demographically similar in many respects to the general population outside of bankruptcy. Nonetheless, similar to prior research, this study has found that the bankruptcy population as a whole is financially much worse off than the general population, with inferior earnings, homeownership rates, and asset holdings, as well as crushingly high debt levels.

This study also confirmed prior studies' findings that Asian and Hispanic consumers are overrepresented in the bankruptcy population. Adding to the literature, this study has found that minority entrepreneurs are underrepresented in the bankruptcy population. Plausible explanations for their underrepresenta-

671, 672 (1994) (noting the common use of unpaid family labor among recent Korean immigrants); Fairlie & Meyer, *supra* note 2, at 775-76 ("Another ethnic resource is the access of some groups to co-ethnics and family members that may provide an edge in hiring low-paid and trusted workers An ethnic group's access to rotating credit associations provides another advantage."); Min & Bozorgmehr, *supra* note 49, at 711 (Korean entrepreneurs are heavily dependent on unpaid family labor).

142. *See supra* notes 108 and accompanying text.

143. *See supra* notes 113 and accompanying text.

144. *See supra* notes 110-112 and accompanying text.

145. *See supra* notes 100, 103, 119 & 122 and accompanying text.

146. *See supra* notes 105, 106, 107 & 109 and accompanying text.

tion in bankruptcy include limited access to business debt financing, culturally embedded dislike of taking on debt, strong family support, ethnic-based shame traditionally associated with filing for bankruptcy, and inadequate access to professional legal assistance.

In many ways, the challenges faced by minorities in the general population were mirrored by the minority petitioners in the bankruptcy sample. Minority petitioners, both entrepreneurs and consumers, reported the same inferior human capital they face in the general population, particularly lower educational attainment. As in the general population, minority groups in bankruptcy were disproportionately foreign-born and reportedly relied less often on attorneys for professional help. Similar to the circumstances outside of bankruptcy, minority petitioners in the bankruptcy sample were financially more fragile than their non-minority counterparts, with substantially lower income and assets. Lastly, just as minority groups outside of bankruptcy have less access to debt, they reported less debt in bankruptcy as well.

The sample size of entrepreneurs in this study was large enough to make a number of generalizations about minority and non-minority entrepreneurs. However, it was not large enough to ascertain statistically significant differences regarding particular sub-groups within the minority entrepreneur population. Indeed, previous research suggests that important differences exist among various minority entrepreneurial groups outside of bankruptcy. Such differences outside of bankruptcy may yield differing findings among these various groups in the bankruptcy population. For example, studies have shown that the failure rate of Asian business owners is significantly lower than the failure rate of similarly situated Hispanic, black or Native American small business owners.¹⁴⁷ Likewise, Asian business owners have reportedly experienced greater access to business financing compared have Hispanic and black entrepreneurs.¹⁴⁸ This is also true in

147. See LOWREY, *supra* note 4, at 9 (finding that the survival rate of White and Asian business owners between 1997 and 2001 was 72.6% and 72.1%, respectively, compared to a survival rate of 68.6% for Hispanic business owners, 67% for Native Americans and Alaska Natives, and 61% for Blacks); APARNA MARTHUR, SMALL BUS. ADMIN., A SPATIAL MODEL OF THE IMPACT OF STATE BANKRUPTCY EXEMPTIONS ON ENTREPRENEURSHIP 31 (2005), available at <http://www.sba.gov/advo/research/rs261tot.pdf> (finding that the probability of small business closures is significantly higher for Blacks and Hispanics); OFFICE OF ADVOCACY, *supra* note 5, at 7 (finding that the survival rate of Hispanic small business owners four years after formation was 44.9%, compared to a survival rate of 48.7% among non-minority business owners, 34.7% among black-owned businesses, and 50.4% for Asian-owned businesses); Fairlie & Robb, *supra* note 44, at 6 (referring to an earlier finding that “the annual exit rate from self-employment for black men is twice the rate for [W]hite men”); Robb, *supra* note 25, at 12, 73 (“Compared with [W]hite-owned businesses, black-owned businesses were 44 percent more likely to close, Hispanic owned businesses were 12 percent more likely to close . . . and businesses owned by Asians were 17 percent less likely to close.”).

148. See David G. Blanchflower et al., *Discrimination in the Small Business Credit Market*, 84 REV. ECON. & STAT. 930 (2003) (finding that Black, Hispanic, and Asian firm owners pay higher interest rates on small business loans and are more often denied financing); Ken S. Cavalluzzo & Linda C. Cavalluzzo, *Market Structure and Discrimination: The Case of Small Businesses*, 30 J. MONEY, CREDIT & BANKING 771 (1998) (finding evidence in the pattern of outstanding loans suggesting discrimination against Black

the Los Angeles area, where access to credit reportedly remains a significant problem for Black entrepreneurs.¹⁴⁹ In addition, studies have demonstrated that Asian business owners benefit from superior human capital as compared to Hispanic and black entrepreneurs.¹⁵⁰ Also, self-employed Asians have bigger businesses, in terms of gross receipts and number of employees, than do self-employed Hispanics and Blacks.¹⁵¹ Similarly, among various minority entrepreneurs, Asian entrepreneurs report the highest annual incomes from self-employment, followed by Hispanics and Blacks.¹⁵² Moreover, studies comparing ethnic entrepreneurs have found that Asian entrepreneurs invest a significantly higher amount of capital into their businesses.¹⁵³ Asian-owned

and Hispanic firm owners, even after controlling for differences in credit-worthiness, size and other factors); Robb, *supra* note 25, at 12, 17-19 (summarizing previous studies that documented that self-employed Blacks and Hispanics are more likely to have been denied credit, even after controlling for many factors related to creditworthiness, and when they did obtain loans, the loans were for much smaller amounts with higher interest rates).

149. See CMTY. DEV. TECH. CTR., *supra* note 31, at 11; Dickerson & Lee, *supra* note 30, at A-3 (finding that loan rejection rate is similar for Asian and White business owners in Los Angeles County, but that rejection rate for Hispanic and black entrepreneurs is much higher).

150. See Bates, *supra* note 141, at 673 (finding that 57.8% of Asian entrepreneurs were college graduates, compared to 37.5% of non-minority entrepreneurs); Ellen R. Auster, *Owner and Organizational Characteristics of Black- and White-Owned Businesses*, 47 AM. J. ECON. & SOC. 331 (1988) (using data from the late 1960s and the early 1970s, the author examined black and White business owners in three urban areas, finding that black business owners had fewer years of both education and business experience); Robb, *supra* note 25, at 12, 17 (finding that White and particularly Asian entrepreneurs were much more likely to have a college degree than black and Hispanic entrepreneurs).

151. See LOWREY, *supra* note 4, at 7 (finding that 32% of Asian-owned firms had employees, compared to 26% of non-minority-owned firms and between 11% and 18% for all other minority firms); MINORITY BUS. DEV. AGENCY, U.S. DEP'T OF COMMERCE, *THE STATE OF HISPANIC BUSINESS 1* (2001), available at <http://www.mbda.gov/documents/stateofhispanicbusiness-2001.pdf> (last visited Apr. 6, 2008) ("The average size of Hispanic-owned businesses is substantially lower than nonminority firms. Hispanic-owned firms averaged \$155,000 in sales and 1.4 employees per firm compared to \$1 million and 99 employees for non-minority firms."); Fairlie & Robb, *supra* note 44, at 6 (finding that black-owned firms hire fewer employees than White-owned firms and have substantially lower sales and profits); Robb, *supra* note 25, at 12, 17 (finding that White-owned businesses were much larger in terms of gross sales and financial capital than black-owned businesses).

152. See IVAN LIGHT & CAROLYN ROSENSTEIN, *RACE, ETHNICITY, AND ENTREPRENEURSHIP IN URBAN AMERICA* 52 (1995) (examining the income of self-employed individuals, the authors found that Asian entrepreneurs generate the highest income from self-employment followed by Whites, Hispanics, and Blacks); George Borjas, *The Self-Employment Experience of Immigrants*, 21 J. HUM. RESOURCES 485, 487 (1986) (finding that self-employed Asian immigrants reported higher mean annual incomes than any other racially defined group, whether immigrant or native-born); Fairlie & Robb, *supra* note 44, at 6 (finding that only 13.9% of black-owned businesses had annual profits of \$10,000 or more, compared to 30.4% of White-owned businesses, and that nearly 40% of all black-owned businesses had negative profits).

153. See Headd, *supra* note 29, at 55 (finding that factors that best explain the likelihood of survival include starting capital greater than \$50,000 and having a college degree); Bates, *supra* note 141, at 673 (finding that the equity investment among Asian start-ups was \$26,345, as compared to \$14,014 among non-minority business owners); *id.* at 672 ("The success and survival patterns of Asian owned firms . . . are shaped by the very substantial investments of financial capital and the impressive educational credentials of the business owners."); Robb, *supra* note 25, at 62 ("Asians indeed have more capital than the other groups. Nearly 20 percent of Asians started their businesses with more than 100,000

businesses have been found to benefit from well-developed social networks that provide vital support for their businesses.¹⁵⁴

Given the disadvantaged position of most black and Hispanic small businesses compared to Asian-owned businesses, future research in this area would benefit from a large national sample of minority entrepreneurs in bankruptcy, which would allow researchers to ascertain differences and commonalities in the bankruptcy population among these various minority groups.

dollars in capital, compared with 15 percent of [W]hites, 8 percent of Hispanics, and 5 percent of [B]lacks.”).

154. See Henk Flap et al., *The Social Capital of Ethnic Entrepreneurs and their Business Success*, in IMMIGRANT BUSINESSES: THE ECONOMIC, POLITICAL AND SOCIAL ENVIRONMENT 142, 145 (Jan Rath, ed., 2000) (“Social networks as a resource explain why a new business is started, its chance of survival and why some ethnic groups are particularly successful in small businesses.”); Fairlie & Robb, *supra* note 44, at 23 (finding that self-employed Blacks are significantly less likely to have a self-employed family member, which accounts for nearly 9% of the black vs. White gap in closure rates); Amsun Assoc., *supra* note 121, at 61; Robb, *supra* note 25, at 21 (finding confirmation for previous studies that suggest that self-employed Blacks do not have the support networks to assist them with their business).

APPENDIX

**Distribution of Income, Assets, and Debts for Bankruptcy Petitioners:
General Population**

	Monthly Debtor Income	Monthly Household Income	Total Assets	Total Debt	Credit Card Debt	Debt-to-Income Ratio	Net Worth
Mean	2,126	3,710	44,068	86,246	30,471	2.3	-54,504
Standard Deviation	2,793	5,631	316,078	317,745	44,467	4.3	493,768
25 th Percentile	1,000	1,731	500	20,000	10,000	.63	-55,000
Median	1,700	2,800	4,000	35,000	20,000	1.2	-29,840
75 th Percentile	2,500	4,152	15,000	60,000	40,000	2.3	-13,000
Observations	1,347	382	971	1,227	1,105	329	907
Outliers Removed	1,829	3,070	10,040	48,389	25,229	1.7	-38,753
Missing	153	1,118	529	273	297	1,171	593

**Distribution of Income, Assets, and Debts for Bankruptcy Petitioners:
Minority/Non Minority**

	Monthly Debtor Income	Monthly Household Income	Total Assets	Total Debt	Credit Card Debt	Debt-to-Income Ratio	Net Worth
Mean	2,231/2,002	4,265/3,190	38,417/15,793	109,324/48,348	36,261/22,574	2.8/2	-83,994/-39,905
Standard Deviation	2,786/2,834	7,182/3,733	147,586/54,123	412,132/89,759	53,470/19,854	5.2/3.1	457,040/105,401
25 th Percentile	1,000/1,000	2,000/1,500	900/212	25,000/17,464	10,000/8,000	.6/6	-63,000/-45,000
Median	2,000/1,600	3,200/2,412	5,000/2,634	40,000/30,000	24,000/17,000	1.3/1.1	-33,000/-25,650
75 th Percentile	2,970/2,400	4,800/3,650	15,170/10,000	78,500/50,000	45,000/30,815	2.6/2	-15,000/-11,025
Observations	670/624	181/189	531/400	628/548	574/489	166/151	499/368
Outliers Removed	1,970/1,682	3,438/2,667	12,530/6,669	61,562/35,530	29,609/20,616	2/1.5	-46,271/-30,648
Missing	68/77	557/512	207/301	110/153	164/212	572/550	239/333

**Distribution of Income, Assets, and Debts for Bankruptcy Petitioners:
Minority/Non Minority Entrepreneurs**

	Monthly Debtor Income	Monthly Household Income	Total Assets	Total Debt	Credit Card Debt	Debt-to-Income Ratio	Net Worth
Mean	2,684/2,141	6,252/2,912	64,017/19,733	280,840/131,236	57,303/39,004	4.3/5.5	-261,063/-134,234
Standard Deviation	4,289/2,890	13,453/2,786	225,446/87,620	890,382/249,639	59,980/31,161	4.6/6.9	962,060/298,804
25 th Percentile	811/782	2,000/1,450	2,875/0	42,000/30,250	20,000/10,000	1.3/1	-136,031/-107,500
Median	2,000/1,500	3,800/2,100	7,595/3,000	75,000/63,250	38,000/33,000	2.3/2.8	-61,000/-66,155
75 th Percentile	3,125/2,050	5,000/3,350	24,228/7,190	150,000/100,000	72,500/66,500	5.9/7.9	-34,844/-24,029
Observations	123/50	45/21	106/35	119/42	109/35	41/17	98/32
Outliers Removed	2,129/1,675	4,098/2,578	25,718/4,758	154,184/85,481	49,207/37,333	3.8/4.6	-124,281/-100,340
Missing	17/6	95/35	34/21	21/14	31/21	99/39	42/24