AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

UNLEASHING MAIN STREET'S POTENTIAL: EXAMINING AVENUES TO CAPITAL ACCESS

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTEENTH CONGRESS

SECOND SESSION

HEARING HELD
JANUARY 18, 2024



Small Business Committee Document Number 118–036
Available via the GPO Website: www.govinfo.gov

U.S. GOVERNMENT PUBLISHING OFFICE
54–670 WASHINGTON : 2024

HOUSE COMMITTEE ON SMALL BUSINESS

ROGER WILLIAMS, Texas, *Chairman*
BLAINE LUETKEMEYER, Missouri
PETE STAUBER, Minnesota
DAN MEUSER, Pennsylvania
BETH VAN DUYNE, Texas
MARIA SALAZAR, Florida
TRACEY MANN, Kansas
JAKE ELLZEY, Texas
MARC MOLINARO, New York
MARK ALFORD, Missouri
ELI CRANE, Arizona
AARON BEAN, Florida
WESLEY HUNT, Texas
NICK LALOTA, New York
CELESTE MALOY, Utah
NYDIA VELÁZQUEZ, New York, *Ranking Member*
JARED GOLDEN, Maine
KWEISI MFUME, Maryland
DEAN PHILLIPS, Minnesota
GREG LANDSMAN, Ohio
MARIE GLUESENKAMP PEREZ, Washington
SHRI THANEDAR, Michigan
MORGAN MCGARVEY, Kentucky
HILLARY SCHOLTEN, Michigan
JUDY CHU, California
SHARICE DAVIDS, Kansas
CHRIS PAPPAS, New Hampshire

BEN JOHNSON, *Majority Staff Director*
MELISSA JUNG, *Minority Staff Director*

CONTENTS

OPENING STATEMENTS

	Page
Hon. Roger Williams	1
Hon. Nydia Velázquez	2

WITNESSES

Mr. Kevin O'Leary, Chairman, O'Leary Ventures, Miami Beach, FL	5
Ms. Jill Bommarito, Founder and Chief Executive Officer, Ethel's Baking Company, Shelby Township, MI	7
Mr. Douglas Holtz-Eakin, President, American Action Forum, Washington, DC	8
Mr. Everett Sands, Founder & Chief Executive Officer, Lendistry, Los Angeles, CA	10

APPENDIX

Prepared Statements:	
Mr. Kevin O'Leary, Chairman, O'Leary Ventures, Miami Beach, FL	43
Ms. Jill Bommarito, Founder and Chief Executive Officer, Ethel's Baking Company, Shelby Township, MI	45
Mr. Douglas Holtz-Eakin, President, American Action Forum, Washington, DC	48
Mr. Everett Sands, Founder & Chief Executive Officer, Lendistry, Los Angeles, CA	59
Questions and Answers for the Record:	
Questions from Hon. Velázquez to Mr. Everett Sands and Answers from Mr. Everett Sands	68
Additional Material for the Record:	
America's Credit Unions	71
California Association for Micro Enterprise Opportunity (CAMEO)	74
Chamber of Marine Commerce	78
The Daily Dish	82
Engine	83
FDIC on Deposit Insurance Thresholds	86
Small Business Investor Alliance (SBIA)	90
The Washington Post	96

UNLEASHING MAIN STREET'S POTENTIAL: EXAMINING AVENUES TO CAPITAL ACCESS

THURSDAY, JANUARY 18, 2024

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 10:00 a.m., in Room 2360, Rayburn House Office Building, Hon. Roger Williams [chairman of the Committee] presiding.

Present: Representatives Williams, Luetkemeyer, Stauber, Meuser, Van Duyne, Mann, Ellzey, Molinaro, Alford, Crane, Maloy, Velázquez, Landsman, McGarvey, Gluesenkamp Perez, Scholten, Thanedar, Chu, Davids, and Pappas.

Chairman WILLIAMS. Okay, it is 10 o'clock. We are right on time.

Before we get started I want to recognize Congressman Mann from Kansas to lead us in the pledge and the prayer.

Mr. MANN. Thank you, Mr. Chairman.

Join with me in prayer.

Dear Lord, thank you that we get to live in the greatest country in the history of the world. We pray for all the small business owners and all those that are thinking about starting a small business. Please bless their efforts. We pray that they would be led by you, as would everyone on this Committee. And we commit this hearing to you and your will. Thanks that we get to all be here. In the name of Jesus, amen.

I pledge allegiance to the flag of the United States of America. And to the Republic for which it stands, one nation under God, indivisible, with liberty and justice for all.

Chairman WILLIAMS. I would also like to make mention that you will periodically see some of our Members moving in and out. We might have a moment where there is a lot of people. We might have a moment where there is not so many people. Do not let it worry you because we have got other hearings going on and people have to be at those. So that is a normal process. So make you aware of that.

Good morning, everyone. I now call the Committee on Small Business to order.

Without objection, the Chair is authorized to declare a recess of the Committee at any time.

I now recognize myself for my opening statement.

I want to welcome all of you here today to the hearing which will focus on finding solutions for entrepreneurs to more easily access capital so they can grow their businesses.

I would like to start by thanking all of our witnesses for being with us today. Thank you very much. And we know you could be focusing on your core business operation. We greatly appreciate your attendance and your input.

Small businesses are the backbone of our communities and the engines of growth for our economy. Our nation's job creators have faced many challenges over the past few years from labor shortages to crippling inflation, yet we still prevail. While our business owners continue to face and overcome never-ending hurdles, as this Committee heard prior, access to capital remains a top concern for main street.

For a business to get off the ground, small business owners must invest their time and financial resources. For most entrepreneurs, this means going to the bank to secure a loan. This capital provides them with the resources needed to compete in the marketplace and contribute to the American economy.

Unfortunately, high interest rates and tightening lending standards are a significant barrier to growth for main street. We know American entrepreneurs who are just starting their journeys and have little credit history will be subjected to sky-high interest rates under the current economic headwinds.

As interest rates remain high, the federal government should be looking at other barriers that are making it more expensive to lend money to main street. However, there is a proposal making its way through the Federal Reserve System that will do the exact opposite. And I am, of course, speaking of the proposed Basel III capital requirements. If implemented, this rule would require the banks to hold more of their capital on the sidelines rather than lend it out to small businesses. This would harm small businesses with thin credit histories. The most of this is implemented.

Main street has been playing defense since this administration came into office, and this rule would only serve to make matters worse. For some businesses, they do not want to go to a bank and take on debt. These startups may turn to venture capital funds which invest capital in exchange for equity in the business. This is a risky undertaking for the venture capitalist betting on a business's success, but this type of financial agreement helped build some of the most successful companies we have seen in our time.

Despite these tough economic headwinds, main street still finds its way to thrive. Just as it always does, we on this Committee are focused on ensuring our nation's small businesses have a fighting chance. And I am very much looking forward to today's discussion as many are.

So with that I want to yield to our distinguished Ranking Member from New York, Ms. Velázquez, for her opening remarks.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. I would like to thank all of the witnesses for being here today.

As both Chair and Ranking Member of this Committee, ensuring small businesses have access to credit and investment opportunities has always been one of my top priorities. Under the leadership of President Biden, small business growth has proved resilient. Since he took office, 60 million Americans have filed to start new businesses, the strongest stretch on record.

While economic progress continues to be made, we must do better, and that means ensuring all of America's small businesses have the capital they need to succeed. Unfortunately, data published by the Federal Reserve found that minority-owned businesses were just as likely to apply for credit in 2020 but Black, Asian, and Latino-owned small businesses were less likely than White-owned businesses to report receiving all of the credit that they sought.

When it comes to venture funding, that disparity is even more staggering. Black and Hispanic female entrepreneurs received less than 1 percent of all venture capital investments in 2020.

SBA's capital access programs are critical to addressing these disparities. For example, the SBA's Community Advantage program has been successful at bridging this market failure, facilitating more than $139 million in microfinancing to underserved small businesses last year. Democrats have developed numerous other policies and programs to facilitate financing to women and minority-owned small businesses but this idea has been met with continued opposition from the majority.

The majority recently passed Congressional Review Act legislation seeking to overturn the CSBB's Section 1071 rule which is specifically designed to ensure women and minority-owned small businesses receive access to financing on terms similar to those as White-owned firms. This legislation was immediately vetoed by President Biden.

Attempts to ensure our banking system is resilient and well capitalized and capable of supporting busineseses in both good economic times and bad are also being met with stiff opposition from the majority.

The proposed joint rulemaking implementing the Basel III Endgame agreement is fully consistent with the important aim of enhancing the ability of small businesses to access financing.

Two key points about the proposal must be made from the outset. First, the proposed rule is just that, a proposal. It is not final, and on several occasions, Vice Chair Barr has reiterated his willingness to meet with interested parties and hear feedback. Just last week on my invitation, Vice Chair Barr met with Democrats on this Committee to discuss the proposal and answer our questions.

Secondly, there are more than 4,500 banks in this country and less than 40 percent of them will be directly affected by the rule. Community banks—I repeat, community banks which do approximately 40 percent of the nation's small business lending will not be impacted by the proposal.

Small businesses remain the backbone of our nation's economy, and ensuring large banks remain well capitalized so they do not create another financial crisis is critical to ensuring all main street small businesses have access to credit and investment opportunity.

Thank you, and I yield back.

Chairman WILLIAMS. Thank you.

We will now introduce our witnesses. I will start by recognizing my colleague, Representative Meuser to briefly introduce our first witness appearing before us today.

Mr. MEUSER. Thank you, Mr. Chairman, very much.

Our first witness with us today is Mr. Kevin O'Leary, also known as Mr. Wonderful. Many have seen him, of course, on the very successful and long-running show Shark Tank. Mr. O'Leary is the Chairman of O'Leary Ventures located in Miami, Florida. Mr. O'Leary founded O'Leary Ventures in 2000 to support startups and early-stage businesses across virtually every sector because of the breadth of his investment portfolio. As I understand it, much of it from Shark Tank. O'Leary Ventures has a proprietary network that continually works to support portfolio companies. In 2007, he joined the cast of the Canadian TV show Dragon's Den, the international business reality show, a precursor, of course, for U.S. Shark Tank franchise. He is also the author of a best-selling series of books and has spoken to future entrepreneurs at Harvard, Notre Dame, MIT, and Waterloo, among others. Mr. O'Leary also serves on the investment committee at Boston's prestigious 200-year-old Hamilton Trust. Mr. O'Leary graduated from the University of Waterloo where he received an honors bachelor's degree in environmental studies and psychology. That is what my son is majoring in. There is hope for him. He then went on to attend the Ivy Business School where he earned his MBA. Mr. O'Leary, you are known as being a very direct, truthful, and fiscally responsible businessman. We here on this Committee want to base our priorities on the real world. And so from all of our witnesses, thanks for bringing the real world to our Committee. And thank you all very much for being here.

With that, Mr. Chairman, I yield.

Chairman WILLIAMS. The gentleman yields back.

Our next witness is Ms. Jill Bommarito. Ms. Bommarito is the founder and CEO of Ethel's Baking Co., located in St. Clair Shores, Michigan. Ms. Bommarito founded Ethel's Baking Co. in 2011 to carry on her tradition of cooking with love but, how do yall say it—celiac disease, a family struggle for over 30 years, often left many disappointed with recipes tailored to exclude gluten. When she hosted her first Christmas dinner for extended family, she made an entire gluten-free meal, the highlight of which was the now famous Pecan Dandy Bars. Today, along with her daughter Lily, they continue to take old-fashioned favorites catering to a modern appetite that creates gluten-free, non-processed food in over 1,500 stores across North America and online. Ms. Bommarito graduated from Michigan State University, a Spartan, with a Bachelor of Arts in communication and economics. So thank you for joining us today and we look forward to our conversation ahead.

Our next witness here with us today is Dr. Douglas Holtz-Eakin. Dr. Holtz-Eakin is the president of the American Action Forum located here in Washington, D.C. Dr. Holtz-Eakin founded American Action Forum in 2009. Prior to that he served in a variety of influencing policy decisions, including chief economist of the President's Council of Economic Advisors from 2001 to 2002, which he also worked as a senior staff economist from 1989 to 1990. From 2003 to 2005, he served as the sixth director of the Congressional Budget Office assisting Congress with numerous policies, including the 2003 Tax Cuts, the 2003 Medicare Prescription Drug Bill, and the 2005 push for Social Security Reform. He was also the director of domestic and economic policy for the John McCain Presidential

Campaign and then went on to serve as a commissioner on the congressionally chartered Financial Crises Inquiry Commission. Dr. Holtz-Eakin received a Bachelor of Arts in economics and mathematics from Dennison University and then went on to receive his Ph.D. in economics from Princeton University. Thank you for joining us today, and we look forward to our conversation ahead.

I now recognize the Ranking Member from New York, Ms. Velázquez, to briefly introduce our last witness appearing before us today.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

I would like to take a moment to recognize Mr. Evertt Sands and thank him for joining us here this morning. Mr. Sands is the founder and CEO of Lendistry, a national CDFI small business lender located in Los Angeles, California. Mr. Sands has more than 20 years of experience in banking, facilitating loans to underserved small business owners who need access to responsible capital. Mr. Sands has shared his experience and recommendations with Fortune, the National Urban League, the Wall Street Journal, and Bloomberg. He is a graduate of the University of Pennsylvania and he is an Advisory Board Member of the Penn Institute for Urban Research. Thank you, Mr. Sands. It is a pleasure to have you here this morning.

Chairman WILLIAMS. Thank you. And again, we appreciate all of you being here today.

So before recognizing the witness I would like to remind them that their oral testimony is restricted to 5 minutes in length. If you see the light turn red, you have got a problem, okay, in front of you. It means your 5 minutes have concluded and you should wrap up your testimony. And every now and then if you go over I will remind you a little bit and so we will keep this thing moving.

So with that being said I now recognize Mr. O'Leary for his 5-minute opening remarks.

STATEMENTS OF KEVIN O'LEARY, CHAIRMAN, O'LEARY VENTURES; JILL BOMMARITO, FOUNDER AND CHIEF EXECUTIVE OFFICER, ETHEL'S BAKING COMPANY; DOUGLAS HOLTZ-EAKIN, PRESIDENT, AMERICAN ACTION FORUM; AND EVERETT SANDS, FOUNDER & CHIEF EXECUTIVE OFFICER, LENDISTRY

STATEMENT OF KEVIN O'LEARY, CHAIRMAN, O'LEARY VENTURES

Mr. O'LEARY. Thank you, Chairman Williams, Ranking Member Velázquez, and Members of the Committee, thank you for giving me time to testify about the state of small business in American.

I am the Chairman of O'Shares, an ETF indexing firm and Chairman of O'Leary Ventures management, a private equity and venture investment firm. As an investor, I support entrepreneurs at every stage of their journeys. I have dozens of family-run businesses in our investment portfolios.

My definition of a small business is a private firm, often family owned, that employs between 5 and 500 people. These hard working men and women that basically account for 60 percent of job cre-

ation in America. There is no denying they are the backbone of the economy.

For decades, the US economy has enjoyed historically low interest rates. Access to capital at a low cost is always the key for funding receivables, capital expenditures, and making payroll. For small businesses in America, the majority of these services were provided by the network of over 4,000 regional banks. Almost a year ago, the network began to falter. Silicon Valley Bank and Signature Bank failed, and First Republic Bank was bailed out by taxpayers and then sold off to J.P. Morgan. This occurred while the Federal Reserve was raising rates at an unprecedented pace from almost 0 to the current 5.5 percent terminal rate. Regional banks immediately faced heightened scrutiny of their balance sheets and liquidity ratios and now bank policies are under review by their regulators. The predictable reaction was for the banks to tighten their loan books. This was immediately felt by hundreds of thousands of small business owners in every sector and geography in America. Not only did their rates increase, but regional bank liquidity dried up too. In many cases they now have to make use of the private shadow banking market at rates of 16 to 22 percent.

At the same time, federal programs like the PPP had ended and the Employee Retention Credit payments were suspended by the IRS in Q4 of 2023. To date they have not resumed and the whole ERC program is currently scheduled to end on April 15th of 2025 or even sooner.

Unfortunately, the majority of small business owners have no idea if they qualify for any of the programs inside of the Inflation Reduction Act (IRA), The CHIPS Act and Science Act, obviously, and Infrastructure Act. Small businesses do not have the resources to retain lobbyists, legal and financial advisors that interpret the acts and manage the application process. If small businesses in America are responsible for 60 percent of domestic jobs, why are these acts not written to spend 60 cents of every dollar on them, especially when their traditional sources of funding and government support programs have ended or been suspended. Instead, it looks to the market like the IRA, CHIPS and Infrastructure Acts were written specifically for S&P 500 companies that have no trouble accessing capital, yet only create 40 percent of jobs, many of these in foreign subsidiaries.

I would like to suggest some recommendations to the committee.

One, create a payroll protection program to protect noninterest paying payroll accounts in regional and community banks during the inevitable consolidation of over 4,000 regionals down to a market stable number. I first heard of this idea from Senator Hagarty and think it would be helpful.

Two, work with the numerous agencies that are implementing both the IRA, CHIPS, and Infrastructure Acts to ensure small businesses receive the fair share of these programs. Form a bi-partisan council that advocates for small business in America that is always at the table when new policy is being considered. This would ensure that new government programs and laws are actually supporting small businesses and job creation in America.

Thank you very much.

Chairman WILLIAMS. Thank you. And I now recognize Ms. Bommarito for her 5-minute opening remarks.

STATEMENT OF JILL BOMMARITO, FOUNDER AND CEO, ETHEL'S BAKING CO.

Ms. BOMMARITO. Thank you. Chairman Williams, Vice Chairman Luetkemeyer, Ranking Member Velázquez, Committee Members and guests, good morning.

My name is Jill Bommarito, and I am the founder and CEO of Ethel's Baking Company located in Metro Detroit. We are a leading wholesale gluten-free bakery specializing in dessert bars and cookies sold in grocery and specialty stores in 49 states. I am also an alumna of the Goldman Sachs 10,000 Small Businesses program.

It is an honor to be here today, and I appreciate your invitation and your attention to how a lack of access to capital is a barrier for small business growth.

Ethel's Baking Company now has annual revenue of $5 million and 26 full-time employees. I started my business in 2011 in a church kitchen with a $10,000 loan from my mom.

I quickly learned that accessing capital through traditional lending institutions was impossible without 2 years of profitability to show. That barrier led me to borrow from friends and family, as well as from our personal savings and 401k to grow the business growth. In fact, I was not able to secure my first business loan for over 5 years after I started the company.

We continued to grow and needed additional working capital but a second barrier arose. I learned that traditional lenders are also reluctant to lend to business that are growing quickly. Fast growth equals risk.

For small business owners, this feels contrary to the American Dream. Creating jobs, taking on the risks of starting something new is important but we are not treated as important.

In 2019, with distribution expanding, Ethel's had reached capacity. The only way to access the capital needed to expand was to sell equity in my company. This allowed me to build out our new 20,000 square foot facility manufacturing space to meet demand and also allowed me to have access to working capital and start that next level relationship with banking.

We continue to grow our customer base and receive purchase orders from large retailers like Costco, Target, Whole Foods, and more. This requires more capital.

When small business owners like me cannot access a loan, we are faced with three choices. We deplete personal and

retirement savings. We have the option for utilizing high-interest loans and credit cards, non-traditional lenders, and predatory lenders that exploit small businesses. Or sell equity to raise capital.

My relationship with our lender is strong, but the fact is that businesses like mine, growing quickly and in the food sector, are deemed risky. This has led me to sell additional equity.

Here is the truth. My ability to access capital for my business is my top concern every single day. That is true for every small business.

It is troubling that the Federal Reserve is considering a rule, the Basel III Endgame, that would further restrict access to capital for

small businesses. If enacted, this rule would not only cut off many small businesses from accessing the capital that they need to grow, but it will push small business owners to predatory lenders because they will have no other choice. I come from a family of entrepreneurs , and I have seen firsthand the consequences of predatory lending. It is simply unconscionable.

From my perspective, I respectfully offer two things this Committee and Congress could do to help small businesses like mine:

First, oppose the Basel III Endgame. I would like to extend my appreciation to Chairman Williams for expressing concerns about Basel III in a letter to the Federal Reserve. I would also like to thank Subcommittee Chair Meuser and Ranking Member Landsman, for leading a bipartisan letter about the proposal's negative impact on small business lending. I have joined over 3,000 small business owners from the 10,000 Small Business Voices community who signed our letter to the Federal Reserve expressing our concerns about the impact of the Basel III Endgame.

And second, modernize the SBA through reauthorization. As you know, the SBA has not been reauthorized by Congress in over 20 years. Small businesses would benefit from an agency that is as nimble and can work at the speed that we work today. Through Congressional reauthorization, the SBA could be charged with solving these capital barriers that currently exist.

Thank you for your time, and I will gladly answer any questions

Chairman WILLIAMS. Thank you very much.

I now recognize Mr. Holtz-Eakin for his 5 minute opening remarks.

STATEMENT OF DOUGLAS HOLTZ-EAKIN, PRESIDENT, AMERICAN ACTION FORUM

Mr. HOLTZ-EAKIN. Chairman Williams, Ranking Member Velázquez, Members of the Committee. Thank you for the privilege of being here today to discuss access to capital and headwinds to growth in the small business community.

I want to make three brief points and then I look forward to answering your questions.

At the moment there are really two near-term threats to access to capital. The first which has been mentioned already is the economic environment in which small businesses are operating, an environment characterized by tight credit conditions, high interest rates, and the prospect of slow economic growth over the interim. This runs the risk of both a recession and limited access to capital because of the high interest rates.

The thing that I would note about the economic conditions that I think is most troubling is that there is a very unbalanced growth pattern going on in the U.S. economy. We have seen some high topline economic growth numbers but they are driven entirely by households. Business investment in the 3rd quarter was dead flat. It looks to be repeated in the 4th quarter. That is the issue of small businesses not investing, not having any access to capital. And every post-war recession pandemic was led by a downturn in business investments. So that outlook is very important and one of real concern to me.

How long the Fed remains tight is a real issue. To give you some sense of it, the core PCE price index inflation peaked at 5.6 percent. It is now at 3.2 So that is 2/3 of the way to the 2 percent target and that took almost 2 full years. So the notion that somehow credit conditions will ease quickly I think is far from guaranteed.

That puts an emphasis on policy to provide access to capital. And here I think the real near-term threat is the regulatory burden being placed on businesses, and especially small businesses.

As I note in my written testimony, the Biden administration is imposing a regulatory burden from finalized regulations that averages about $150 billion a year so far for each year in office. That is 50 percent higher than any previous administration and well above typical administration burdens of $40 to $20 billion a year. That is simply an enormous headwind to growth and access to capital. That is across all agencies. The particular regulatory issue that this one raised so far is the Basel III Endgame. This is a proposed rule which is unique in that it provides no quantitative estimates or justification, no benefits when we know there will be large costs to raising capital standards by 20 to 30 percent. It would be in the regulators' interest to demonstrate quantitatively the impacts on the economy and in particular the small business community but we have not seen anything like that. So hopefully, the final rule will look a lot better than the proposed rule.

In survey evidence of the small business community, the proposed rule is really quite frightening. Sixty-seven percent of respondents said that if it finalized they would halt their expansion. Forty-two percent said they would be considering layoffs. And some 21 percent contemplating closing their businesses as a result. So this is a rule that has enormous impacts on the economy.

Going forward and over the longer term, I think the biggest policy uncertainty comes from the federal budget. The federal budget, according to the Congressional Budget Office will have $20 trillion of deficits over the next 10 years and there is simply no question that that kind of demand for capital by the federal government is going to impede the private sector's ability to get that capital and the most easily crowded out will be the small businesses. And so that cannot hold.

Even more important is how it gets resolved. One way to resolve that problem is to rely extensively on tax increases, in particular, the 2017 act will sunset in almost its entirety at the end of 2025. To simply take away the pro-growth aspects of that act in particular or taxes in general as a way of solving our budget deficits is not going to be a good solution. It is going to hurt the small business community dramatically. A better solution would be to rein in the growth of the large entitlement spending programs that are driving those deficits. Keep the tax burden as low and efficient as possible and provide a growth environment in which the small business community can prosper while putting the federal fiscal house in order.

There are many problems facing the economy. Those are the three I think that are most important for this Committee right now. I thank you for the chance to be here.

Chairman WILLIAMS. Thank you very much.

I now recognize Mr. Sands for his 5-minute opening remarks.

STATEMENT OF EVERETT SANDS, FOUNDER AND CEO, LENDISTRY

Mr. SANDS. Committee Chairman Williams, Ranking Member Velázquez, Vice Chairman Luetkemeyer, distinguished Members of the Committee, thank you for your interest in my first-hand knowledge.

My name is Everett K. Sands. I am honored to be invited back to offer testimony before this Committee. I have over 20 years of experience in lending at community banks. One of the largest national banks and founder and CEO of the only fintech community development financial institution, Lendistry, which has taken 1.7 million applications since our history.

My message today is that main street businesses that power our economy need small dollar loans to grow to the next level, and right now you have an army of CDFIs that stand ready to support them.

My written testimony outlines in detail the demand for smaller loans and that CDFIs, including Lendistry, have proven themselves to be the most effective capital deployers to underserved communities as a percentage of loans originated. Yet, we work with one hand tied behind our backs due to the hurdles that made sense when they were first enacted and no longer fit today's financial landscape.

In order to do our part to unleash main street, we need you to unleash us.

My first recommendation is to fix the state-by-state licensing model that prevents CDFIs from efficiently serving small businesses on a nationwide footprint. The current state-by-state licensing requirement for CDFIs not only limits how quickly capital can be distributed but also how effective the CDFI designation can be as a force to deploying responsible capital and lower loan amounts.

Applying a universal licensing model similar to residential lending, nationwide mortgage licensing system will bring about three clear benefits.

One, CDFI's can move faster to deploy capital when it is needed.

Two, CDIs can easily attain the risk management benefits of geographical distribution.

And three, more lenders will be motivated to attain a CDFI designation which would significantly increase the supply of capital provided on responsible terms and through market forces make predatory lending businesses less economically viable.

My second recommendation is to increase the access to Federal Home Loan Bank and grant access to the Federal Reserve Bank for CDFIs. The elements that go into determining a loan's interest rate are broken down simply in my written testimony. But to get right to the point, the cheaper the capital is for CDFIs, the more savings are passed down to borrowers in the form of lower interest rates. Interest received on small loans simply does not add up to enough to keep the CDFIs in business or innovate. So if a CDFI does not have low-cost sources of liquidity and has not received adequate capital, lending capital from banks, it has to make the decision to either leverage high-cost capital resulting in higher rates for borrowers or just not provide small loans at all.

Allowing access to CDFIs to the FRB and FHLB would again have three main benefits.

One, additional sources of liquidity, which means CDFIs could provide more loans to underserved communities.

Two, access to lower cost of funding will immediately decrease the interest rate CDFIs provide to their customers.

And three, as Mr. O'Leary said, private lending capital has decreased pretty significantly and the government needs CDFIs to keep the playing field both responsible and equitable.

The third recommendation is to form a taskforce to analyze programs on an ongoing basis and implement adjustments to make sure they remain catalytic and responsive. As evidenced by PPP, SSBCI and the many programs implemented to provide pandemic relief, our government can rise to the occasion to deploy assistance and save small businesses. From the capital deployer's perspective, government support is best when it is catalytic to help new industries, like renewable energy, thrive and innovate, and responsive. Capital deployment should be considerate of current market conditions like inflation.

Programs should also be built with processes in place for accountability and reporting and adjusting based on those findings. This means that though a great deal of money is pushed towards states to support small businesses via programs, there is no system in place to make sure programs continue to fit market conditions or to measure their effectiveness in relation to their missions. Instead of adjusting current programs to keep them effective, we create new programs.

In closing, Congress has taken great strides in recent years to increase access to capital for borrowers and remove roadblocks from most of our effective lenders. For mission-led lenders, part of the Endgame is disruptive and predatory firms by offering accessible, responsible alternatives. In my experience, knowledge, as well as innovation are most powerful when execution. It is my hope that with the information gathered in this room from myself and my fellow witnesses swift action will follow. Only then can main street's potential truly be unleashed.

Thank you for your time.

Chairman WILLIAMS. Thank you very much.

I now recognize myself for 5 minutes.

Ms. Bommarito, it is inspiring to hear the story of how you grew your business from a kitchen in a church to currently shipping your products to 49 states across the country. I want to congratulate you on this incredible accomplishment and hope you are proud of what you have built.

Ms. BOMMARITO. Thank you.

Chairman WILLIAMS. You mentioned in your testimony that you were not able to get your first business loan until 2016 when you used a building you purchased the prior year as collateral. Since this time your capital needs have changed as you have indicated since your business has grown.

So my question is for the other entrepreneurs that might be listening to this hearing can you talk about how your capital needs have changed through the lifecycle of your business?

Ms. BOMMARITO. Thank you, Chairman Williams.

Yes, they have. When we started you need basically money to be able to build your inventory and cover your receivables. As you grow that grows exponentially and will continue to do that. With that you are also seen as a higher risk as you are growing. Anything over 10 percent is considered risky from what I have been told from banks. And you know small businesses often do grow more than 10 percent a year. It is the large organizations that are happy with the 2 percent or a 5 percent increase in profits in growth. And it changes over time. It will continue to change. We need to have the access at the local level from our community banks in order to grow our businesses.

Chairman WILLIAMS. Thank you.

Now, many young people were first exposed to entrepreneurship through a TV show called Shark Tank. It is hard to watch that show and not think about using your own background and strengths to create a product that solves a unique problem in the marketplace. However, having an idea might be the easiest part of someone's entrepreneurship journey. There is a lot of work to turn an idea into a business plan and then to successfully execute it. I believe Congress could help many of these small businesses by simply making it easier to access federal dollars, and the government is one of the largest customers in the world and we should allow small businesses to understand and compete for the funds without the need for an entire legal department.

So Mr. O'Leary, you have a lot of experience advising small businesses. So when you see Congress pass some of these bills, how do you advise small businesses if they want to compete for the incentives? And how do you believe they have a fair shot?

Mr. O'LEARY. I think many of these bills were authored without, in my view, without any consideration of small business. They obviously, in my view, were built for companies that came here to Washington, could afford lobbyists, talked about sectoral needs like infrastructure, spending, or CHIPS Act for giant behemoth companies that make these semiconductors and, you know, obviously when these were crafted there was nobody at the table for small business. I read these acts. I look for where small business is considered. I do not see a single line. I am sorry. That is just the way it is. And my job is to be an advocate for these men and women of which there are millions in America, every small business is going to be a big business if it is successful one day. Every behemoth started small but today we have tilted our support. When we write these acts, why is 60 cents on the dollar not given to small business? Because those are the next generation of companies that will create the jobs and keep a competitive economy. A global competitive economy.

My job here in Washington, I am spending a lot more time, is going up and down the halls banging a gong saying what about my guys? I do not get this. Where is our piece of this? There is none. And so I think that is bad policy. I think there is every reason to ask why we are not being considered.

On top of that, and you brought this up in your question, I thank you for it, the regulatory environment, when you pile on the federal regulations onto state regulations have made it so difficult to start a business in the first place.

And again, to be candid, I do not invest in California or New York or Massachusetts anymore. I cannot do business there. It is not my fault. I put my money into North Dakota, West Virginia, Florida, Texas, where the path of least resistance is found. And that is okay. The competition of states. But if this is not obvious to people that you can actually regulate yourself out of business, check out California. Thank you.

Chairman WILLIAMS. Thank you very much.

And for the time that I have remaining, real quickly, as officials of the U.S. Federal Reserve are considering possible adjustments to the Basel III proposal, Mr. Holtz-Eakin, do you have any insight on its cost-benefit analysis?

Mr. HOLTZ-EAKIN. They have displayed no public cost-benefit analysis, and I think it would be important in the final rule to have that analysis included.

Chairman WILLIAMS. All right. I now recognize the Ranking Member for 5 minutes of questions.

Ms. VELÁZQUEZ. Yes. Thank you, Mr. Chairman.

Mr. Sands, the Paycheck Protection Program highlighted racial disparities in banking. As a national CDFI, can you explain how Lendistry is trying to bridge this gap and provide access to credit to small businesses in underserved communities?

Mr. SANDS. Yes. Thank you for the question.

As CDFIs, we have a responsibility really and it breaks down into three things. The first is providing access to capital to all underserved, undercapitalized businesses. That is what we do.

The second thing is to be able to take in data and basically prove that the small businesses have the ability to pay back. It is a perceived risk that minorities are not able to pay and so we do our best to work on that.

Ms. VELÁZQUEZ. Can you explain how SBA programs, like the 7(a) and Community Advantage programs, have helped your organization bridge this gap?

Mr. SANDS. Yeah. As you heard, even from the small business today, it is hard when they are in the beginning stages. And so programs like SBA, SSBCI, allow us to bridge that gap by taking additional risk and those guarantees effectively help us to take that risk and then prove that they can pay back and grow.

Ms. VELÁZQUEZ. There have been several attempts to permanently authorize the Community Advantage Program but those attempts have proven unsuccessful. How will permanently authorizing this program facilitate more lending to small businesses?

Mr. SANDS. So authorizing Community Advantage is important, and permanently authorizing it is something that must be done. What we need to consider also is that the lenders look very much like their small businesses. Microlending program, Community Advantage are for the smaller lenders. CA SBLC is for the medium lenders. And SBLC is for the larger lenders. I would ask us to think about that as we move forward.

Ms. VELÁZQUEZ. Thank you. I understand Lendistry recently decided to seek an SBAC license from the SBA and that decision was predicated at least in part by the passage of the Inflation Reduction Act (IRA) and the equity financing incentives it provides. Can you provide us with a little more perspective on that decision?

Do you think the incentives provided in the IRA will increase venture funding to small businesses more generally?

Mr. SANDS. Absolutely. I mean, it is unfortunate that sometimes you have to be surgical in terms of looking at these bills as Mr. O'Leary mentioned but one of the benefits of IRA was that it does allow for the SBIC program to be expanded. Lendistry is always looking for patient capital. We are always looking for ways that we could lend to underserved businesses and that need is growing and larger loan amounts are required in this day and age, especially to participate in programs like what we are trying to do with renewable energy, et cetera.

Ms. VELÁZQUEZ. Thank you.

Ms. Bommarito, the government guarantee provided by the SBA in the 7(a), the 504, and the other capital access programs enables lenders to offer more affordable loans with more advantageous repayment terms than they otherwise would. Would that help small businesses better overcome many of the economic pressures we are discussing here this morning? Have you utilized any of the programs that I mentioned?

Ms. BOMMARITO. Thank you very much for that question. And yes, my first loan was an SBA loan. But if I can be very frank, I started conversations when I started the company over 12 years ago. Every single bank I have been in front of has not wanted to do an SBA loan because of the paperwork, the time it takes, and have pushed me to do a non-SBA in every circumstance. So I pushed and pushed and pushed and they had to end up doing the SBA loan and I am so thankful that we were able to do that. But I do believe that——

Ms. VELÁZQUEZ. Okay, my question is if you have ever utilized.

Ms. BOMMARITO. Thank you.

Ms. VELÁZQUEZ. Some of the programs will provide better terms.

Mr. Holtz-Eakin, this is the rule, the Basel III Endgame. You just stated here that the rule is more than 300 pages and more than 50 plus pages have an economic analysis, the Fed's analysis. For you to come here and state that the rule was written without any economic analysis is not true. I invite you if you have not read it to read it and then we can discuss whether or not you might find that that is insufficient but to state that it has not done an economic analysis is not correct.

And then the banks, the Basel III impact over banks over 100—I still have, oh, I am over. Most of the changes associated on the rule are related to market trading, not credit risk.

Chairman WILLIAMS. Time is up.

Ms. VELÁZQUEZ. I yield back, Mr. Chairman.

Chairman WILLIAMS. Thank you.

I now recognize Representative Luetkemeyer from the great state of Missouri for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

You have got a great panel today. Congratulations on putting this together.

Mr. Holtz-Eakin, let me start with you. In testimony before the Banking Committee, which I sit on, and Ms. Velázquez does as well, Vice Chairman Barr, whose proposal is basically this Basel

proposal, has responded to the question from me personally, have you had an economic analysis of this said no. So I think your answer is correct. I do not know where she is getting her information from but even the Fed Vice Chair of regulation who proposed the rule said there is no economic analysis which is horrible from the standpoint of proposing rules and understanding the effect on this economy.

It reminds me of the old debate about Cecil—if you want to go there.

But anyway, Mr. Holtz-Eakin, this Basel rule, proposal in my mind, is a disaster from the standpoint we have just come through the COVID situation and our banks performed admirably. Had a hiccup this spring but that was our own fault not because of the economy. So I would just like your opinion on this rule as a former banker and a former regulator. When they say that this is only going to affect the top group of banks, these things roll downhill. Even your community banks at some point, the regulators are going to sort of wink and nod and say this is a really good idea. You need to be implementing this.

What is your thought process on this rule and its effects on capital access to small business?

Mr. HOLTZ-EAKIN. So the financial markets are by definition interconnected. And so to impose these capital requirements, I suppose you would say like the operations risk, my discontent with the proposed rule is there is no quantification of how large is operations risk. There is no quantification of the benefits to holding particular amounts of capital against operations risks. It is just hold this and we will assign it to operations risk. I think they could do a better job in defending the proposal.

Costs are costs. That is not going to be confined to operations. They are going to have to raise the revenue to cover those costs. That means all credit will get more expensive. This is going to get embedded across those banks' pricing structures. And the smaller banks often by and large are banks for funding needs of various maturities and it will spill over to the smaller banks. You cannot isolate it in just the largest banks.

They also extended it beyond what Basel III required them to affect regional banks in ways that I did not understand. And do not address Silicon Valley or Signature or any of the things that went on. And so this is an implementation of Basel III that does not hue to the necessary implementation. It has a lot of new, undocumented capital requirements that are costly but without demonstrated benefits, and it will affect the entire financial sector.

Mr. LUETKEMEYER. Thank you for that. And I appreciate your comment with regards to about $150 billion worth of new rules and regulations of cost compliance each year. That is a huge driver of inflation when you add that as a cost that has to be embedded into the price of the product or services, especially a small business.

Mr. O'Leary, thank you for being here. Great to see you again.

This morning I saw an article that said there is about $8.8 trillion in CDs and money market funds that is available and probably going to shift to the equities market as a result of interest rates coming down. That is both wonderful and not so hot at the same time. It is a two-edge sword. It is a bad deal from the standpoint

that a lot of those dollars are there for the banks to be able to loan money to small businesses. If those flow out that means they have fewer dollars to invest. But it is also a good deal from the standpoint there may be some more venture capital dollars available for small business.

Would you give me your opinion on that, please?

Mr. O'LEARY. First of all, the assumption that interest rates are going down, I am not so sure. As we all know, the Fed mandate is 2 percent inflation. Not 2-1/2, not 3, not 3.2. I assume, they will stay the course at 5.5 terminal rate until they actually see 2 percent in sight which is nowhere near in sight for a whole bunch of infrastructure reasons. In addition to a lot of new capital coming, fresh capital, I call it helicopter money from infrastructure, CHIPS, and science, and from IRA. That is inflationary. I know we called it the Inflation Reduction Act. Any time you print money it is inflationary, period. There is no other way to interpret it.

And so I think that is the pressure. It is sucking and blowing at the same time. A bit of a problem. But it has been 2 generations of people that have never seen money in a bank or in a short-term CD or short-term Treasury, make over 5 percent. And now they have seen it for the first time. the market gives you 7 to 9 percent over a long period of time. And so some portion of that money is going to stay exactly where it is because the typical portfolio prepandemic was kind of 60 percent equity, 40 percent fixed income, of which now Treasury is very attractive.

So I would agree with you. There is going to be some pressure in terms of keeping that capital in a form that banks can lend it out.

But I have to speak to this Basel III issue from a different perspective. It is bad policy and here is why. Today, our banks, the money center banks compete with New York, Zurich, and Abu Dabi. Those are the other——

Chairman WILLIAMS. The gentleman's time is up.

Mr. O'LEARY. Sorry.

Mr. LUETKEMEYER. Thank you. My time is up.

Chairman WILLIAMS. I now recognize Representative Pappas from the great state of New Hampshire for 5 minutes.

Mr. PAPPAS. Thank you very much, Mr. Chairman. I thank our panel for their comments here today as we think about some of the barriers our small business faces in accessing capital and some of the threats on the horizon, too.

Mr. Sands, if I could start with you. As you know, rural small business and entrepreneurs have long faced undue barriers with respect to accessing capital. According to a 2021 SCORE report, 40 percent of rural small business owners have trouble accessing capital. Most end up using their personal savings as we heard about earlier in terms of finding that funding source to be able to grow and thrive.

The Expanding Access to Capital for Rural Jobs Act is a bill that I helped introduce last year. It would expand the office of the Advocate for Small Business Capital Formation to include Rural small businesses and help ensure that their concerns and priorities are heard by SBA. I am wondering if you have other thoughts about this specific sector, rural small businesses, what we can do to im-

prove access to capital for those main street businesses that we know are underserved and face struggle in terms of finding the capital they need.

Mr. SANDS. Thank you for the question.

I think ultimately, what it comes down to is the deployers of capital are missing in states like New Hampshire. And so I think there needs to be some investment in terms of trying to bring more responsible capital deployers not only to New Hampshire but also to all rural areas and think about programs that can support bringing those capital deployers to the state. Likewise, I also mentioned about the state-by-state licensing. If you take someone like us at Lendistry who are in California and we are trying to go into New Hampshire, there are actually barriers for us being able to lend in your state.

Mr. PAPPAS. Thanks for that. I am wondering if you wanted to add anything to the discussion around Basel III. We know that this would impact banks with over $100 billion in assets specifically but this is a very significant and complex regulatory proposal. There are a lot of concerns. I hear them from my main street business sector, my lending community, that it could have potential downstream impacts in terms of access to capital. So we know that banks and CDFIs like you do more than 40 percent of the small business lending. What would you expect the impact would be in terms of your organization's lending capacity if this program is implemented? And do you share some of the concerns that have been voiced today?

Mr. SANDS. Yeah. I think we all want prudent banking, and we all want banks to have the right amount of equity in order to function. Likewise, we do not want at risk any of your deposits. That being said, we should recognize that we are in an inflationary environment. We should recognize that the rule is a proposal but it is not ready for the current environment that we are in today. So my actual recommendation would be to postpone Basel III as it stands today because as others have indicated, it will start at the top banks. It will then trickle down into community banks. It will then trickle down into community development financial institutions. And afterwards it would then obviously go to small businesses.

Mr. PAPPAS. Well, I appreciate those comments.

Ms. Bommarito, if I could turn to you. And thanks very much for talking a little bit about your business history. We know that in addition to capital, the most precious resource you have is your time. So being here and giving voice to these concerns is really very much appreciate and something we hear from folks in our own districts.

You mentioned SBA reauthorization, the need to take a look at this. Can you be more specific in terms of some of the thing that this Committee should consider as we look at either a wholesale reauthorization or pieces of SBA that need to be modernized to meet the needs of businesses like yours?

Ms. BOMMARITO. Absolutely. And thank you for this question.

As a small business, when I started, you do not feel you matter. And we cannot singly. We need a centralized organization, the SBA, that represents us so that we can have that voice together. And the modernization by reauthorization is so important and it al-

lows us to have more communication, to be able to utilize the system in a way that we are used to working with technology, to be able to understand these bills in a better way, and to be able to find out how we can access them. Because as it stands today, I do not have the time to even begin to read through those and find a way to be successful, take advantage of that for our business, and to be able to grow in a better way.

Mr. PAPPAS. Well, thanks for that. We certainly hope to continue to hear the voices of our main street small businesses as we move forward on this Committee. Thank you for all of your comments, and I yield back my time.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Representative Stauber from the great state of Minnesota, for 5 minutes.

Mr. STAUBER. Thank you, Mr. Chair, and Ranking Member Velázquez for holding this hearing.

You know, my home state of Minnesota has a rich history of entrepreneurship. These businesses are the cornerstone of our economy. And having been a business owner for 31 years it was tough at times. Yet, for all their efforts, the grit and determination, too many small businesses struggle to access the capital they need to survive. Small businesses have struggled under this administration, whether it is rising inflation due to Bidenomics, supply chain issues, or workforce shortages, they should not have the additional struggles due to lack of access to capital which translates to lost opportunities, unfulfilled potential, and ultimately missed contributions to our economy. Even alternative methods to funding such as venture capital are feeling the pressures of Bidenomics.

Mr. O'Leary, despite what the Biden administration claims, inflation remains high and it has recently started to tick up again. How has inflation impacted venture capital lending?

Mr. O'LEARY. Dramatically. In the last 24 months, it has seen a 39 percent decline in funding. And so the typical VC firm today is not worried about new deals. They are trying to determine in their portfolios which ones should survive and which ones they are going to let die. It is extremely difficult to raise capital for any company today from the traditional VC model as a result of this rapid change. It is almost unprecedented to go from zero to 5.5 percent terminal rate and not expect it to be like a jolt through the economy and now you are starting to really see it. And so there are some methods by which equity crowd funding, which is part of the CARES Act from way back that is actually working. I think over 308 million were raised last year using that. And that is a different form of financing. But that is a drop in the bucket compared to the billions required to fund growth through venture capital.

I would go as far to say right now venture capital is dead and it is just waiting to see what the outcome is on these changes to the bigger bank environment. Because remember, they partner with a lot of other capital, too.

Mr. STAUBER. And that was, my next question is what differences are you seeing in the VCs from entrepreneurs that are trying to pitch their business?

Mr. O'LEARY. Well, if you are a startup you are in trouble. If you are just in your first round you are in trouble. If you have al-

ready got a VC backing you for a first, second, maybe AB round, they are going to look at you closely to decide if you are one of the ones that are going to survive. You have a chance. But if you miss that window, which was basically 36 months ago, this is a very difficult time. And probably the best measure of this is the Shark Tank index. You should see the deals we are getting now because they cannot get money anywhere else. That is what happens.

Mr. STAUBER. Right. Right. Right. Thank you, Mr. O'Leary.

You know, as small business run into issues with access to capital, Basel III, it has already been mentioned, you know, it sounds reasonable until you realize the consequences of it which will squeeze access to critical financing for the businesses that drive our communities.

Mr. Holtz-Eakin, raising capital requirements will likely create barriers to growth. How could the Fed modify a Basel III source workable to help small businesses?

Mr. HOLTZ-EAKIN. I think the first and most important observation is that the banks are well enough capitalized at present so the Fed's stress test, they have been demonstrated to be well capitalized. The scenarios they can put through could be modified. So the overall need for capital has not been demonstrated by the Fed. If they want to tailor the capital charges they should be taking things off and adding the new risk charges. That is probably the biggest sort of framework that they could follow in doing the Basel III.

And I do not see the benefit to extending it to the smaller banks, the regional banks. There is nothing in Basel III that addresses the difficulties that presented First Republic, Signature, Silicon Valley. Those are different phenomenon.

Mr. STAUBER. Thank you.

And then we heard that this adminsitratino has placed $150 billion of additional regulations on small businesses. Is that a good thing, Mr. O'Leary?

Mr. O'LEARY. No. That is insane.

Mr. STAUBER. Ms. Bommarito?

Ms. BOMMARITO. Anything that creates more paperwork for us and more money is detrimental.

Mr. STAUBER. Mr. Holtz-Eakin, putting additional $150 billion on small businesses a year, is that a good or bad thing?

Mr. HOLTZ-EAKIN. It is a real headwind to growth. And it is unprecedented in previous administrations.

Mr. STAUBER. Mr. Sands?

Mr. SANDS. I would concur. The number is just too large considering where we are at in a macroeconomic environment.

Mr. STAUBER. Yeah. And I would say, too, we are hearing, in this Committee we are hearing small business men and women come before us all the time and talk about the regulations. It is stifling the growth for their company and we can change that with a different administration. I yield back.

Chairman WILLIAMS. I now recognize Representative McGarvey from the great state of Kentucky for 5 minutes.

Mr. MCGARVEY. Thank you, Mr. Chairman. I appreciate everybody being here today, and particularly talking about an issue that

obviously this Committee cares about a lot, which is access to capital for our small business owners.

One thing we have not hit a lot on today which I want to touch on is also the lack of access and the disparity in access to capital for minority and women-owned small businesses in this country. The data demonstrates this gap without question. I can also tell you from going around my district in Louisville, Kentucky, and talking to many successful entrepreneurs that women-owned businesses, that Black-owned businesses, other minority small businesses, it confirms it. They have trouble getting access to the capital they need to keep their businesses going and growing.

So I am glad to have that opportunity to discuss some of the SBA's critical programs. Some of their successful initiatives even, like 7(a), like 504, like the Community Advantage programs, as well as get into the Fed's Basel III proposal.

So you know, Mr. O'Leary said something; he does not see enough legislation and things talking about getting money to small businesses. I just want to put in a plug for a bill I have introduced that would create a position within the SBA that specifically is targeted toward getting money to small businesses, particularly our minority-owned small businesses because we do need to make sure that capital is flowing and we need to be intentional in our policy decisions about it.

Mr. Sands, your institution, 60 percent of your loans are with minority and women-owned borrowers. So I know that Lendistry would not be directly affected by the Basel proposal but I have heard concerns at home that changes to capital requirements could change the relationship between the banks targeted by the rules and the smaller financial institutions they do business with and invest in. Do you foresee your relationship with the larger banks or the relationships of your peers at community banks and MDIs changing as a result of the Basel proposal, and are you concerned that large banks will reorient away from institutions like yours and partner with CDFIs less often?

Mr. SANDS. Yeah. I mean, one of the reasons why I mentioned that maybe we should postpone it is because I do think that there should be a step back in saying how can we leverage rules like CRA reform and other rules so that we can make sure that the CDFIs and small businesses are not necessarily affected. But there is always the potential that the larger institutions will stop lending to us and as a result of obviously the ratio, the financial ratios they will have to succumb to. Most of them are extremely prudent, and so therefore, whatever the rule passes they are going to try to be even more efficient in terms of that.

Mr. MCGARVEY. I guess part of what the Basel proposal is is assigning a higher risk weight to the small or medium businesses that are not publicly traded than they would to a publicly traded one. What do you think? Do you think that the small businesses are more risky than the larger, more publicly traded ones when you are talking about providing capital from a lending institution?

Mr. SANDS. No. I think that the answer is that as long as we leverage data and we look at the information that is within those loans, there is a perceived risk out there. But leveraging that data

using the credit enhancements of SBA, SSBCI, et cetera, we have been able to prove that that risk is not actually a reality.

Mr. MCGARVEY. So you do not think this would put an unnecessary burden on private businesses trying to access capital?

Mr. SANDS. I think there is always the potential that it does. Depending on how the banks react, they are going to swing the pendulum completely to the right and they are going to be over conservative. I do not necessarily think that there is $150 billion in terms of additional regulation. I think what we are using extremes here. I think banks have an opportunity to be more efficient. I think that they have an opportunity to raise equity appropriately and they have an opportunity to make sure that they protect all of our depositors which is the U.S. citizen.

Mr. MCGARVEY. The last question I will go to Mr. Holtz-Eakin. You have argued that increased capital requirements result in either, (1) the banks making fewer loans to smaller businesses, or (2) that the loans they do make become more expensive. Obviously, something we are concerned about as a Small Business Committee.

Mr. HOLTZ-EAKIN. Right.

Mr. MCGARVEY. Last spring in this Committee, we heard from a professor at NYU, Kathryn Judge, that higher capital requirements actually lead to more lending. When a bank has more capital it lends more. This is borne out in the data when you look at the data between the years 2013 and 2019 after Dodd-Frank. Two economists made the same point last week I saw in the Washington Post. So this is not a gotcha question. It is a sincere question. Why do you think that information is wrong? And is that a correlation or is it more causal?

Mr. HOLTZ-EAKIN. I think it is a correlation. And if you compare 2013 and 2019, you are comparing the entire economic and financial environment in 2013 with 2019. A lot of things going on there. My statement is about hold everything else constant, change Basel III in isolation. What happens if you do not change anything else to generate better lending opportunities and you just make it more expensive? The banks are either going to cut down on their risk or they are going to raise their return. And so they will cut people off or they will charge more.

Mr. MCGARVEY. Thank you, Mr. Chairman. I yield back.

Chairman WILLIAMS. Now I recognize Representative Meuser from the great state of Pennsylvania for 5 minutes.

Mr. MEUSER. Thank you, Mr. Chairman. Thank you to all our witness. This is an excellent exchange. We really appreciate it.

So I spent over 20 years helping grow a small business into a large business and that is why I am very happy to be on this Committee so we can advocate as well as, in fact, lobby for small businesses to the best of our abilities. From taxes, regulations, inflation, workforce shortages, what occurred with COVID in many states, shutdowns, access to capital, all challenges far more for small businesses as I think we all agree than for the larger businesses. And with some of these new ideas of restrictions on access to capital we have data that shows only 20 percent of small businesses feel they have adequate access to capital that does not keep them from being able to sleep at night. And yet, we have this Basel III proposal that clearly we are talking about.

You know, the United States very simply has been a place, the most competitive place to grow a business. We are a country of entrepreneurs . That is what grew our country. In fact, 45 percent larger economic growth from 1945 to 2000 than the EU because we are an entrepreneurial country. But since 2000, it has been equivalent to the EU because of largely regulations and added taxes and such.

So Mr. O'Leary, I want to bring up, you brought up the Payroll Protection idea.

Mr. Chairman, for the record, Representative Luetkemeyer and I wrote a letter to FDIC Chair Gruenberg on this exactly, the TAG program, which would raise the Payroll Protection up to a million dollars from the 250. So I want to let you know we are working on that, and actually, Mr. Luetkemeyer has a billon that as well that we will pursue if we cannot get the FDIC to strongly consider it.

But let's talk about Basel III right now, Mr. O'Leary. From Brian Moynihan to Jamie Dimon, all big names but certainly to Ms. Bommarito and most small businesses, and everyone here on the panel feel that the Basel III will restrict. And clearly, when 20 to 30 percent of the large banks' reserves need to be increased, businesses are going to go to smaller banks, community banks. They will have more customers, more requests for loans, but that will limit the loans to small businesses. It is not so much the community banks are going to be hurt by it. It is the small businesses that will be hurt by it. So, Mr. O'Leary, if you would expand upon that.

Mr. O'LEARY. Yeah. I think everybody has an opinion about this. Mine is let's look at the loan book itself. If Basel III was implemented as it stands, unchanged, it would shrink loan books in America in my view between 500 billion to 800 billion in the first year. But that is not the worst part of this bill or this idea or this policy. It is the competition between money centers. So let's do a use case. Right now every state wants its own AI data center. Those projects are $1.2 billion. And you have to go get capital for that. And after the Ukrainian War everybody figured out, wait a second, where is my data? Well, let's make it domestic. Let's make sure we know where it is and it is protected. So those projects are popping up all over the states and all over the world.

Now, if you have to fund 1.2 billion, you have to go to a money center bank to get some portion of that in debt and then look to the markets for equity. If we implemented this, we would be less competitive than what is going on in Abu Dhabi or in Zurich or in London. Why would we do that to ourselves? Why not look at their regulation and say what is the level playing field here to make sure that it is competition at its best? The American banking system with all of its volatility has proven over 200 years the economy that we have today, the envy of the whole world. Why would we ever put ourselves in a situation where we are less competitive than a bank in Abu Dhabi? Who would do that? Why would you do that? Does that even make sense? Is that even American? That is my question.

Mr. MEUSER. Sure. Okay. Terrific.

Quickly on taxes, the Tax Cut and Jobs Act, R&D tax credit, bonus depreciation, small business tax cut, all will be phased out frankly if we do not work that through and frankly have a new administration in order to assure that we remain competitive. How much of a hindrance would it be on small businesses if those tax——

Mr. O'LEARY. Well, it is a horrible time to do that because obviously the stress in the system we all have been discussing for the last hour is showing up and manifesting itself mostly in community and regional banks where the loan books are very tight and there is a lot of liquidity. You are just taking away more tools, survival tools from a small business. They need every tool they can get and they need to be recognized in new policy every time it is written. I say 60 cents out of every dollar always goes to small business and that has never happened here. Maybe we should start thinking about that.

Mr. MEUSER. Thanks.

Mr. Chairman, just quickly, Mr. Holtz-Eakin wrote an essay on Basel III——

Chairman WILLIAMS. The gentleman's time is up.

Mr. MEUSER. I yield back.

Chairman WILLIAMS. He yields back.

I now recognize Representative Landsman from the great state of Ohio for 5 minutes.

Mr. LANDSMAN. Thank you, Mr. Chair. And thank you for being here with us, all four of you.

I want to start with Mr. O'Leary and Mr. Sands. Mr. O'Leary, you talked about a small business council. And I am hoping that you might say a few words about it. What I took from your comments was we are investing all of these dollars across multiple initiatives and in having a small business council, some infrastructure with leadership mostly from the small business world I suspect and lending partners would be there to ensure that the policies, the investments are flowing to small businesses as well as larger businesses. And, you know, minority-owned businesses, too. Can you just say a word or two about that?

And Mr. Sands talked about a taskforce, too. I am curious about your thoughts on how that could happen and advice to us on building that into our work but also the administration's work.

Mr. O'LEARY. Well, first, the work at hand on existing act is to find ways to interpret them so some of that capital can flow to small business. Now, they do not have any representation up here in my view.

Mr. LANDSMAN. Yeah.

Mr. O'LEARY. And they do not have the millions that you require each year to hire advisors and lobbyists. So this is something that I am very fortunate from my portfolio I can afford to hire these people and I work very hard on The Hill to get my companies their fair share if you want to call it that. But what about the other millions of small businesses? That is number one.

And I am very fortunate this afternoon I will be meeting with the Secretary of Commerce to go specifically over the CHIPS and Science Acts. I have got a bunch of analysts behind me here coming with me. Show us where the 7 to 9 billion you claim is available

in that act for small business. I will find a way to get it to small business. If it is there I will do it.

I would like to get the same support in the IRA and anything to do with infrastructure. I am willing to invest in that. But this idea of having a seat at the table on new policy that this would not ever happen again that is the infrastructure I am asking all of you to consider. That the next time you write an act put me in the room.

Mr. LANDSMAN. Yeah. Thank you for——

Mr. O'LEARY. Or somebody like me.

Mr. LANDSMAN. Yeah. Thank you for that.

Mr. Sands, any additional comment? It seems like you are on a similar trajectory.

Mr. SANDS. Yeah. I will just give you a real world example. SSBCI is for credit enhancements, money that went to states.

Mr. LANDSMAN. Yeah.

Mr. SANDS. Several of the states are now listening to the small business and lending community and saying maybe instead of just a credit enhancement we will do a loan participation.

Mr. LANDSMAN. Yeah.

Mr. SANDS. The net effect is a blended rate that is taking rates down to borrowers. We need some kind of current thinking as we think about things like Basel and other things about how we are going to actually implement this and hedge against obviously inflationary pressures.

Mr. LANDSMAN. I think you are both getting at something that I would suspect would have bipartisan support from this Committee and hopefully something that emerges from this conversation, that building that infrastructure with you all. And I cannot imagine that there is going to be much disagreement up here. And so hopefully we can come together and work on this with all of you and others.

The same I think is true for the federal licensing suggestion, that there has got to be more because that does cut through some of the state regulatory issues and creates a universal process. So I would love to work on that with my colleagues.

Ms. Bommarito, you have participated, as you mentioned, in the 10,000 Small Businesses work. We have a program in Cincinnati, at Cincinnati State. I participated. The folks who graduated have been really successful and I have gotten to spend a lot of time with them.

Advice. I am particularly interested in this sort of infrastructure, building out this infrastructure where small businesses are at the table. Based on your experience, what would you want to see?

Ms. BOMMARITO. Thank you for that question.

First, I have to say the Small Business Administration is really important and I am really thankful. But having access to the systems and being able to use the services and products can be challenging. Please bring us in and let us help be part of the solution and take our ideas as an innovation center. We will help and we can help everyone make it a better and more prosperous environment for us as small businesses truly.

Mr. LANDSMAN. Thank you. And I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Representative Mann from the great state of Kansas for 5 minutes.

Mr. MANN. Thank you, Mr. Chairman. And thank you all for being here today.

I represent the Big 1st District of Kansas which is 60 primarily rural counties in the western and central parts of Kansas. My district is the number one beef producing district, the number one wheat producing district, and the number one milo producing district in the whole country. We have 60,000 farms, ranches, feedyards, and other small businesses mostly in the agriculture space.

The folks in my district know all too well that their livelihoods often depend on forces outside of their control which are droughts, floods, geopolitical advancing conflicts can directly impact the markets that impact them. That is why for decades, small business end users like farmers and ranchers have used derivatives to hedge against volatility. Hedging common risks takes volatility out of the market for them. It also helps them manage interest rate fluctuations and input cost increases that are vital for them to maintain their business.

Unfortunately, the new bank capital requirements from the Federal Reserve's Basel III Endgame—and by the way, it has been called Basel, Basel, Basel. It seems like it is all bad, Mr. Chairman, for the district, for the small businesses in my district. But the Endgame proposal threatens access to critical risk management tools for the Ag industry and the small businesses in my district. These sweeping proposals will make it costlier for banks to centrally clear derivatives, leaving commodity producers with higher prices and less ability to hedge these risks. These tools allow Ag producers more predictability in their day-to-day operations, ultimately showing up in prices we all pay at the grocery store. Simply put, when banks face new capital hikes, farmers, ranchers, and our small agribusinesses pay more to hedge that risk.

My first question would be for you, Mr. Holtz-Eakin. It appears the federal regulators have done minimal economic analysis on the downstream effects that these requirements will have on our agriculture end users that are far outside of the major urban financial centers, especially small businesses like grain elevators and family farms. How can we better ensure the federal regulators account for the interests of all of our American communities, our rural Ag producers included?

Mr. HOLTZ-EAKIN. Well, first I will just note that there is a bipartisan letter from Members of Congress to the regulators about this issue of derivatives hedging which Mr. Meuser signed. And I do not know if you signed. I recommend that letter to you. It sort of spells out the problem very clearly.

The second thing I would say is I am not a lawyer so my understanding of the Regulatory Flexibility Act is that it was passed by Congress to make sure that all the regulators were cognizant of the direct and indirect costs they placed on small businesses. And it seems that with great regularity nobody pays attention to the direct and indirect costs that people place on small businesses. It has happened in both administrations and both parties for a long time.

I would suggest you take a close look at the Regulatory Flexibility Act and see where it can be tightened up to make sure that that analysis actually gets done and that failure to do it makes the rule nonviable. And that does not seem to be the case right now.

Mr. MANN. I agree.

Mr. Chairman, I appreciate you often highlight on this Committee, you know, our small businesses are also our farmers and ranchers who feed all of us but are often left out of the discussions and I believe are left out of the regulators when they think about these rules and how they will be impacted.

Second question will be for you, Mr. O'Leary. What are the biggest things you think the federal government ought to do to support our businesses and our rural smaller communities across this country?

Mr. O'LEARY. It is to focus on the liquidity right now at regional community banks particularly around payroll. That Wednesday night is crucial. So if you think about what they draw down from the banks and have for 100 years plus is they need capital for plant and equipment, that is longer term loans. They need to factor their receivables. If you are selling widgets to a big box retailer and they are paying you in 90 days, you need that cash in 30. And obviously, payroll. And so immediately I think the 4,000 banks will probably consolidate down to 3,000 or something in the next 5 years. During that consolidation period there is going to be a lot of instability in the bank that is being merged or acquired or whatever. Right now the way the rules are it is cheaper to let a bank fail right now because the government bails out the bank. Then you go buy the assets. That is kind of nuts. That should be fixed. Let the market be the market. But there is going to be a consolidation. And I think supporting payroll during that time would be number one. And just this regulation right now being contemplated, they are in gridlock. They do not know what the liquidity requirements are going to be so they do not loan anything. I mean, it is pretty bad. I am glad you are having these hearings. That is the right question. But this has got to be scrutinized at the regional level now. The big guys are having no problems at all. Plus, you are about to give them another $2 trillion because there is none of it for small guys. I bring that up one more time with feeling. Thank you.

Mr. MANN. Thank you. With that I yield back the balance of my time which I do not have any more of. So thank you, Mr. Chairman. I appreciate it.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Representative Chu from the great state of California for 5 minutes.

Ms. CHU. Mr. Sands, thank you for being here and for highlighting in your testimony the persistent gaps in access to capital faced by underserved small businesses.

Since 2011, the Community Advantage program has been very successful in closing the gap in terms of being able to lend to underserved communities and has been far more successful than the SBA's traditional 7(a) loan program in that regard and has been successful in making loans. Just last year made 791 loans valued at $140 million. And that is why I have worked for years to make the program permanent. I urge my Republican colleagues on this

Committee to join me as I work to introduce legislation to make this proven program permanent once and for all.

I understand that Lendistry has participated in the Community Advantage program in the past. Can you talk about your experience as a Community Advantage lender and how participating in the program allowed Lendistry to better reach underserved small businesses? If Congress makes the program permanent, what impact would that have on mission lenders' ability to continue meeting underserved businesses' needs in closing the gap and capital access?

Mr. SANDS. Thank you for the question.

So we leveraged Community Advantage, one, to be, as you mentioned, to be able to lend to underserved communities. It allowed us to have a program, quite frankly, that offered us a couple things. One, the ability to scale as we build our own internal infrastructure. Two, it gave us the ability to have strong risk management at leveraging government programs to get there. And then three, there was liquidity that could be created in the SBA secondary market. Community Advantage should be permanent. I would also encourage us to make sure that we do not try to trade operational efficiency for permanency.

Ms. CHU. Okay. Well, I would like to ask about the necessity for CFPB's section 1071 rule which requires financial institutions to collect demographic information on those applying for small business loans. There are significant gaps in access to capital. The gaps were made particularly clear during the Paycheck Protection program. For example, in 2021, there was a shocking L.A. Times report showing that minority communities in the L.A. area received far fewer PP loans than White majority communities despite Congress's clear intent that PPP should prioritize the underserved. Compounding that issue was the lack of data in the program. Three-quarters of the PPP loans issued in 2020 included no demographic information because the initial PPP application did not ask for that. And in fact, because of that lack of data, the L.A. Times had to cross reference census track data to reach their conclusions. I believe that what happened here is why we need the demographic data transparency in small business lending that CSBB section 1071 rule provides.

So Mr. Sands, can you speak to the lessons of the PPP and why data transparency like the kind required in section 1071 is needed to both understand small business lending and the disparities?

Mr. SANDS. Sure. So first of all, we use data primarily for three things. One, it is to market and understand how we should market and where we should market to help underserved communities. Two, it is to decide what is the appropriate risk management that we should be taking. Even though an SBA loan might offer up to 75 percent that may or may not be the appropriate amount. And then the third thing is we use it obviously as a tool in terms of being able to, again, disrupt a perceived risk in terms of lending to small businesses.

PPP was very interesting and the fact that it showed that banks actually can provide the data, it does need to be in a structured environment, and we were able to actually release data on a weekly

basis coming out of SBA's office in terms of who the lending went to.

The other thing I will mention to this body is there is something called the Corporate Transparency Act in which we are trying to make sure that we understand who the small businesses are so that we do not have issues like, obviously, financing of terrorism. If you were to take what happened in PPP and you take the Corporate Transparency Act, those two things could be combined to actually execute on 1971 which does need to be enacted.

Ms. CHU. And I want to ask you a particularly important question about the effort needed to comply with rule 1071. We have heard from some of the rule's opponents that financial institutions do not have the resources to comply with the rule. But I understand you are a CDFI with a small compliance staff and that you were able to collect this data. Can you tell us about your experience with it?

Mr. SANDS. Yeah. So first of all, as a former banker, whenever you open a bank account they collect the data already. So the data is already there. Second, I will say as an institution that did 200,000 PPP loans, it is not as hard as it might seem. Now, there has to be a focus on actually delivering the results and making the data available. But it is possible.

Ms. CHU. Thank you.

Mr. SANDS. Thank you.

Chairman WILLIAMS. I now recognize Representative Ellzey from the great state of Texas for 5 minutes.

Mr. ELLZEY. Thank you, Mr. Chairman. Thank you all for being here.

This is a fascinating hearing. And Chairman, thank you for doing this. As you all well know, he is a car dealer and a very good one from the Dallas-Fort Worth area. He knows about business so it is extremely important that we are holding these hearings.

I think that the name Basel III Endgameis exactly the right description of this, although their marketing might want to go back and take a look at that. There is no regulation that this administration will not find overseas that harms American businesses and adopt it. That is the bottom line.

Much like Tracey, I am from a very rural district and I come from a community banking family. The big guys can do anything they want and get bailed out. And then the hammer of the government comes in and treats everybody like they are the same size nail and they hammer the same regulations into FirstBank Southwest of Amarillo, Community National Bank of Waxahachie as if they are the big boys. When they do these regulations they harm people like Ms. Bommarito with her family business. And then it sends them to somebody like Mr. O'Leary who has made a great business and I am so glad you are here to speak the truth the way you do. It is very enlightening, Mr. O'Leary. But you do not want to send your business or sell a part of your heart and soul, Ms. Bommarito, to somebody like Mr. O'Leary. You want to access that capital in a much better way because you are giving away, you know, you are going to sell him your leg. You no longer have access to that leg with your business. And he might let it die. He said it. He said it. They have to decide if they are going to let you die or

not. If you have access to capital in a much better way you do not have to worry about that because that is your business.

Now, there is a market for that and I am not trying to disparage the VC community. However, small businesses, 60 percent of American business are like yours, an entrepreneurial spirit that you named after your grandmother. You do not want to go to VC. You want to have access to this capital that folks like us up here who write these laws, most of the folks who write the laws do not own a business and have never run one.

Government jobs exist to stay in business. They do not do that by throttling back on regulations. They have to justify their existence with more regulation.

So I am willing to bet that the cost of your bars has probably gone up because of the cost of production because you have to buy pecans from farmers who are having to get the nitrogen from Ukraine. So anybody who says that a war in Ukraine does not have a strategic impact on this country is wrong.

So with the remainder of my 2-1/2 minutes though, because as you said earlier, Mr. O'Leary, why would we do this to ourselves, I am going to yield the next 2 minutes and 24 seconds to you to finish that thought about Abu Dhabi.

Mr. O'LEARY. Yeah. There is a competition in the world today for capital. And it does not have a nationality. It looks for the path of least resistance and it goes to the place of greatest safety.

The unique situation of America is if you have a project, and I referenced this earlier, like a data center which pencils out at 11 to 15 percent return for 20 years, where are you going to put that, in Ukraine? No. You are going to put it somewhere in the United States where it is safe. If you can get the permits and the regulatory environment is good and the state taxes are competitive and you can get the customer, like an Amazon or a Microsoft or the IRS or a government agency, these are huge projects. And normally, you would go to the domestic money center bank to say I have got a 1.2 billion project here penciling out at 11 to 15. I have got lots of interest in it. But I need a banking partner. Well, you stick this Basel thing in here, we are not going to be talking to New York. We are going to talking to Abu Dhabi. That is what is going to happen. Why would you? I mean, think about that. Why do more people not think about that? You want everybody to say are we in a competitive football game here? That is what we need. Every single rule in that telephone book has to be the same rule everybody else is playing with because we are talking about trillions of dollars here looking for returns. It has got to be the same playbook.

And that is what regulators' job is to do. To make sure that we do not put a ball and chain on an American money center banks or businesses large or small. It is that simple. That is what they really should be focusing on. Not paragraph 86(b) and one line. As an aggregate, does this policy make us less competitive, in addition to the fact that we are going to lose 500, 800 billion of loans. This is horrible policy. It is horrible. There is nothing good about it.

Mr. ELLZEY. Mr. Chairman, I yield.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Representative Alford from the great state of Missouri.

Mr. ALFORD. Thank you, Chairman Williams, and Ranking Member Velázquez, for holding this. This is a very important hearing that we are having today, as is each one of these hearings we have before the Small Business Committee because it is really dealing with the fabric of America. And I am so glad you are here. Thank you for coming here today.

As a previous small business owner, I know just how important capital is. Not just to start a business but to maintain it. I also understand that access to capital can be a challenge, especially in districts like mine. In some parts of our district it is a banking desert if you will.

Today, businesses are already struggling under rampant inflation, ongoing supply chain issues, workforce shortages, and burdensome regulations. Basel III Endgame proposal would add additional pain to our small businesses by shrinking their access to capital. As we have heard today, it would force banks to increase the amount of capital that they hold by an estimated 20 percent on average. This proposal will hurt banks. It will force banks like the Community Bank of Raymore where I bank to keep more money on the sidelines, shrinking capital costs for our small businesses which are most vulnerable. These increased costs would force banks to either lend to fewer customers or to increase the cost of lending to businesses at a time when small businesses need this capital, and more importantly, as was pointed out here, they need the relationship with the community bankers.

However, the Biden administration is more focused on falling into line with international regulatory guidelines rather than protecting American small businesses.

Mr. Douglas Holtz-Eakin, according to a study done by your colleague, Dan Goldbeck, there are currently an estimate $616 billion—$616 billion in total cost of this administration's 365 proposed rules. Does the $616 billion figure include indirect costs from regulations?

Mr. HOLTZ-EAKIN. No. Those are simply the direct costs as measured by the circular and the OIRA at the Office of Energy and Budget.

Mr. ALFORD. Anyway to estimate, guestimate, give us your best figure of what those indirect costs might be.

Mr. HOLTZ-EAKIN. I will be happy to get a number back to you, a heroic estimate of this. But I will just note that in my written testimony I catalogued some of the studies that have been done about the impact of these regulatory costs on the growth environment, on the growth in the economy. That is the indirect cost that matters the most. The bottom line and the ability of firms to expand. And the reason I am so concerned it at this moment is that to say you do not have access to capital is you are constrained by your cashflow. And so certainly, access to capital is a direct solution to that. But if you are eating up more of your cashflow complying with regulations you made the problem worse. If you are eating up more of your cashflow to pay taxes because expensing is gone. You are now depreciating capital or R&D, you made the problem worse. In every way the environment is stacked against being able to suvive on your cashflow.

And so I think the Committee certainly should be looking at the Basel final rule but it needs to look at the environment in its entirety.

Mr. ALFORD. Mr. O'Leary, in your remarks you mentioned that large government programs like the Inflation Reduction Act and CHIPS Act are written specifically for large companies. How can Congress better support small businesses which employ the majority of Americans?

Mr. O'LEARY. Yeah, 60 percent. So right now given that those are already passed and they are effectively law, it is helping those of us who work for small business, help us interpret these acts in a way where we can access them because what my role is in my portfolio company and there are many people like me, is we have the resources to hire the professionals, the lawyers, the accountants, and the lobbyists even, if we could figure out how to interpret it so that we could make these applications and guide them through the process. I am working hard at that now. I am spending more time in Washington than I ever have trying to figure out CHIPS and Science, specifically, and IRA because I have, myself, a database of 80,000 small businesses. They rely on me to come here and find out what is going on. Then I tell them. And we are very fortunate to do this. And then for those that can apply, we will manage that process for them. We hire the accountants and the lawyers. We do all that. And that has become a huge business. And for all of the criticism of PPP, it is a blunt instrument, but it saved so many companies. So even if only 70 percent of it was used wisely, it really worked. The same for the ERC program which is going to end probably next week. But that was used widely. And I understand the criticism and everything but it did save businesses. So now that those are gone, give me something else to work with is what I am asking.

Mr. ALFORD. Thank you, sir. We are out of time.

Mr. O'LEARY. Yeah.

Mr. ALFORD. I yield back, Mr. Chair.

Chairman WILLIAMS. The gentleman yields.

I now recognize Representative Gluesenkamp-Perez from Washington for 5 minutes.

Ms. GLUESENKAMP PEREZ. Thank you, Chairman. And thanks to our witnesses for being here today.

Ms. Bommarito, I really appreciate you being here to speak to the Committee as a small business owner. And I appreciated your testimony about the difficulties you had in accessing capital to start and expand your business.

So before coming to Congress I ran an auto repair and a machine shop with my husband. And I have been in your shoes. You mentioned resorting to borrowing money from friends and family and dipping into your personal savings to fund business growth. I, on my bookshelf at home have a book. No in-law wants to see How to Borrow Money from Friends and Family from Nolo Press. And so I feel that distinctly. But I will say when you are able to pay back your family with an appropriate market level interest rate you are building generational wealth for you and your community and not shipping it off elsewhere. So I think there are advantages to your position.

Here on the Small Business Committee we have oversight of the Small Business Administration. I think it is important for us to dig into how SBA loan programs, which are meant for people like you and I, function or more frequently do not function. And my husband and I actually bought the building our shop operates out of with a 504 loan. And I have an undergraduate degree in economics. It took me a year to navigate and fill out that paperwork. One of the sellers like had a heart attack during the environmental review. The whole thing almost collapsed. Like it is burdensome. And then you think about, you know, I do not know in your case but like if I were doing the business on my own, right, you are running HR, you are doing all these things that really limit your capacity to navigate a bureaucracy. And I understand this has been a popular line of questioning but I am wondering if you could talk about what a more nimble program would look like. Like, what do you see as things we should pull out or not?

Ms. BOMMARITO. Thank you for this question, Congresswoman. And I feel your pain.

The SBA has their heart in the right place and that is a fact. And we know that. Being able to access the documentation and have it make sense and have it work appropriately as you are filling it out, when you are punching in those letters, it is challenging and it does not work the way that we are used to working with technology today. And I would love to see an app that goes along with this. And I would love it to interface more seamlessly with the lending institutions. And hold them somewhat accountable. So there are a lot of things that we could do and do together. And I would like you to involve us, the SBA to involve us in this process. We are entrepreneurs . We have the ideas. We can help make it a more nimble and interactive system. We want the SBA to be successful and modernizing by Congress would help.

Ms. GLUESENKAMP PEREZ. Yeah. Absolutely.

You mentioned the need to reauthorize and reform the SBA. I think we agree that both Congress needs to do a better job of making entrepreneurs more aware of these resources but also making the programs more accessible for actual small business owners whose most valuable resource is your time.

So I am curious, how did you find out about the availability of 504 loans? I mean, just the universe of information that is available to people in your capacity. Like, how do we enable more small businesses like us to access and hear about them? Because that is the first step.

Ms. BOMMARITO. That is a great question. A variety of ways. You know, the Goldman Sachs 10,000 Small Business program brings people in together to speak to this. Local lending institutions would come and visit me. Our local government came and shared what lenders were highlighting SBA loans. So I do feel like in general the business community and government community are aware and try to make it accessible. I just think it is a little wonky as we are going through the process.

Ms. GLUESENKAMP PEREZ. Yeah. The access information is really concerning to me. Right? If you do not know about the program you are not going to access it. And I think that basic informational hurdle is immense.

I have also seen a lot of difficult like I remember there would be these meetings at, you know, 11 a.m. on the other side of town. Right? Like, who can leave your business at 11 a.m. on a workday to get to this meeting? And so having actual small business owners at the table when these structural decisions are made I think is a critical facet you were pointing to.

And so thank you to all of our witnesses so much for spending our time here today. And I yield back.

Chairman WILLIAMS. The gentlelady yields.

I now recognize Representative Molinaro from New York for 5 minutes.

Mr. MOLINARO. Thank you, Mr. Chairman. And thank you, Ms. Bommarito, for giving face to the challenges that small businesses have interfacing with not only federal regulators and agencies but state and local.

And Mr. O'Leary, I want to get to you in a moment about the great state of New York, or the once great state of New York. But nevertheless, in rural communities like the ones I represent in Upstate New York, we certainly recognize the need to access capital is even more pronounced. Add those challenges to already a local economy squeezed by inflation and the access to workforce and supply chain issues and communities like ours continue to struggle. There are as we have all acknowledged a slew of new laws and regulations coming into place that we know will impact community banks and smaller businesses, including Basel III, some of the new SBA lending rules, and new CRA rules, among others. Even Chair Jerome Powell acknowledged that raising capital requirements also increase the cost of and reduces access to credit. We acknowledge these things. My local banks, community banks, are struggling to keep faith with their mission, serving small businesses and investing in their communities.

So Mr. Holtz-Eakin, I am going to start with you and just, if you would, reinforce to us or for us, obviously, how to maintain essential credit flow to small businesses. What would you reinforce? Where would we begin in the rescinding of or reorganization of specific regulation for small business, small banks to access and make those capital investments?

Mr. HOLTZ-EAKIN. Well, I mean, certainly the issue of the moment is the Basel III proposal. And they have a chance to finalize the rule in a very different form. And one hopes that the regulators have taken the public comments on it to heart and we see a very different——

Mr. MOLINARO. So emphasize for the few people from Upstate New York who are watching me right now, I want them to hear those very specific reforms.

Mr. HOLTZ-EAKIN. They would not raise the overall level of capital as dramatically as they propose and would not do it right now. Remember, there are all sorts of other things impinging. Access to capital, whether it is the restrictive monetary policy, the slow growth in the economy, this is going to be a tough environment to begin with. Has already been because we have seen the end of the easy money on the credit side. So financial conditions have tightened considerably. This would add to that. So defer it. Make it more sensible directly for the banks involved where you

add new charges that are legitimate and documented, reduce others that are unnecessary. I think they can do that. And do not extend it to the regional banks. I do not understand that. There is no need to. And your folks would be much more dramatically impacted by that. So that is the most important thing.

Then more generally, look at the regulatory environment and recognize that that is something that disproportionately impacts small businesses. And this regulatory environment is unprecedently expensive at a time when expenses are a big issue.

Mr. MOLINARO. I appreciate that.

Mr. O'Leary, I just, one, want to thank you not only for participating today but emphasizing in New York State the challenges that we have. We lead the nation in outmigration. More people leaving the state of New York than any other state in the nation. We shoulder the highest burden of taxation of any people in the country. And because of it we see the hollowing out of our communities. We could spend certainly more than 2 minutes on that. And I thank you for highlighting those challenges.

Your testimony today touches on the collapse of Silicon Valley and Signature Banks and the touched conditions that regional banks faced with rapidly rising interest rates. Of course, we recognize the Fed messaging a decrease in interest rates over the next year. What do you believe is necessary for the long-term stability of our banking and venture capital sectors? And quite simply, what behaviors from before need to be corrected moving forward?

Mr. O'LEARY. Those three cases studies you pointed out to in my personal opinion are examples of idiot management. So they are unique in that respect. And they deserve to be dead. That is how our system works. We get rid of bad managers.

But right now because of them it has tripped off a whole scrutiny at the regional bank level of the regulatory environment which has cascaded all the way up to Basel III. So we are going to make these regional banks very hard to operate profitably if this continues. That would be the first thing I would want to fix is try to say, look, let's make sure for the next 36 months that these banks are not in a situation of uncertainty. Because that is what they are right now. The reason you do not loan to this wonderful bakery is they do not have the certainty to know what the rules are going to be. So that has got to get cleared up. These are within our control. And so we should implement that immediately.

I think Basel III is incredibly bad policy and the best thing to do with bad policy is keep looking at it until everybody agrees it is bad policy. I would keep looking at it. It is horrible.

Mr. MOLINARO. I appreciate your subtle and reserved nature. And with that, Mr. O'Leary, I, Mr. Chairman, yield back.

Chairman WILLIAMS. The gentleman yields.

I now recognize Representative Scholten from Michigan for 5 minutes.

Ms. SCHOLTEN. Thank you, Mr. Chair. Thank you so much to all of our witnesses for taking the time to be here today. This is an incredibly important hearing.

Small businesses throughout the country navigated an economically unpredictable pandemic. And with stabilizing the economic factors those still operating face a cautiously optimistic future. My

state of Michigan is home to nearly 1 million small businesses who employ nearly half the state. Over 80 percent of our businesses in Michigan are considered small. Even larger share in my district, Michigan's 3rd Congressional District. It is not an overstatement to say they truly are the lifeblood of our economy.

Many of these businesses are owned by women, minorities, members of the LGBTQ community, veterans who face steep hurdles in accessing capital. Access to capital is the number one obstacle that we continue to hear about.

My first question is for Mr. Sands. What data do regulators use to avoid discriminatory policies? And are the tools missing that prevent financial regulations from fully accounting for the range of livelihoods that are impacted by the rulemaking?

Mr. SANDS. Yeah. The answer today is that you do not have the tools. But if you look back at PPP when you did have the tools, Congress appropriately, in a bipartisan way reacted and made it so that more small businesses could get access to capital.

I would like to also say that SBA just made 40 rule changes in August. We should actually give ourselves a chance to see if those rule changes actually work because I think they are going to provide more access to capital for small businesses including like the bakery here for Michigan.

Ms. SCHOLTEN. How much time would you anticipate we would need to see if they worked?

Mr. SANDS. I think you could generally give somewhere between 12 and 24 months to start to see. If you look at the numbers, we had our largest lending in terms of SBA to African Americans, Hispanic Latinos, and women as of September 30, 2023, with Hispanic Latinos and African Americans both eclipsing $1 billion for the first time in SBA's history. So the numbers are already headed the right way.

Ms. SCHOLTEN. Thank you.

Keeping on the theme of access to capital, again, number one issue cited by small businesses as well as hiring talent and growing revenue, the businesses in my state share these concerns and these struggles along with others throughout the country. Despite these well-known challenges, in June of last year, applications for new businesses started to surge to the highest levels that we have seen in 2 years. Again, cautiously optimistic as I mentioned in my opening remarks.

For any of the witnesses or even all of you, what more can Congress do to equip the next generation of small business owners and entrepreneurs to take on these issues that we are facing the 21st Century and get ahead of the challenges of tomorrow?

Mr. SANDS. I will start. I think the first thing is obvious, which is that we need to do better marketing of the programs and products that are out there for small businesses. It is quite alarming to hear that some of the small businesses are not finding the programs or they have to go across town or anything like that in order to get information. We live in a digital age where Chipotle texts you if you need a burrito. So we should be able to actually get information out about programs pretty readily and pretty conveniently.

Ms. SCHOLTEN. I could not agree more.

Mr. HOLTZ-EAKIN. I worry most about the environment in which they are going to have to operate and would encourage Congress to put the fiscal house in order. The future is one in which the federal government will increasingly consume the capital economy with the deficits that will run. And the resolution of those deficits is going to put an enormous uncertainty about the business environment in which they will operate. You can take all of that off the table by just putting the fiscal house in order.

Ms. BOMMARITO. And I second what Mr. Sands said. But we are talking a lot about Basel III and being an obstacle to lending and capital. It has been historical. That has been one of our biggest issues. Not adding anything else but also holding the banks accountable. And there is a lot to be said about everyone supporting small business and being in our corner. But being accountable in all ways and being able to share that information is really important.

Ms. SCHOLTEN. Right.

Mr. O'LEARY. I would say one of the greatest challenges for any of the work being done here is to communicate it to the recipients that deserve it. And most small businesses have no idea that these programs are even available. So if you look at the private sector how they solve that problem, they have really gone to social media in a big way. And so to get a bigger presence, Hi, are you a business in Michigan with 50 employees? We have a program here in the federal government and this is how you can apply for it. That is a 15-second commercial. That should be on Facebook, LinkedIn, X, everything. And REMnant cable. That is how we advertise in the private sector, and somehow that is not being done federally, which is a mistake.

Ms. SCHOLTEN. Thank you for your very responsive and helpful answers. I yield back.

Chairman WILLIAMS. The gentlelady yields.

I now recognize Representative Maloy from Utah for 5 minutes.

Ms. MALOY. Thank you. This has been a great hearing. It has been really informative, and most of the things that I planned on asking about have been very thoroughly covered so I am going to switch gears just a little bit. Hang in here with me.

Utah is a very entrepreneurial state. We have a lot of small businesses. A lot of people want to start up something of their own. And we also have a lot of rural and mid-size markets that struggle to get access to capital. And also to the kind of resources we have just been talking about. Our universities are doing a good job. They are working to fill that gap setting up departments to help small businesses. But I was recently approached by somebody in Utah about an SBIC style program within the SBA that they think would be a good model where larger, more successful businesses can help finance and mentor new, smaller starting businesses. And I just want to know, I know this is not what you are expecting, but starting with Mr. O'Leary and work our way down, do you think there is room in the SBA for that? And if so, what would this Committee and Congress need to do to create the sort of regulatory environment that would be able to make that successful?

Mr. O'LEARY. That would work if you gave a tax incentive to do that because you are taking valuable time and resources from a

company and going into a mentorship program. What they would obviously do is find companies they wish to acquire if they were growing successfully in their sector. So they would probably be, if you gave a program like that and said, look, it is a 100 percent write off in the year that you spend it, or whatever it is you are going to do, I would go look for companies that I want to buy and I would invest in them and try and mentor them up to growing and then I would acquire them. I would use it as a tool to grow. It would work.

Ms. MALOY. Okay. Thank you.

Ms. BOMMARITO. Working within your community and working collaboratively makes great sense and is very efficient working with the organizations that we are familiar with. I do not see a downside to it but there has to be an incentive to make sense. And I think that it would be a great asset to the community to be able to do that.

Ms. MALOY. Thank you.

Mr. HOLTZ-EAKIN. Put me in the O'Leary camp. There is nothing to stop them from doing that now. And so to get them to do some things that are not yet in their interest you are going to have to provide some sort of financial incentive and then you could produce the program.

Ms. MALOY. Okay. Thank you.

Mr. SANDS. I will just give two points of reference. One, the Goldman Sachs 10,000 Small Business program which we sit as a moderator on is something that you could use to model it after. Second, the state of Utah has state small business credit initiative money and a portion of that has been allocated toward venture capital. So maybe you can use that as your leverage to give that incentive that was already mentioned.

Ms. MALOY. Okay. Thank you. You all answered that a lot faster than I expected you to so I am going to ask another question.

I am also hearing that a lot of startups cannot qualify for loans because they do not have 3 plus years of operational costs, the existing collateral, or strong personal credit history. I am going to do the same thing, just run down the panel. Are those the appropriate standards or do we need to update those in the business world?

Mr. O'LEARY. They might have been 60 years ago but they are not today. I mean, that is the problem. A lot of these regulations were formed in different economies and so they should be modified. Those are to onerous and too punitive and they obviously are not working. They have to be changed.

Ms. MALOY. Okay. Thank you.

Ms. BOMMARITO. I second that. But I also wanted to just share a small business survey.

Goldman Sachs's 10,000 Small Business Voices surveyed our small businesses. And 78 percent of small businesses are just concerned about their ability to raise capital and have access to it. Only 29 percent said that they could afford to take out a loan. So that is another really important piece which goes to the point of interest rates. And 85 percent said access to capital continues. If it tightens it is going to impact growth of business which I will come back to being able to access it before your 3 years in business and down the road.

Ms. MALOY. Yes. Thank you.

Mr. HOLTZ-EAKIN. So in the end this is about measuring risk and the risk associated with the loan. And there is nothing magic about those metrics of risk assessment. Certainly, things have changed over time. And Mr. Sands is the business of finding situations where the risk assessment is wrong and helping both himself and the customer as a result. So usually you get locked into old risk assessment metrics because regulations require them.

Ms. MALOY. Yeah.

Mr. HOLTZ-EAKIN. And the laws require them. And so that is the flexibility you need. To allow people to use a risk assessment makes sense on the ground that is appropriate for that situation.

Mr. SANDS. I would just say there is a mismatch between the business and the lender. There are community development financial institutions that do not require that at all.

Ms. MALOY. All right. Thank you.

I yield.

Chairman WILLIAMS. The gentlelady yields.

I now recognize Representative Crane from Arizona for 5 minutes.

Mr. CRANE. Thank you, Mr. Chairman. Thank you all for showing up today. It is an honor to have Kevin O'Leary, AKA Mr. Wonderful appear before the Small Business Committee today.

Back in 2014, I took my garage born, Made in the USA company on Shark Tank with my wife, Jen, who is in the audience today. I thought I had prepared for everything, for every question that any Shark might ask about any given topic. One thing that I did not prepare for was to have Kevin O'Leary make the first offer to invest in my company, Bottle Breacher. I guess I did not prepare for it because I believed that Kevin O'Leary would hate my company and my product. I thought he might say something like, "Let's take this behind the barn and shoot it," something that he often says on television. I am honestly very grateful that he did make the offer. I am even more happy that Jen and I accepted the offer. We learned firsthand why he is called Mr. Wonderful. Despite the fact that he is often portrayed as a complete hammer on television, every entrepreneur that I know that made a deal with him absolutely loves him and appreciate him. He works very hard to make sure his companies are successful, and I know he talked me off many ledges several times. Thank you, Kevin, for all you do for the small business owners of this country.

My questions to you, sir, are less about access to capital but as somebody who I know studies economics. My questions to you, sir, about the dangers to our small business community and our national economy alike because of our federal government's lack of fiscal responsibility.

Mr. O'Leary, are you aware that we have a national debt of about $34 trillion?

Mr. O'LEARY. Yes, I am. This issue seems to get kicked down the road one administration after the other regardless of party.

Mr. CRANE. Yes, sir.

Mr. O'LEARY. And it will come home to roost one day. I do not know what that day is. But as a percentage of GDP, which I think is the right way to look at this, it is getting perilously high to al-

most post-Second World War. So this is going to be a concern. And to the extent that you bring this narrative up, I can see you are one of the people here on The Hill that cares about this.

Mr. CRANE. Yep.

Mr. O'LEARY. There is not enough of you. That is the problem.

Mr. CRANE. No, there is not, sir. And I do want to acknowledge this is a Democrat and Republican issue. I am in the meetings on our side all the time and there is very little appetite to quit spending money we do not have.

And I just want to ask you, sir, when this house of cards collapses, because it is going to collapse. This is not sustainable. You know it. I know it. And anybody that studied history knows that no country in the history of the world can continue to run up deficits and debt like we are. What do you think happens to small businesses when this finally collapses?

Mr. O'LEARY. It will not be just small businesses. When the cost of capital gets to the point where more than half of the government's budget is servicing interest, which is the disaster scenario you are talking about, it wipes out every business in America. It does not matter what size it is. Because if there is no more working capital, basically, you start taxing people. I mean, there are examples. There is Britain when it decolonized the world. Their tax rates were 80 percent. They were just trying to fund everything through the government and it really did not work. The French tried that, too. That would be a horrible outcome for America, which is the bastion of capitalism on earth. I am glad we are talking about it but your job is to get half this place talking about it.

Mr. CRANE. Yeah. Absolutely.

Mr. O'LEARY. It does not matter what party they are in.

Mr. CRANE. No, you are absolutely right.

Mr. Douglas Holtz-Eakin, do you have anything to say on this, sir?

Mr. HOLTZ-EAKIN. I have been talking about this for 20 years. I was the CBO director beginning in 2003 and there has been nothing done to change the trajectory which is fundamentally unsustainable and represents simply a self-inflicted wound. And the day at which it matters is today. It is already harming the economic environment in the United States. Every time you take a dollar from the private sector and put it into the best government investment you lose rate of return. So every one of those transfers lowers the standard of living. And we are doing that right now. It is just a little bit each year and we do not notice. But if you add it up we are going to have less growth in the standard of living, more stagnation, more discontent.

Mr. CRANE. Sir, why do you think nobody up here seems to care?

Mr. HOLTZ-EAKIN. It is someone else's problem; right? I have got to get to the next election that is, you know, 9 months away. I am not going to talk about these hard issues. I am going to let the next guy deal with it. And the result has been a bipartisan failure for 20 years to stop the increase in the debt relative to GDP. We have never seen it before where it did not stabilize in some way. It has just gone up. It is an unprecedented error and it is a dangerous one.

Mr. CRANE. Thank you, sir.

I yield back, Mr. Chairman.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Representative Van Duyne from Texas for 5 minutes.

Ms. VAN DUYNE. Thank you very much, Mr. Chairman.

When people think of access to capital, they often do not think of the tax code. But through the Tax Cut and Jobs Act we were able to allow businesses, especially small businesses, to keep more of their money and incentivize reinvestment into their business. And I have spoken with many business owners in North Texas that have been able to significantly expand the last few years thanks to provisions of the TCJA.

Last year, my Ways and Means Committee colleagues and I held field hearings in cities and towns across the country to hear directly from people and small businesses about the challenges that they are experiencing. The overwhelming message that we have heard is that TCJA spurred economic growth and competitiveness. Unfortunately, these pro-growth provisions included as part of the TCJA have already expired, including full and immediate expensing for research and development, full expensing of investments in new equipment, machinery, and technology, and business interest deductibility, which makes it easier for small businesses to access capital.

Extending these tax provisions will empower our job creators to grow, expand their workforce, and reinvest funds in their workers rather than using those funds to pad the coffers of IRS bureaucrats. Without these tax provisions, we are ceding our competitive advantage to countries like China, which is the exact opposite of what we saw through TCJA. Restoring these provisions would uplift American workers, strengthen the U.S. economy, create American jobs, and help us better compete on the global stage.

I would once again like to thank the Chairman for holding this hearing and look forward to future hearings on this subject later this year, particularly how private equity provides an alternative to traditional lending avenues and increases opportunities to access new capital investments.

Mr. Holtz-Eakin, what would happen to capital access for small businesses if we allowed the 2017 Tax Cuts to expire?

Mr. HOLTZ-EAKIN. I think it would be a dramatic impact on small businesses, in particular the economy in general.

Ms. VAN DUYNE. Anything more detailed than that?

Mr. HOLTZ-EAKIN. Well, those are pro-growth provisions that incentivize investments in physical capital, innovation, and the workforce that put it on a level playing field from a tax prospective. You can deduct all of them. It is the right thing to do.

The overall pace of the economy would slow. You are not going to lend to people whose companies are not growing very fast, so it is going to restrict it in that way. And as I mentioned before, the small business community is very cashflow constrained and these are about being able to invest up front and maintain your cash flow because you get full deductibility. It is a crucial part of the small business environment.

Ms. VAN DUYNE. So as we see interest rates and traditional lending methods become more expensive and harder to attain, where do you see private equity coming into play?

Mr. HOLTZ-EAKIN. I do not have a particular button I would push but I have great confidence in the entrepreneurs who are out there in the financial sector, whether fintechs or private equities or any other non-bank lender to step in and provide capital where there is a return. And making sure that the regulatory environment supports that and does not impede it I think is the primary objective.

Ms. VAN DUYNE. So do you think the primary objective for businesses when they are looking in banks, when they are looking to actually invest should be on the ROI or that should be on what people look like, where people are located, and how much money they make?

Mr. HOLTZ-EAKIN. I am a big fan of ROI.

Ms. VAN DUYNE. I appreciate that.

Mr. O'Leary, you have been holding back today and I would like you to tell us what you really think. I appreciate the work that you have done with small businesses versus large businesses. I have been trying to introduce a number of pieces of legislation that recognize the fact that when we add all these regulatory burdens on to our small businesses it affects them in ways unseen in large corporations. When we are talking about incentives—I know that you were talking about specifically adding incentives to small businesses—every time we do that we seem to grow the federal government. Four hundred seventy-five billion dollars is what we spent in 2022 on servicing our debt alone. That is expected to go to $1.4 trillion in less than 10 years, by 2032. Every time that we add in another program we are increasing the size and we are increasing the scale and increasing the regulatory burden on small businesses. Have you ever heard a small business say they want more regulations?

Mr. O'LEARY. No. I never have. Your state, actually, is an example of what has occurred post-pandemic on the competition between states because what we all learned as investors was most companies now, whether they are large or small, only get 40 percent of their staff to work in headquarters. So we realized right away, and this has been happening very quickly, we can move it to Texas. We can move it to Florida. We can move it to North Dakota, West Virginia, Oklahoma, where we never thought about doing that. And get the benefits of policy, less regulation, more competitive tax rates, and then employ people in any other state. I have got people working for me that were headquartered in Florida but they work in Massachusetts. Why they choose to do that I have no idea but we are paying our taxes in Florida because that is where we are HQ'd. Texas was the main beneficiary of that because they had the benefit of the tax but also the most progressive and less obstructive restrictions and regulations. You are the example of what everybody has to try and copy. I mean, good for you guys. But my job every day is to deploy capital. I go to the path of least resistance and one of those states is Texas. So congratulations.

Ms. VAN DUYNE. So you are saying policy matters?

Mr. O'LEARY. Well, yeah. Are you kidding? You know, you do not have to loan as much money to small business if you reduce the regulation. Because that is their cost. You give them money, then you regulate it back. Like that is kind of nuts. Just get rid of the regulations. You do not have to loan them money in the first place.

Ms. VAN DUYNE. I appreciate it very much.

I yield back.

Chairman WILLIAMS. The gentlelady yields back.

We now will be closing out this hearing. We want to thank the witnesses very, very much for your testimony. It was very, very interesting and worthwhile, and more than that I think important for both sides of the aisle to hear how the issues facing small business, the importance of small businesses, and the idea that we have got to provide small businesses everything they need to be competitive, to actualy make a profit. Because the more profits that a company makes the more tax revenues actually come in. And so both sides of the ledger win.

Without objection, Members have 5 legislative days to submit additional materials and written questions for the witnesses to the Chair which will be forwarded to the witnesses. We ask the witnesses to please respond promptly.

If there is no further business, without objection this Committee hearing is adjourned.

[Whereupon, at 12:07 p.m., the committee was adjourned.]

APPENDIX

Testimony of Mr. Kevin O'Leary
U.S. House Committee on Small Business
Jan 18th, 2024

Chairman Williams, Ranking Member Velazquez and Members of the Committee, thank you for inviting me to testify about the state of small business in America.

I am the Chairman of O'Shares, an ETF indexing firm and Chairman of O'Leary Ventures Management GP LLC a private equity and venture investment firm. As an Investor, I support entrepreneurs at every stage of their journeys. I have dozens of family-run businesses in our investment portfolios.

My definition of a small business is a private firm, often family owned, that employs between 5-500 people. These hard working men and women account for approximately 60% of job creation in America, there is no denying they are the backbone of the economy.

For decades, the US economy has enjoyed historically low interest rates. Access to capital at a low cost is always the key for funding receivables, capital expenditures, and making payroll. For small businesses in America, the majority of these services were provided by the network of over 4,000 regional banks.

Almost a year ago, this network began to falter. Silicon Valley Bank and Signature Bank failed, and First Republic Bank was bailed out by taxpayers and then sold off to JP Morgan. This occurred while the Federal Reserve was raising rates at an unprecedented pace from almost 0 to the current 5.5% terminal rate. Regional banks immediately faced heightened scrutiny of their balance sheets and liquidity ratios and now bank policies are under review by their regulators. The predictable reaction was for the banks to tighten their loan books. This was immediately felt by hundreds of thousands of small business owners in every sector and geography. Not only did their rates increase, but regional bank liquidity dried up too. In many cases they now have to make use of the private shadow banking market at rates of 16% to 22%.

At the same time, federal programs like the PPP (Paycheck Protection Program) had ended and the Employee Retention Credit (ERC) payments were suspended by the IRS in Q4 of 2023. To date they have not resumed and the whole ERC program is currently scheduled to end on April 15th of 2025.

Unfortunately, the majority of small businesses owners have no idea if they qualify for any of the programs inside of the Inflation Reduction Act or The Chips and Science Act. Small businesses do not have the resources to retain lobbyists, legal and financial advisors that interpret the acts and then manage the application process. If small businesses in America are responsible for 60% of domestic jobs, why aren't these acts written to spend $.60 of every dollar on them. Especially when their traditional sources of funding and government support programs have ended or been suspended. Instead, it looks to the market like the IRA and CHIPS act were written specifically for S&P 500 companies that have no trouble accessing capital yet only create 40% of jobs, many of these in foreign subsidiaries.

I would like to suggest some recommendations to the committee.

1) Create a payroll protection program to protect non interest paying payroll accounts in regional banks during the inevitable consolidation of over 4,000 regionals down to a market stable number. I first heard of this idea from Senator Hagarty and think it would be helpful.

2) Work with the numerous agencies that are implementing both the IRA and CHIPS acts to ensure small businesses receive the fair share of the programs. Form a bi-partcian counsel that advocates for small business in America that is always at the table when new policy is being considered. This would ensure that new government programs and laws are actually supporting small businesses and job creation in America.

Thank You

Kevin O'Leary

Written Testimony
Jill Bommarito, Founder and CEO of Ethel's Baking Company
House Small Business Committee Hearing – January 18, 2024, 10 am et

My name is Jill Bommarito. I am the founder and CEO of Ethel's Baking Company located in Metro Detroit, Michigan. The company is named after my grandmother who inspired me and taught me to bake. We are a leading wholesale gluten-free bakery specializing in dessert bars and cookies. We are sold in grocery and specialty stores, airports, hospitals, universities, and convenience stores in 49 states. I am also an alumna of the Goldman Sachs *10,000 Small Businesses* program, graduating from the first Detroit cohort in 2014.

It is an honor to be here today. I appreciate your invitation and your attention to how a lack of access to capital is a barrier for small business growth.

Ethel's Baking Company is currently at $5MM in annual revenue and growing with 26 full-time employees. I started my gluten-free baking business in 2011 leasing a church kitchen with a $10,000 loan from my mother and one employee besides myself.

Celiac Disease has been in my family for over 40 years. Sharing amazing food together is important to me. My promise is that anything we make will be number one in taste and quality, period, and loved by all. I want those with wheat restricted diets to feel like the rockstar of the party when they bring dessert not relegated to the "other" table, with less-than options.

I took the traditional recipes and ways of the past, along with a little magic, and launched Ethel's. I took orders on Mondays, baked Monday through Wednesday, invoiced and packed orders for wholesale deliveries on Thursdays, delivered on Fridays, worked Eastern Market from 6am-3pm on Saturdays, shopped and restocked on Sundays and started all over on Monday. It is all hard work, but it feels like a gift, to be able to do this.

Six months into our business, Whole Foods Midwest division called us and asked Ethel's to supply the Midwest's 75 stores with our Pecan Dandy, the bar that started the company. We needed to find a way. We had quickly went through that initial $10,000 dollars along with personal savings and needed to find additional money for expansion. We leased our first 1,300 square foot building and went to work building it out.

Like many small business owners, I quickly learned that accessing capital through traditional lending institutions was impossible without two years of business profitability to show. That barrier led me to borrow from friends and family as well as to dip into our personal savings and 401k to fund the business growth.

In fact, I wasn't able to secure my first business loan until 2016 — over five years after I started the company. This was only possible because we had been able to purchase the leased building from our landlord with a land contract agreement in 2015. With the appreciation, we were able to use that as the collateral for a loan. That paid off our credit cards, refinanced the building and freed up an additional $30,000 for working capital. That allowed us to double our space to 2,600 square feet and meet additional demand.

We continued to grow and needed additional working capital- that is the money that funds the receivables and inventory as they continue to rise. But a second barrier arose — I learned that traditional lenders, who are reluctant to lend to small business owners in the early stages of business, are also reluctant to lend to businesses that are growing quickly.

For small business owners, this feels contrary to the American Dream; it feels like we aren't important or that our needs are secondary. But daring to dream big, to innovate, to create jobs and take on the risks of starting something new is important. We do matter. We are the foundation of our economy.

In 2019 with distribution expanding, we had reached our capacity. The only way to access capital to continue to expand was to sell equity in my company. This allowed me to build out a 20,000 square foot manufacturing space in order to meet demand and have access to working capital from the investors, as well as to start that next level banking relationship. If I had not chosen to do this, we would have had to turn down business, halt growth and hiring, and basically stop taking advantage of opportunities. This is a continued bottleneck for all small businesses in one way or another.

As we continue to grow our customer base and momentum continues to build with purchase orders from large retailers like Costco, Target, and Whole Foods, more incremental working capital is needed.

When small business owners like me can't access a loan when we're growing, we're effectively faced with **three choices:**

1) Deplete personal and retirement savings, which I had already done multiple times before
2) Utilize high interest options, like credit cards and non-traditional lenders, i.e. predatory lenders, with interest rates upwards of 25% and terms that often exploit small businesses owners; or
3) Sell equity to raise capital

My relationship with our lender is strong, but the fact is that businesses like mine — growing at a fast rate and in the food sector — are deemed risky, especially after the pandemic. This has led me to sell additional equity in order to meet lending requirements to increase our working capital line of credit. This marks the third time I've sold a portion of my business in order to grow. Let me say that I feel extremely fortunate. I've built a business that others see as valuable with great potential. That has been my dream. With that, I have been able to get investment and sell equity. That is not an option for so many small businesses.

Here's the truth: My ability to access capital for my business is my top concern every single day. That's not unique to me. It's true for every small business. I have conversations, daily, with other small businesses that are up against these same challenges. Independently we do not have a voice, but collectively we can. We need your help.

It's very troubling that the Federal Reserve is considering a proposed rule — Basel III Endgame —that would further restrict access to capital for small businesses.

I fear that, if enacted, this rule would not only cut off many small businesses from accessing capital they need to grow, but it will push small business owners to predatory lenders because they'll have no other choice. I come from a family of successful small business owners, some of whom have been taken advantage of by predatory lenders. It's simply unconscionable.

From my perspective, I'd respectfully offer two things this Committee and Congress could do to help small business like mine:

1) **First, oppose Basel III Endgame and the capital restrictions it would inevitably force upon small businesses.**

   I would like to extend my appreciation to Chairman Williams for expressing concerns about Basel III in a letter to the Federal Reserve. I would also like to thank Economic Growth, Tax and Capital Access Subcommittee Chair Meuser and Ranking Member Landsman, for leading a bipartisan comment letter to the Federal Reserve about Basel III's likely negative impact on small business lending.

   With less capital available to lend, and small businesses already deemed "too risky" by traditional lenders, it's clear this Rule would further squeeze small businesses.

That is why I joined over 3,000 small business owners in our 10,000 Small Businesses Voices community who signed a letter to the Federal Reserve expressing our grave concerns about the impact of Basel III.

2) **And second, modernize the Small Business Administration (SBA) through reauthorization.**

As you know, the SBA has not been reauthorized by Congress in over 20 years. Small businesses could benefit from an agency that is as nimble and works at the speed of small business. Through Congressional reauthorization, the SBA could be charged with solving for the capital barriers that currently exist. In doing so, Congress would unlock American entrepreneurs' ingenuity and innovation, no longer obstructing small business owners who are growing quickly and expanding.

Thank you for your time, I will gladly answer any questions.

Testimony on:

Unleashing Main Street's Potential: Examining Avenues to Capital Access

Douglas Holtz-Eakin
President, American Action Forum*

U.S. House of Representatives
Committee on Small Business

January 18, 2024

* The views expressed here are my own and not those of the American Action Forum (AAF).
I thank Dan Goldbeck, Angela Kuck, and Sarah Smith for their assistance.

Chairman Williams, Ranking Member Velazquez, and members of the committee, thank you for the privilege of appearing today to discuss access to capital and the growth prospects of America's small businesses.

Small businesses are central to the performance of the U.S. economy in meeting the needs of American families. According to the Small Business Administration (SBA) 99.9 percent of businesses across the United States are small businesses; a total of 33.2 million businesses and nearly half of all U.S. employees are employed by a small business. The distribution of employment is highly uneven, however, with 16 percent of small businesses having one to 19 employees and only 650,000 small businesses having between 20 and 499 employees.

Thus, it is desirable that small businesses also be *growing* businesses, and the current economic and policy environment has a multitude of headwinds to growth. In particular:

- The current macroeconomy is characterized by slowing economic growth, the stubborn remainder of high inflation, and the challenge of returning inflation to the Federal Reserve's 2 percent target;
- In general, the Biden Administration is imposing regulatory burdens at a record rate, while the Basel III endgame capital rules threaten to needlessly raise the cost of all credit products; and
- Additional policy uncertainty stems from the budgetary outlook, the tax treatment of investments and research and development expenditures and the 2025 sunsets of broad swaths of the 2017 tax law.

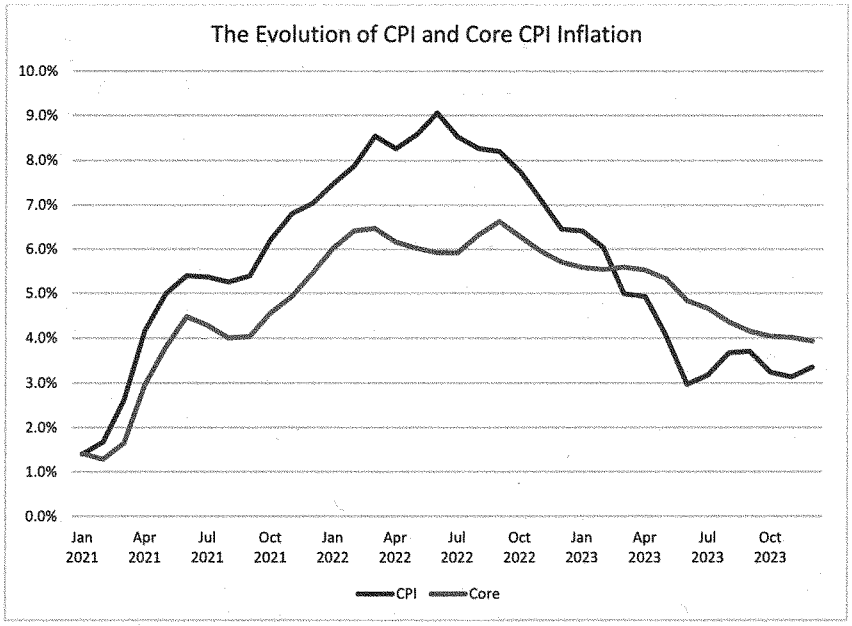
Let me discuss each in turn.

The Macroeconomic Environment

In some respects, the current state of the U.S. economy appears quite solid. Real (inflation-adjusted) gross domestic product (GDP) rose 4.9 percent in the 3rd quarter of 2023, up from 2.1 percent and 2.2 percent in the 1st and 2nd quarters, respectively. The unemployment rate stood at 3.7 percent in the December employment report and average hourly earnings rose 4.1 percent from December 2022 to December 2023.

There are two notable weaknesses in the outlook, however. The first is the aftermath of the worst inflation problem in 40 years. As measured by the Consumer Price Index (CPI), year-over-year inflation has risen from 1.4 percent in January 2021 to a peak of 9.1 percent and settled at 3.4 percent in December. (See chart, below.) So-called "core" (non-food, non-energy) CPI is up from 1.4 percent to 3.9 percent over the same period, with a peak of 6.6 percent. In each case, the measures have experienced their highest levels since 1982 and exceeded the pace of wage increases in 2021 and 2022.

Inflation itself, as well as the interest rate increases brought about by the Federal Reserve's attempts to return to the 2 percent target, have had a distressing impact on the small business community. Thus, an important issue for future policy is avoiding inflation. How did this inflation problem develop?



Policy Responses to the COVID-19 Recession in 2020

The sharp downturn in the spring of 2020 was different in character, deeper, and more rapid than any postwar recession. In response, on a bipartisan basis, Congress and the administration responded in a timely fashion, with programs of necessarily large scale and by-and-large appropriate design.

Immediately upon recognition of the potential for financial distress, the Federal Reserve cut rates to zero, made an open-ended commitment to providing liquidity, and began a monthly quantitative easing consisting of $60 billion of Treasury securities and $30 billion of mortgage-backed securities.

During the 2nd quarter of 2020, GDP fell by nearly 10 percent, rivaling the decline of 12 percent during the entire year of 1932 – the worst year of the Great Depression. The Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed in March 2020 in bipartisan fashion and was a response of roughly 10 percent of GDP. CARES was timely and appropriate in its scale. The specific programs were also for the most part well-designed. In

the aftermath of CARES, employment growth resumed in May 2020 and GDP recovered by roughly 8 percent in the 3rd quarter.

In the late fall and early winter of 2020, however, a new wave of COVID-19 infections arose across the country and headwinds to growth re-emerged. Congress and the administration again responded in a timely, bipartisan fashion with the Consolidated Appropriations Act of 2021, which included roughly $900 billion in economic support modeled on the design of the CARES Act. The combination of fiscal and monetary policy in 2020 allowed the economy to weather the COVID-19 stress and it grew at a strong 6.5 percent in the 1st quarter of 2021.

Policy Actions in 2021 and the Emergence of Inflation
In contrast to the policy actions in 2020, the major actions in 2021 – unchanged stimulative monetary policy and the American Rescue Plan Act (ARPA) – were untimely, excessively large, and poorly designed. Both represent a major policy error.

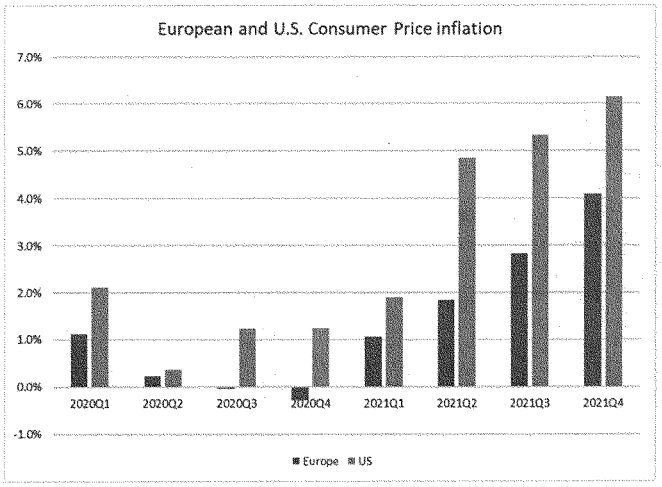
As the economy entered 2021, it grew strongly due to the continued support and the arrival of the vaccines as an additional weapon in the fight against the coronavirus. The $1.9 trillion ARPA was advertised as much-needed stimulus to improve the state of the economy and restore growth. The economy was no longer in recession, however, and was growing at a roughly 6.5 percent annual rate. There was simply no need for additional stimulus, especially as a large fraction of the household support in the CARES and Consolidated Appropriations Acts had been saved and was available.

Worse, the ARPA was excessively large. Real GDP at the time was below its potential, with the output gap somewhere in the vicinity of $450 billion (in 2012 dollars). The $1.9 trillion stimulus was a bit over $1.6 trillion in 2012 dollars. Thus, the law was a stimulus of over three times the size of the output gap that needed to be closed to get the economy back to potential. Based on any reasonable economic theory of stimulus, $1.9 trillion is far too large, particularly given supply constraints. The ARPA (passed in March) did not appreciably alter the pace of growth from the 1st to the 2nd quarter, but it did fuel inflation.

The 6.5 percentage point jump in CPI inflation has been rivaled only twice in the postwar period – during 1951 when it jumped as much as 10.6 percentage points and 1974 when the rise hit 6.1 percentage points. Both episodes are instructive. The 1951 episode is a cautionary tale about over-stimulating the economy. In this case, year-over-year growth in GDP entered the year in double-digit territory and prosecution of the Korean War layered on year-over-year growth in government spending that peaked at 49 percent in the 3rd quarter. Excessive government spending in a hot economy can quickly fuel inflation.

In contrast, the 1974 episode featured the exact opposite of demand stimulus. Instead, it reflects a huge supply cost shock – the quadrupling of oil prices due to the OPEC oil embargo. Cost increases can quickly be passed along to consumers, even if the economy is moving toward recession.

The inflation of 2021 reflects a combination of these forces. The COVID-19 pandemic has wreaked havoc on labor markets worldwide, and the resulting disruptions in supply chains and goods production have been well-documented. These supply constraints increased costs and generated higher inflation across the globe. European consumer price inflation, for example, increased about 1 percentage point each quarter and ended 2021 at 4 percent. (See chart, below.) Part of the U.S. experience is driven by supply chain issues, as well.



But the ARPA added fuel to the fire. Inflation responded immediately to the policy error, jumping from 1.9 percent in the 1st quarter to 4.8 percent in the 2nd quarter – nearly three times the increase in supply-driven inflation in Europe. The fiscal stimulus was reinforced by an aggressively accommodative monetary policy that featured 0 percent interest rates and continuous, large monetary infusions. Inflation continued to rise as the year went on.

Continued Policy Actions and Inflation

In the period after the ARPA, Congress passed the Infrastructure Investment and Jobs Act, known as the Bipartisan Infrastructure Framework (BIF). Did this exacerbate the inflation problem? First, despite all the claims of passing a trillion-dollar infrastructure bill, the Congressional Budget Office (CBO) indicates that discretionary spending will rise by $415.4 billion over the next 10 years. This is significant but not a fiscal earthquake like the ARPA.

Second, the BIF will not generate any significant near-term stimulus or inflationary pressure. The table below shows a rough translation of the CBO score into calendar-year spending impacts, including the mandatory spending offsets. In a roughly $21-trillion economy, another $5.6 billion in spending (0.026 percent) simply is not going to move the

macroeconomic needle. Even at the maximum, the impact will be below one-half of 1 percent of GDP.

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Year	1.0	5.6	15.5	34.5	47.5	63.0	55.2	40.6	27.4	16.3

Third, while the bill will not create additional inflation pressure, it will also not solve the administration's current inflation-related political problems. There just is not enough impact in the near term to accomplish this task. Even at the peak, this would require a more significant impact on productivity and aggregate supply, and these dollars are not large enough to accomplish this kind of supply expansion.

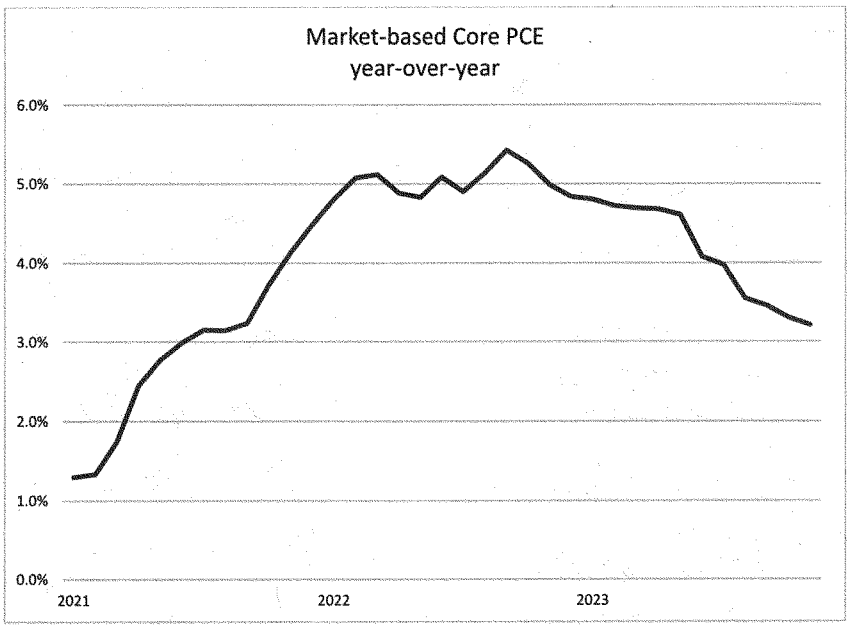
Nevertheless, other pieces of legislation did contribute to the durability of the inflation problem. The first to think about is the Inflation Reduction Act (IRA). To be clear, the IRA will not reduce inflation. In fact, no single piece of legislation will do that. What matters, instead, is the overall tax-and-spend (fiscal) policy of Congress. Indeed, as Gordon Gray nicely documents, the two big items Congress passed are the CHIPS Act and the IRA. Combined, they would raise taxes by about $830 billion and increase spending by $515 billion, yielding $315 billion in deficit reduction. That sounds anti-inflationary. Unfortunately, a closer look reveals the bills would not begin to materially reduce the deficit until 2028 – that is, four years from now. It will be up to the Federal Reserve to bring inflation under control.

Looking forward, an important aspect of the uncertainty is the unknown need for the Federal Reserve to maintain a restrictive monetary policy. Although substantial progress was made in 2023, the Fed's preferred measure of inflation remains well above the 2 percent target. (See chart, below).

Any such need highlights the second weakness in the outlook: an excessive reliance on demand from the household sector. In the 3rd quarter GDP data, of the 4.9 percent growth rate, 1.3 percentage points were due to (transitory) inventory accumulation and essential 1.0 point from government spending. The remainder, 2.6 percentage points of private demand growth, derived almost entirely from household spending. Non-residential fixed investment contributed a mere 0.2 percentage points. The most recent data suggest that this imbalance continued in the 4th quarter of 2023.

This is troubling because every postwar recession, with the exception of the pandemic recession, began with a downturn in business investment. Thus, to the extent that an environment of high interest rates and continued investment is sapping the confidence of businesses small and large, the need to continue to combat inflation will constrict future investment spending and elevate the risks of recession.

In short, the current economic outlook is fraught with risks to growth in the small business sector and the economy as a whole.

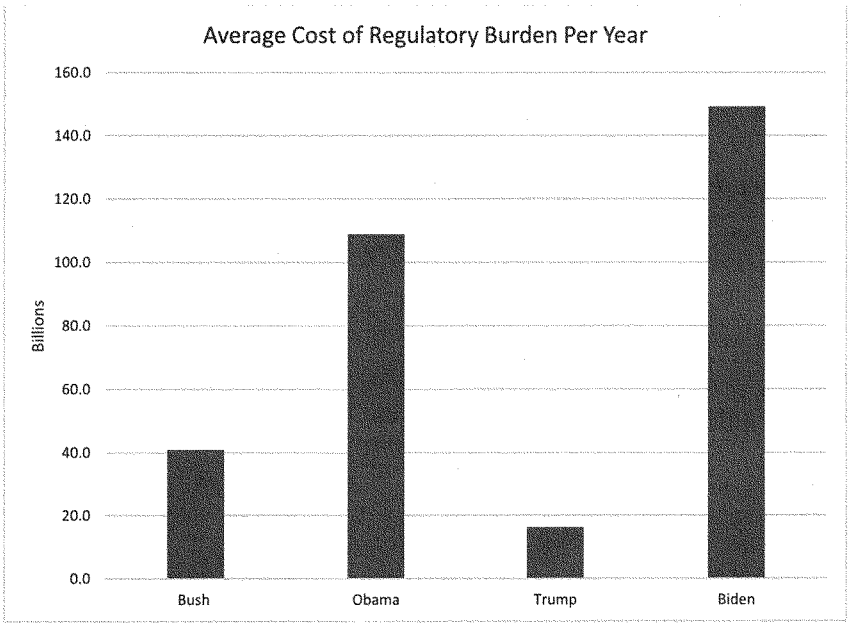


Regulatory Burdens

A second headwind to small business growth is regulatory burdens. To get a handle on how regulatory burdens affect economic growth, one must first ascertain what the regulatory landscape looks like. Thankfully, as part of its ongoing RegRodeo project, the American Action Forum (AAF) has a record of all rules with some measurable economic impact going back to 2005. The estimates logged in RegRodeo come directly from agency estimates provided in a given rule's analysis.

From 2005 to today, agencies have recorded cumulative totals of $1.5 trillion in regulatory costs and approximately 1.3 billion annual hours of paperwork. For perspective, the cumulative new regulatory costs imposed over the past 18 and a half years would represent roughly 6 percent of current U.S. GDP.

The cumulative picture, however, largely demonstrates the rough scale of regulation. There have been four different presidential administrations in power at some point during the span that RegRodeo covers. The following graph charts the average total costs per year imposed in each administration:



Granted, this only includes a partial sample of the Bush and (by necessity) Biden Administrations. It is nevertheless difficult not to draw some immediate conclusions regarding administration-to-administration trends. The Biden Administration represents an outlier in the scale of the regulatory burden, and the most recent unified agenda indicates no cessation of this regulatory tsunami.

There is no definitive estimate of the growth consequences of excessively costly regulation. Nevertheless, there is a growing literature examining the economic consequences of regulation. Van Reenen, Aghion, and Bergeaud (2023) analyze the consequences of a sharp increase in the burden of labor regulations on companies with 50 or more employees. Using panel data from France, they find that regulation is a headwind to innovation and growth:

> Using the structure of our model we quantitatively estimate parameters and find that the regulation reduces aggregate equilibrium innovation (and growth) by 5.8% which translates into a consumption equivalent welfare loss of at least 2.3%, approximately doubling the static losses in the existing literature.

Similarly, Armstrong, Glaeser, and Hoopes (2023) find that: "Consistent with regulation imposing net costs on firms, firms' overall exposure to regulation negatively relates to their profitability and more regulated firms earn higher future returns."

Finally, Dawson and Seater (2013) look at the economy as a whole and conclude:

> We introduce a new time series measure of the extent of federal regulation in the U.S. and use it to investigate the relationship between federal regulation and macroeconomic performance. We find that regulation has statistically and economically significant effects on aggregate output and the factors that produce it–total factor productivity (TFP), physical capital, and labor. Regulation has caused substantial reductions in the growth rates of both output and TFP and has had effects on the trends in capital and labor that vary over time in both sign and magnitude. Regulation also affects deviations about the trends in output and its factors of production, and the effects differ across dependent variables. Regulation changes the way output is produced by changing the mix of inputs. Changes in regulation offer a straightforward explanation for the productivity slowdown of the 1970s.

These findings are not surprising. Regulation imposes costs on firms, which compete with opportunities for innovation, capital investment, worker training, and productivity growth. At present, they also represent an additional supply shock that exacerbates inflation pressures. It is widely recognized that small businesses are especially vulnerable to regulatory costs and that the impact of such an aggressive regulatory state will be felt most acutely among those firms that are key employers facing the need for better growth policy.

At present, a particular financial services regulation – the so-called Basel III endgame – represents a significant threat to access to capital by small businesses. As I have previously written:

> [T]he Fed will likely raise the capital requirements on the largest banks even though there is no evidence of any need for the increase. And it will expand to the regional banks the same requirements because of the failure of Silicon Valley Bank, even though there is zero evidence that capital requirements or risk models led to its problems. And how does it conclude that this is a good idea? By ignoring costs.
>
> Sure, there are benefits to regulations, but there are also costs and not all regulatory expansions will pass a benefit-cost test. The Fed seems to have forgotten about half of the issues in evaluating capital requirements.

Holding additional capital is argued to provide benefits in the form of safety and soundness. But the regulators have provided no evidence of the scale of such benefits, even though the large increase in capital standards will become embedded in the cost of every credit product, raising the costs of accessing capital for every small business.

Policy Uncertainty: The Budget and the Tax Code

The final source of headwinds to growth for small businesses is the unknown resolution of the outlook for the federal budget and the tax code. For the economy as a whole, the most pressing economic policy issues are interrelated: the need for faster economic growth and a fiscal stance that reduces deficits and controls the federal debt. The record on growth is striking. From 1960 through 2000, the average pace of growth in real GDP per capita was 2.4 percent. At this pace, GDP per capita – a rough measure of the standard of living – would double every 29 years. Thus, in roughly one working career, growth would double the standard of living, giving American families the opportunity to pursue their economic dreams.

Since then, from 2001 to 2022, the average pace of growth has been a full percentage point slower: 1.4 percent. At this pace the standard of living will double only every 56 years. There is the palpable sense that access to the American Dream is disappearing over the horizon.

The implications are enormous. Had the pace of growth been maintained in the 21st century, real GDP (in 2017 dollars) would have been $6.3 trillion higher in 2022, translating into additional real income of nearly $19,000 per capita. There is no government transfer program that can compete with the power of compound economic growth.

The budget consequences would be enormous as well. Assuming federal revenues are roughly 19 percent of GDP, a faster pace of growth would mean that revenues would be $1.2 trillion higher than at present. At a time when the CBO projects $20 trillion in federal deficits over the next 10 years, having $12 trillion less in deficits would make the job of controlling the federal debt much more manageable.

Note, however, that *how* federal deficits will evolve is especially anti-growth. The CBO baseline anticipates that the unified deficit will rise from 5.8 percent of GDP in 2024 to 7.3 percent of GDP in 2033, a 1.5 percentage point rise. Social Security spending will rise by 0.7 percentage points (from 5.3 percent to 6.0 percent of GDP) and Medicare spending will rise by 1.6 percentage points (from 3.7 percent of GDP to 5.3 percent of GDP). Thus, the combined growth of these two large mandatory spending programs will exceed the increase in the deficit by 0.8 percentage points.

If resources are transferred from private-sector investment to federal subsidies to consumption, each dollar transferred reduces the growth in productivity, real wages, and the standard of living. Notice that this is true regardless of whether that transfer comes via taxes or deficit finance, but deficit finance is more likely to come at the expense of private investment. Past chronic federal deficits have already been a headwind to growth; the evolution of deficits over the next decade is an even greater threat to growth.

In short, *how* the fiscal threat is addressed matters tremendously for growth. And the sunset of the tax rates, investment incentives, and small business features of the 2017 Tax Cuts and Jobs Act is a particular example of this general issue. Simply allowing the

provisions of the 2017 Act to sunset would be an enormous shock to growth prospects in the small business sector.

Instead, Congress must recognize that federal fiscal policy is contributing to the slower pace of economic growth. Borrowing trillions of dollars when the economy is at full employment competes with private sector demands for capital. Reduced access to capital diminishes private-sector investment, thereby reducing growth in productivity and the standard of living. This unhealthy mix is only made worse by a heavy reliance on anti-growth tax increases to address the fiscal problems.

Thank you and I look forward to your questions.

TESTIMONY OF EVERETT K. SANDS, CEO OF LENDISTRY
TO THE HOUSE SMALL BUSINESS COMMITTEE

"Unleashing Main Street's Potential: Examining Avenues to Capital Access"

January 18, 2024

I. Executive Summary

It is a truth universally acknowledged that small businesses are the powerhouses of their local communities. When small businesses grow and thrive, they elevate the people who live and work around them. When they fail, the number one reason is lack of capital. Specifically, the Main Street businesses that power our economy need small-dollar loans to grow to the next level.

My message today is that, right now, there is an army of lenders who stand ready to deploy the capital needed to unleash Main Street. These lenders have proven themselves to be the most effective capital deployers for underserved communities, yet they work with one hand tied behind their backs due to hurdles that made sense when they were first enacted, but no longer fit today's finance landscape. The lenders I'm talking about are Community Development Financial Institutions (CDFIs). Disparity in access to capital on responsible terms is a critical hurdle for small businesses, both in powering the nation's economic and jobs recovery, and in narrowing the racial wealth gap. In order to do our part to unleash Main Street, we need you to unleash us.

To summarize the specific recommendations that I discuss in greater detail below, I propose that policymakers:

1. Fix the state-by-state licensing model that prevents CDFIs from efficiently serving small businesses on a nationwide footprint
2. Increase access to the Federal Reserve Bank and Federal Home Loans Bank to facilitate more small-dollar loans that Main Street businesses need in their growth stages and cannot access from traditional banks
3. Form a task force to analyze programs in an ongoing basis to make sure they remain catalytic and responsive

II. Introduction

Committee Chairman Williams, Ranking Member Velasquez, Vice Chairman Luetkemeyer, Vice Ranking Member Phillips and distinguished members of the Committee, thank you for calling a hearing on Unleashing Main Street's Potential, and for your interest in my perspectives and insights on this topic.

My name is Everett K. Sands, and I am honored to be invited back to offer testimony before this committee. I have more than 20 years of experience in lending at community banks, one of the largest national banks, and at the only fintech Community Development Financial Institution, Lendistry. As founder and CEO of Lendistry, I have focused on innovating and executing alternatives to traditional financing to support the underserved small businesses that frequently fall through the gaps, particularly those owned by minorities, women, veterans, and people in rural areas.

To date, our grant and loan programs have provided over 630,000 small businesses with nearly $10 billion in capital. More than 60% of Lendistry's outstanding principal loan balance is with minority and women-owned borrowers, more than 70% is with underserved small businesses, and 60% is with low- or moderate-income borrowers. Lendistry was the #8 PPP lender in the country in 2021, ranked above large banks like Wells Fargo. All this is to assure you that, while my team and I never claim to have found the final solution, we have made significant progress in reaching the communities that need capital and lack experience with the application process.

Lendistry is a minority-led fintech CDFI and Community Development Entity (CDE), and a member of the Federal Home Loan Bank of San Francisco. Women and minorities comprise a significant majority of Lendistry's management team. Lendistry is a proud signatory of the Small Business Borrowers' Bill of Rights, guidelines set by The Responsible Business Lending Coalition.

Since launching in 2015, Lendistry has sought to use fintech—and partnerships with financial institutions, non-profits, and government organizations—to help solve the problem of disparities in access to capital, to open doors that were previously closed to small businesses owned by minorities, women, and veterans, businesses located in rural areas, or businesses whose financing needs to take the next step in their development are just too small for traditional banks.

As a hybrid of a fintech lender and community bank with roots in traditional banking, Lendistry combines the best of fintech—efficiency, scalability, and seamless user experience—with the best of traditional lending—low cost of acquisition, low cost of funds, and strong risk management—and all with an unwavering commitment to responsible credit culture and expanding access to small business funding.

Our proprietary technology and online application portal enable a faster and more widely accessible lending process for small business borrowers. Since I last addressed this committee, we have improved our processes to provide conventional loans in as little as five days, and SBA 7(a) loans in as little as 14 days. I'll pause there a moment—as an SBA preferred lender and fintech, we are funding SBA 7(a) loans, which traditionally take up to 90 days to process, in as little as two weeks

III. An Army of Lenders Stand Ready: State of Small Business Capital Needs Post-Pandemic

The capital access landscape many small businesses traversed before and since the pandemic resembles a desert, where the lifeblood of responsibly-priced capital is scarce. Worse, it is a desert that is made almost impossibly steep by the prevalence of predatory lenders that have filled a void left by two decades of bank consolidation. The small businesses that tend to be most affected by these arduous conditions are those owned by minorities, women, and veterans; those located in rural areas; and those which, regardless of their ownership

demographics, have capital requirements that are simply too small to be profitably served by traditional banks, whose median asset size ballooned by more than 500% between 2000 and 2019.[1]

The economic relief efforts in response to COVID have provided ample evidence that dramatic actions to increase the availability of capital will only benefit these underserved small businesses if the capital is connected to effective conduits that are willing and able to reach them. While traditional banks are very effective in deploying very large amounts of capital, their operational incentive is to do so through as few separate underwritings as are prudent from a risk management perspective, resulting in a very large average loan size. This logic also bears out in Federal Reserve survey data regarding the businesses that traditional banks tend to establish relationships with. Minority-owned businesses—which are disproportionately small businesses—are much less likely than other businesses to have banking relationships.[2] Thus, well-intended measures that push more capital to traditional banks can have the effect of incentivizing banks to make larger loans, as we saw with the original version of PPP, or can result in vast amounts of available capital simply going untapped, as we saw occur with the original version of the Main Street Lending Program.

Congress responded to the economic threat posed by COVID in bold and historic ways, and while there is more that can be done, entrepreneurs always look ahead, and I want to focus today on enduring solutions for small business capital access. The response to the pandemic shone a bright light on what works when it comes to financing underserved communities.

The good news is that the small business COVID relief effort also has validated that CDFIs are effective conduits for deploying capital to small businesses, and that when systemic hurdles are cleared for CDFIs, the accessibility of responsibly-priced capital improves for small businesses generally, and for underserved small business especially. For example, using PPP loan size as a rough indicator for the relative size of businesses, according to SBA data for the 2021 PPP program, the overall average loan size was $45,000, the average size of loans originated by banks was $62,000, and the average size of loans originated by CDFIs was less than $27,000. Likewise, according to SBA data for the 2020 PPP program, the overall average loan size was $101,000, the average size of loans originated by banks was $141,000, and the average size of loans originated by CDFIs and Minority Depository Institutions together was about $74,000.

---

[1] Most banks simply are too large to efficiently make small loans. Twenty years of bank consolidation has cut the number of FDIC-chartered banks in the U.S. by 45%. According to FDIC data, there were 8,315 FDIC-insured banks in 2000, compared to 4,519 in 2019, with just 32 new FDIC-insured bank charters issued since 2010. As a result, the median asset size of remaining banks has grown by more than 500%, from $751 million in 2000 to $3.9 billion in 2019.

[2] Federal Reserve Banks, 2019 Small Business Credit Survey and 2020 Report on Employer Firms. Fewer than 1 in 4 Black owned businesses with employees and fewer than 1 in 3 Latinx-owned businesses with employees had received funding from a bank in the prior five years, compared with nearly half of white-owned firms with employees. Moreover, just 1 in 10 Back-owned sole proprietorships or independent contractors – which comprise a disproportionate share of all Black-owned businesses – had a recent borrowing relationship with a bank, compared with 1 in 4 white-owned non-employer businesses.

Paradoxically, this time of upheaval and uncertainty was an inspiring time for entrepreneurs. Nearly ten million new businesses were formed in 2020 and 2021, according to the U.S. Census Bureau.[3] The nearly 4.4 million new businesses formed in 2020 was more than 50 percent higher than the average annual number of new businesses formed between 2010 and 2019.[4] In fact, 2020's new business formation figure was a record, but it stood for just one year before it was far surpassed by the 5.4 million new businesses formed in 2021.[5]

Furthermore, a raft of data reveals how significant a role minority and women entrepreneurs have played in the recent new business formation activity[6][7][8], building on their already-strong pre-pandemic entrepreneurial representation.[9] It is urgent that policymakers and large enterprises alike recognize the implications of these trends. It means minorities and women will be increasingly impacted by policies around small business and capital access.

Emerging from the pandemic, we have learned that the need for access to responsible loans in smaller amounts is essential for the new businesses I've described to grow out of the early stages, evolving from employing only their founders, to employing and empowering their communities as job creators. The demand for loans in small amounts is clear. In 2023, 77% of SBA 7(a) loans were under $500,000. This amounts to a quarter of all 7(a) dollars approved. To dial down further, 27% of 7(a) loans in 2023 were under $50,000. [10] In 2021, over 80% of SBA microloan applicants ($50K and under) were in underserved communities as defined by SBA. Of these microloans, 50% went to minority-owned businesses and 48% went to women-owned businesses.[11]

---

[3] "New Startups Break Record in 2021: Unpacking the Numbers," Daniel Newman and Kenan Fikri for Economic Innovation Group, January 19, 2022. https://eig.org/news/new-start-ups-break-record-in-2021-unpacking-thenumbers

[4] "Entrepreneurs Started Businesses in Record Numbers During the Pandemic," Brett Grossfeld for Salesforce.com's The 360 Blog, June 29, 2021. https://www.salesforce.com/blog/small-business-pandemicentrepreneurs/

[5] D. Newman and K. Fikri

[6] "Black Business Owners Are Up 38% from Pre-Covid Levels," Michael Sasso, *Bloomberg*, September 15, 2021. https://www.bloomberg.com/news/articles/2021-09-15/black-business-owners-are-up-38-in-u-s-from-pre-covidlevels?sref=2gRlZMND

[7] "Black-owned businesses took a pandemic hit, but they're doing better than ever now – largely because of Black women," Jason Lalljee, *Insider*, February 7, 2022. https://www.businessinsider.com/black-women-businesses-fuelincrease-pandemic-hit-entrepreneurship-covid-2022-2

[8] "Black women are the fastest growing group of entrepreneurs. But the job isn't easy," Elana Dure, J.P. Morgan Chase, October 21, 2021. https://www.chase.com/personal/investments/learning-and-insights/article/blackwomen-are-the-fastest-growing-group-of-entrepreneurs-but-the-job-isnt

[9] "Black Entrepreneurship Represents Highest Rate in U.S.," Bryan Lipiner, Global Enterpreneurship Monitor, August 13, 2020. https://entrepreneurship.babson.edu/gem-data-black-entrepreneurship-us/

[10] NAGGL, https://cdn.ymaws.com/www.naggl.org/resource/resmgr/gross_loans_fy23/09_30_23.pdf

[11] "Evaluation of Microloan Program Outcomes," SBA, November 2021, https://www.sba.gov/sites/default/files/2022-01/Evaluation%20of%20Microloan%20Program%20Outcomes%20Final%20Reportv2_508v4.pdf

According to the Intuit QuickBooks Small Business Index's Annual Report, access to financing is harder to obtain for new businesses and those owned by women or underrepresented racial groups. Small businesses owned by underrepresented racial groups are twice as likely to say "getting funding" is their #1 challenge. 72% of men who own small businesses say they can get funding over the next 12 months but among women, this drops to 64%[12]. In my experience, continued access to nonbank fintech credit is key for small businesses, particularly those who tend to need smaller dollar loans.

My recommendations today are directly related to empowering CDFIs to effectively lend in smaller amounts and serve the businesses Congress aims to unleash.

IV. Unleashing CDFIs: Universal Licensing for a Nationwide Footprint

The anachronistic state-by-state licensing requirement for CDFIs not only limits how quickly capital can be distributed but also how effective the CDFI designation can be as a force for deploying responsible capital in lower loan amounts.

What a business owner sees:

A single mom in Maryland has a sole proprietor business, the most common business structure in the U.S. She needs a loan for $12,000 to market her business and make sure she has the kind of digital presence her customers expect. Bank loans start in the millions, and she needs some technical assistance with the application, so she applies at a CDFI. Her credit is solid, and with some help she has presented all the documents she needs to apply. But she finds that no CDFI can help her.

What happened at the CDFI:

The customer has strong credit and her cashflow looks like she can repay the loan. There's one big problem: Maryland's commercial lending laws set the commercial loan minimum at $15,000 unless the business is a corporation. In order to serve this business owner and others like her and help them grow, the CDFI has to apply for a separate license to offer personal loans. This is a long and costly process the CDFI's team hasn't had the bandwidth to pursue.

Recommendation: CDFIs should be exempt from state-by-state licensing requirements, thereby bringing about three clear benefits:

1. CDFIs can move much faster to deploy capital where it's needed
2. CDFIs can more easily attain the risk management benefits of geographic diversification

[12] Intuit QuickBooks Small Business Index Annual Report 2023, October 6, 2023, https://quickbooks.intuit.com/r/small-business-data/index-annual-report-2023/?cid=pr_TOF_QBB_press-release_US_EN_SMBIndex_AR

3. Many more lenders would be motivated to attain CDFI designation, which would have the effect of significantly increasing the supply of capital provided on responsible terms and, through market forces, make predatory lending businesses less economically viable

The Nationwide Mortgage Licensing System has already proven that this can be done!

V. Unleashing Lenders: Increase access to FRB and FHLB for CDFIs

The current market environment has provided two handicaps for CDFIs, lack of liquidity due to a tightening of banks' credit parameters and higher interest rates affecting the affordability of loans.

What the business owner sees:

A local grocery store in Austin, TX wants to expand its hours to accommodate the working schedules of its local customer base. The owner needs $50,000 to hire more employees for the added shifts. This will also increase their revenue by bringing in new customers who need to do their shopping early in the morning or late at night. He goes to a CDFI for the loan. The process is going well, but when he gets the offer, the interest rate is much higher than he can afford.

What happened at the CDFI:

As the loan officer worked with the finance team to determine the offered rate, they took several factors into account.

1. The Wall Street Journal Prime rate that sets the base for all small business loans, currently 8.5%
2. The customer's risk profile, which tells them this customer is in the middle range of likelihood to pay the loan back in full
3. The operational cost associated with processing and servicing the loan
4. The cost of the capital it will use to support the loan, which it borrowed from a bank partner and pays back at Prime

The CDFI does not have low-cost sources of liquidity, and has not received adequate lending capital from banks, so it has to make the decision to either leverage higher-cost capital, or not provide the loan to the business owner. Likewise, on a small amount like $50,000, the interest rate the customer can afford is simply not financially feasible for the lender to stay in business, let alone grow and innovate. With heavy hearts, the leadership decides to raise their loan minimum or charge higher interest rates on the small dollar loans.

Recommendation: In addition to state-by-state licensing discussed in the previous section, CDFIs should get access to the Federal Reserve Bank and expanded access to the Federal Home Loan Bank. Here are the benefits:

1. With additional sources of liquidity, CDFIs can provide additional lending to underserved and undercapitalized communities as seen with the PPPLF loans provided by FRB to CDFIs
2. Access to lower costs of funding will immediately decrease the interest rates CDFIs provide to their customers
3. Today, the Federal Home Loan Bank does not allow CDFIs to pledge small business loans. This should be immediately changed.

In combination with blended rates made possible by state loan guarantees and State Small Business Credit Initiative (SSBCI) support, this recommended system would be a game changer for CDFIs and their borrowers.[13]

VI. Government Capital: Catalytic, Responsive & Engaged

As evidenced by PPP, SSBCI and the many programs implemented to provide pandemic relief, our government can rise to the occasion to deploy assistance and save small businesses. From the capital deployer's perspective, government support is at its best when it's:

- Catalytic – Tuned into helping new industries, like renewable energy, thrive and innovate
- Responsive – Considerate of current market conditions, like inflation
- Engaged – Built with processes in place for reporting, and adjusting based on reporting

Though public programs geared to Socially and Economically Disadvantaged Individuals (SEDIs) exist for the purposes of deploying allocated capital to institutions, both to support lending activities and to support technical assistance for borrowers, no system currently exists for adjusting after measuring and reporting on the effectiveness of the administration such programs in relation to their missions. This means that, though a great deal of money is pushed toward states to support small businesses, there is no system in place to make sure they continue to fit market conditions. Instead of adjusting current programs to keep them effective, new programs are formed to meet new needs.

Recommendation: Require development and implementation of a reporting system to measure the performance, annual progress, and market adaptations of public agencies and entities responsible for administering capital deployment programs that are geared to SEDIs, covering allocations for investments, lending and technical assistance (e.g., financing for licensing and

[13] Blended rates allow CDFIs to vary their capital sources. I'll use the State Small Business Credit Initiative (SSBCI) as an example. So, let's say that $50,000 loan is for a business in a state whose SSBCI program will guarantee half the loan amount at 1%. This greatly decreases the lender's need to rely on the bank's capital, which it has to pay back at Prime, and even with a lower rate, the CDFI can offer a lower rate AND turn more of a profit to grow and serve more businesses.

certifications, bonding, financial empowerment tools, HR services, cybersecurity, marketing, mobile-readiness).

VII. Conclusion

Congress has taken great strides in recent years to increase access to capital for borrowers and remove roadblocks for our most effective lenders, CDFIs. For mission-led lenders, part of the end game is disrupting predatory lenders by offering accessible, responsible alternatives. In my experience, knowledge and innovation are at their most powerful when paired with execution. It is my hope that from the information gathered in this room from myself and my fellow witnesses, swift action will follow. Only then can Main Street's potential truly be unleashed.

Ranking Member Nydia M. Velazquez (NY-7) Questions for the Record
Full Committee Hearing: "Unleashing Main Street's Potential: Examining Avenues to Capital Access
January 18, 2024; 10:00 AM; 2360 Rayburn House Office Building; Washington, DC

Questions for Everett Sands, Founder, CEO, Lendistry

1) Mr. Sands, during your testimony you stated that the proposed joint Basel III rulemaking is just that: a proposed rulemaking. While you said the proposed rule needed to be paused and reproposed, can you explain why a final joint rule implementing the Basel III: Endgame Agreement remains necessary?

   It is imperative that we have stability in our banking system. Likewise, strong capital rules are necessary to protect the safety and soundness of our banks, and this is the purpose of Basel III. It is also imperative that we consider how to support our underserved and undercapitalized small business communities. Finalizing Basel III and CRA Reform in tandem could ensure synergies with these two goals.

2) Mr. Sands, the proposed joint Basel III rulemaking is designed to ensure the largest banks in the country are well capitalized and capable of lending during an economic downturn or financial stress. Can you explain the importance of banks being well capitalized and capable of lending to small businesses during times of economic stress?

   Banking and lending carry inherent risks due to micro and macro-economic conditions against which a bank should take proactive steps to protect itself. Likewise, the bank must ensure that it meets the needs of its customer base and the communities it serves to maintain and grow its deposit base. Taking proactive steps of being well capitalized safeguards the bank so it can continue to make small business loans, which helps it to maintain current customers and attract new customers, while weathering any unforeseen negative economic conditions.

3) Mr. Sands, you stated the costs imposed by the proposed Basel III rulemaking will trickle down to CDFIs like yours. But could you also explain the importance of ensuring the nation's largest banks are well capitalized to ensure they are able to lend to CDFIs like yours during an economic downturn or financial stress?

   Similar to lending to small businesses, a bank which is well capitalized can lend to CDFIs. This helps to support the bank's efforts to support its communities. CDFIs, like Lendistry, have efficient business models that allow them to participate in programs like SSBCI, and many CDFIs are able to participate in programs that provide nongovernmental credit enhancements. These programs allow the capital lent to CDFIs to have exponential community benefit due to the multiplier effect when comparing the aggregate capital lent to small businesses versus the capital lent by the bank to the CDFI.

   - Could you explain what would happen if a bank were unable to lend to CDFIs during an economic downturn? What impact would this have on small businesses' ability to access capital?

   If banks were unable to lend to CDFIs during an economic downturn, then CDFIs would in turn not be able to lend to small businesses. Small businesses, especially those

owned by minorities and women, typically leverage CDFIs when they cannot access traditional lending. Considering small businesses employ 60% of the working population, this could have a dramatic effect on the employment and the financial resources of the small business' team members.

- Do you think the imposed costs of the proposed rule are outweighed by the larger economic costs that would occur if a large financial institution were to fail?

Yes, because the potential risks associated with a large financial institution failing is too great a risk for the US economy as a whole. We only need to look back to 2008, when Bear Sterns and Lehman collapsed to see the effects of a large institution failing.

4) Mr. Sands, during the hearing you stated that while $150 billion in new regulations for small businesses was too large, you were also quick to point out that estimate was on the extreme end. Can you expand on your statement that the $150 billion cost estimate is on the extreme end?

The Competitive Enterprise Institute discovered that the cost of compliance for large businesses could amount to a staggering $10,000 per employee[1]. Compliance costs for global banks and large brokers with over 20,000 employees can exceed $200 million annually. This would mean Bank of America with roughly 220,000 employees, Citibank with roughly 240,000 employees, JPMC with roughly 300,000 employees, and Wells Fargo with roughly 240,000 employees would only incur $10 billion in current costs collectively. All of the other banks have only a fraction of the employees and therefore a fraction of the compliance costs. There is no way this new regulation could 10x or 15x current compliance costs.

5) Mr. Sands, can you speak to the importance of small business regulation more generally? How does federal regulation ensure an equal playing field and access to credit for all small businesses during both good economic times and bad?

- Can you give some examples of how federal regulations can help small businesses save money or overcome some of the economic pressures we discussed during the hearing?

Federal regulations have always been a boon to any entity or individual on the receiving end of the policy. Federal regulations shored up by data like 1071 have the opportunity to focus on regulations to support cures for the lack of access to capital for underserved and undercapitalized communities. To put it simply, this would make sure the money from federal regulations goes where it is intended. We have seen many instances in which federal regulation targeted towards an equal playing field has had a tremendous benefit, like funds from the CARES Act. Both PPP and state level grant programs realized their

[1] Ten Thousand Commandments: An Annual Snapshot of the Federal Regulatory Cycle, https://cei.org/sites/default/files/Ten_Thousand_Commandments_2018.pdf#page=18

goal of saving many of the small businesses that received the funds and supporting the households that benefitted as a result of their employer receiving capital.

An example of federal regulations helping small businesses save money and overcoming economic pressures is the State Small Business Credit Initiative (SSBCI). SSBCI provides credit enhancements for banks and CDFIs allowing them to take additional risks on borrowers who otherwise might not qualify for a loan. If banks and CDFIs did not make these loans, small businesses would then turn to predatory lending products like merchant cash advances. According to Lending Tree, a merchant cash advance charges a factor rate between 1.2 and 1.52. This means that if a business borrowed $100,000 for one year from a bank or CDFI, assuming a rate of 9% - 12%, they would pay $9,000 to $12,000, but if they borrowed the same $100,000 from a merchant cash advance company, they would pay $20,000 to $50,000. These are numbers on the page, but in the real life of a business owner, that additional payment means less money spent on resources to grow the business (marketing, new hires, products) and likely the need to drastically reduce expenses, including firing employees.

[2] Lending Tree, https://www.lendingtree.com/business/merchant-cash-advance/

America's Credit Unions

January 18, 2024

The Honorable Roger Williams
Chairman
Committee on Small Business
United States House of Representatives
Washington, DC 20515

The Honorable Nydia Velázquez
Ranking Member
Committee on Small Business
United States House of Representatives
Washington, DC 20515

RE: Today's Hearing: "Unleashing Main Street's Potential: Examining Avenues to Capital Access"

Dear Chairman Williams and Ranking Member Velázquez:

On behalf of America's Credit Unions, I am writing regarding the Committee's hearing entitled, "Unleashing Main Street's Potential: Examining Avenues to Capital Access." America's Credit Unions represents the country's 4,800 credit unions and their 140 million members. America's Credit Unions is the voice of consumers' best option for financial services: credit unions. We advocate for policies that allow the industry to effectively meet the needs of their nearly 140 million members nationwide.

Credit unions recognize that access to capital for entrepreneurs is critical to ensuring the growth and development of vibrant small businesses. As not-for-profit, consumer-owned financial cooperatives, credit unions have a focus on meeting the needs of their members, including small business owners. This was widely demonstrated by the leadership of credit unions in providing Paycheck Protection Program (PPP) loans to Main Street small businesses when many other lenders turned them away. Establishing and retaining a relationship with a credit union remains the best way for a small business entrepreneur to partner with a provider of essential financial services.

America's Credit Unions shares the Committee's goal of empowering entrepreneurs and strengthening small businesses in America. Credit unions continue to provide a higher percentage of business loans under $150,000 than other lenders. As a result of the close relationships credit unions maintain with their members, credit unions are often willing to assist members when other lenders refuse. America's Credit Unions recognizes the need for smaller loans for small businesses, and that is why we support bipartisan legislation to provide relief from the credit union member business lending (MBL) cap as a way to increase capital access for small businesses. As the Committee looks for ways to increase capital access for small businesses, we urge you to support legislation such as:

H.R. 4868, the Member Business Loan Expansion Act
This legislation would make it easier for credit unions to offer smaller business loans under $100,000 by ensuring these loans do not count toward the arbitrary credit union MBL cap. By raising the definition of an MBL to exclude net aggregate loans less than $100,000, we would

© America's Credit Unions 2024

quickly see increased loan availability, reduced burdens on borrowers, and it would make it easier for credit unions to make these loans. This would benefit the communities credit unions serve as well as the U.S. economy as a whole. It would also help to meet an unmet need.

H.R. 4867, the Veterans Members Business Loan Act

Credit unions are an important resource for our nation's veterans in their small business and entrepreneurial endeavors. Service members develop broad expertise across many disciplines while in the military, learning skills that can provide tremendous value to the economy. After great personal sacrifice, these Americans deserve every opportunity for success in their transition back to civilian life. America's Credit Unions supports H.R. 4867, the Veterans Members Business Loan Act, which would exempt loans made to veterans from the MBL cap. This bill would improve veterans' access to necessary capital by removing statutory barriers that hinder credit unions' ability to meet the financial needs of our nation's veterans. As a result of the close relationships credit unions maintain with their members, credit unions are often willing to assist members when other lenders refuse. Unfortunately, credit unions face a statutory MBL cap that hinders their ability to fully serve the needs of small businesses. Enacting this legislation will help ensure that credit unions can continue supporting veteran-owned businesses.

Additionally, to ensure that credit unions can continue to remain a positive source of capital access for small businesses, we urge the Committee to continue its strong oversight of the Small Business Administration (SBA). The SBA's government guaranteed lending programs epitomize a successful public-private partnership, and it is one that leverages private sector expertise. We believe that the SBA should not function as a direct lender, but instead continue to guarantee the repayment of loans made by a lender such as a credit union. The SBA's lending programs, such as the 7(a) Loan Program, allow small businesses to work with local lenders or other lenders of a business's choice throughout the loan process. This public-private partnership works as borrowers can obtain loans from financial institutions that they know well and that have vested interests in their borrowers' success. Furthermore, when working with local lenders, small businesses are likely to benefit from guidance and experience from a lender with a stake in helping the borrowing business succeed.

We are particularly concerned that recent rulemaking from the SBA to expand to the 7(a) program to fintechs and other lenders could damage this important convention of SBA 7(a) lending. With a greater reliance on fintech lenders, SBA lending programs will be at increased risk of fraud, credit losses, and reputational risk. This could have serious consequences for the long-term health of the SBA's flagship 7(a) program. Credit unions and other traditional lenders are placed at a competitive disadvantage under this new system. We urge the Committee to continue to exercise its authority in this area and to continue to work to try to find legislative solutions if necessary.

In conclusion, credit unions stand ready to help small businesses and create jobs. Providing relief such as this from the MBL cap does not take additional federal spending and is an easy way to free up more capital for Main Street America. Continued Committee oversight of the SBA is also

© America's Credit Unions 2024

needed. As the Committee considers approaches to help small business gain access to capital, we urge you to include credit unions as part of the solution.

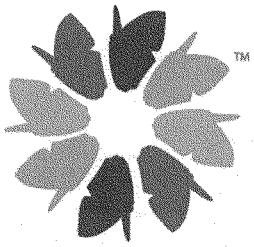
On behalf of America's Credit Unions and the nearly 140 million credit union members, thank you for holding this important hearing and considering our views on the subject.

Sincerely,

Jim Nussle
President and CEO

cc: Members of the House Committee on Small Business

© America's Credit Unions 2024



C·A·M·E·O

Testimony for the Record On Behalf of

California Association for Micro Enterprise Opportunity (CAMEO)

House Committee on Small Business

"Unleashing Main Street's Potential: Examining Avenues to Capital Access"

January 18, 2024

The California Association for Micro Enterprise Opportunity (CAMEO) submits the following article for the record by CAMEO CEO Carolina Martinez for Fortune.com. The article addresses the Consumer Financial Protection Bureau's (CFPB) rule to implement Section 1071 of the Dodd Frank Act, which requires financial institutions to collect and report demographic data in small business lending.

CAMEO believes that Section 1071 of the Dodd-Frank Act will provide much-needed insight into who does and who does not receive small business financing, unearthing potential patterns of discrimination. Implementing Section 1071 is critical to increasing transparency and equity in the small business lending economy. Minority and women-owned small businesses often face discrimination when applying for loans, hindering the development of these businesses and their communities. Section 1071 will provide publicly accessible data that is crucial in creating an inclusive and accountable lending environment.

CAMEO is California's statewide micro-business network made up of over 400 organizations, agencies, and individuals dedicated to furthering micro-business development in California with small and micro-business financing such as loans and credit, technical assistance and business management training. We build capacity and expand resources for our members. We also educate the public on the economic impacts of micro-business through public awareness and advocacy at the local, state and federal level to support the growth of micro-business, start-ups, and entrepreneurs.

America's big banks are hiding behind racial equity to avoid new capital standards–but refuse to disclose the demographics of their small business lending

BY **CAROLINA MARTINEZ**
January 10, 2024 at 5:32 AM EST

As regulators contemplate tougher capital standards for large banks (intended to prevent future banking collapses and make the financial system safer), the banking lobby is crying foul. One of their key arguments is that the new capital standards could hurt minority-owned businesses. A well-funded ad campaign from Goldman Sachs argues the new capital standards would "make it even harder for minority-owned businesses to access loans and credit." Meanwhile, the Financial Services Forum says the proposal would "disproportionately impact historically underserved communities."

However, capital standards are far from being the main cause of–or solution to–discrimination in small business lending. In fact, by wrapping their arguments under a cloak of racial equity, the banking lobby is preserving the status quo and letting underserved communities disproportionately bear the impact of a tightening lending market, rather than addressing the ingrained inequities in banking.

If banks are concerned about equity in small business lending, they should support the implementation of the Consumer Financial Protection Bureau's (CFPB) rule requiring financial institutions to collect and report demographic data in small business lending. Currently, banks do not measure race, gender, or other key demographics in small lending, unlike in consumer lending. The CFPB rule, which was finalized under Section 1071 of the Dodd-Frank Act, would provide much-needed insight into who does–and doesn't–receive small business financing, unearthing potential patterns of discrimination.

The banking lobby has fought this straightforward, long-overdue rule to measure inequities in small business lending. When the data-collection rule was finalized earlier this year after 13 years of delay, the American Bankers Association and the Texas Bankers Association met it with aggressive legal challenges. This summer,

they secured a ruling from a U.S. District Court that postponed its implementation.

Additionally, in its pursuit of evading the data-collection rule, the banking lobby has thrown its weight behind a legal argument that the CFPB itself is unconstitutional–offering an amicus brief to the U.S. Supreme Court in favor of defunding the CFPB. If the Supreme Court upholds an October 2022 ruling by the U.S. 5th Circuit Court of Appeals that the CFPB's funding structure is invalid, it would fully dismantle the agency's enforcement mechanisms in a threat to small businesses and consumers alike.

In the CFBP's absence, predatory and discriminatory lending practices, such as payday lending and redlining, would thrive with no recourse for the victims.

Even though many banks refuse to collect or report demographic data on their small business loans, the presence of inequity in small business lending is well-documented. For instance, Goldman Sachs itself reports that Black small business owners have a "much lower rate of receiving the full funding requested compared to their white peers." A survey from Stanford found Latino-owned businesses seeking loans from national banks have lower approval rates for loans over $50,000, despite having stronger business metrics than white-owned businesses that applied for loans.

To address their own shortcomings, banks *must* measure them. By opposing demographic-reporting requirements in small business lending, one must wonder: What do banks want to hide? What patterns of discrimination might be unearthed?

Substantial movement toward equity in banking requires transparency. Until then, arguments from the banking lobby that they care about minority-owned businesses and equity in small business lending are empty words. If they truly care about equity, and not only when it's convenient, banks' actions need to show us they're willing to eliminate the inequities in the system.

Carolina Martinez is the CEO of CAMEO, California's statewide micro-business network, and a leading voice for businesses with one to five employees.



Statement For the Record

House of Representatives

Small Business Committee Hearing

Unleashing Main Street's Potential
Examining Avenues to Capital Access

January 18, 2024

Chairman Williams, Ranking Member Velazquez, and members of the Committee, thank you for holding today's hearing on the issue of *Unleashing Main Street's Potential: Examining Avenues to Capital Access.*

My name is Bruce Burrows and I serve as the President and CEO of the Chamber of Marine Commerce. Our association supports small shipping companies that deliver materials throughout the Great Lakes, a region critical to the US and the global economy. Our shipowner members cost efficiently move raw materials and products that many small businesses depend on.

Today's hearing isn't just important to highlight the need for access to capital for small businesses, but to also highlight what the government is doing to prevent small businesses from growing and succeeding. If small shipping companies are going to continue to be able to support small businesses, we need your help. The Federal government shouldn't be in a position to increase fees at rates that are not backed up by data. The government should be looking at us as partners, not ATM machines.

Access to capital is critical for any small business growth, but so is being able to take the resources from sales of goods and services and reinvesting it back into our companies without having to take on any added debt. Today, with actions being taken by the Department of Agriculture, our costs are going to be so high that many small businesses will be impacted as they will face more costs to get raw materials.

Small businesses play a vital role in our nation's economy, serving as engines of innovation, job creation, and community development. It's imperative that we foster an environment conducive to their success. One key aspect of this environment is a fair and reasonable government fee structure that does not unduly burden these job creators.

As small businesses we are willing to pay our fair share, but the new fees being levied by the U.S. Department of Agriculture on small shipping companies to help fund the Departments Agricultural Plant Health Inspection Service (APHIS), which supports the Departments Agricultural Quarantine and Inspection (AQI) services, are not fair and reasonable, but excessive and job killing.

Last year the Department of Agriculture issued a proposed rule which would increase APHIS fees on small shipping companies by 290% in 2024 and 331% by 2028. For our members, this amounts to a $2,009,000 increase.

This is a fee that will make it hard for any small shipping company to compete. Some might say simply pass that cost onto consumers. Haven't we seen inflation reach high enough levels where consumers cannot keep paying more. Consumers are not going to be able to pay these costs, nor should they, just as our small shipping companies can't and shouldn't have to.

While the proposed increase is ostensibly based on the increasing size of international container ships calling on U.S. ports, it fails to consider that our vessels have not increased in size over the years. Our ships are predominately traveling through the Great Lakes and are not the super ships these fees are meant for. Even in their presentations on this topic, the Department of Agriculture refers to super ships to justify the need for this increase. The Department has created a one size fits all approach that hurts small businesses. These fees are beyond excessive, they amount to an overreach by the Federal government, which will put small shipping companies out of business.

The proposed fee increase is based solely on the container shipping sector's growth, ignoring the different marine sectors that have not seen a corresponding increase in vessel size. Our vessels are intentionally size-constrained due to the nature of their trade and the physical limitations imposed by the U.S. Saint Lawrence Seaway lock system. Therefore, the rationale for a 290% fee increase in 2024 does not apply to our ships.

The proposed increases essentially would result in our members' Great Lakes vessels subsidizing the ocean container trade. Given our more frequent port visits and specific trade demands, this disproportionately impacts the Great Lakes short sea shipping trades. Canadian and American vessels play a pivotal role in supporting both the U.S. and Canadian economies by transporting essential cargoes through the Great Lakes and Saint Lawrence Region. These cargoes include critical materials like iron ore, stone aggregates, asphalt, road salt, cement, grain, heating oil, fuel, chemical products, and other commodities.

This benefits many small businesses such as construction companies, food services, and fuel distributors. Many of these cargoes have low dollar values, and the margins for commercial vessels carrying them are generally thin. However, these commodities contribute significantly to the broader economy, particularly in infrastructure and construction projects. These fees will have a negative impact on the supply chain, which still has not caught back up from the impacts COVID had on our economy.

The cumulative effects will disproportionately affect both Canadian and American domestic vessels in the Great Lakes and Saint Lawrence region. A 290% increase in APHIS fees by 2024, with further annual increases, could have significant repercussions on lower-dollar-value trades, potentially forcing a modal shift away from the marine mode.

Such a shift would have profound impacts on the environment, highway congestion, rail traffic, and APHIS inspections for other modes.

To address these concerns, we urge APHIS to reconsider its approach to the proposed fee increase. We recognize the need to align fees with the level of effort required for inspection, but a one-size-fits-all approach does not account for the significant differences in vessel types and trade dynamics. Our vessels operating in the Great Lakes and Saint Lawrence region generally pose lower risks of carrying harmful species compared to international ships.



We strongly recommend a more refined fee structure that differentiates ship types and sizes, recognizing the lower risk posed by Great Lakes bulk carriers. We urge the Department of Agriculture to hold stakeholder meetings to hear from us about what we do and what solutions we have to help their efforts. This type of approach will be a collaborative one, which will bring about sound policy for all. We are simply asking the Department of Agriculture to work with us on a fee structure that fits our industry and does not impose one size fits all policy, that will damage the economy, the resurgence of our supply chains, and our industry.

In conclusion, we understand the vital importance of protecting crop and livestock health from potential harmful organisms, as well as the mandate for APHIS to be financially self-sufficient. However, the proposed fee increase disproportionately impacts our members' vessels, which serve critical roles in the regional and national economies. We believe that implementing a fair and equitable fee structure based on vessel size and expected risks will better reflect the actual workload, ensuring a sustainable and efficient approach for all stakeholders.

Chairman, Ranking Member, and members of the Committee, we need your help today. We cannot sustain our small businesses when the government is imposing increased fees on our business of over $2 million annually. A 290% fee increase is a hijacking of our industry and an attack on small businesses, who continue to be the economic engine driving the global economy.

We appreciate your attention to our concerns and look forward to further dialogue on this matter. Please feel free to contact us if you require any additional information or if you would like to discuss potential solutions.



The Daily Dish

The Endgame for the Basel III Endgame

DOUGLAS HOLTZ-EAKIN | JANUARY 10, 2024

Eakinomics readers may have noticed their holiday football watching included this ad from the non-profit Center Forward decrying proposed Federal Reserve capital rules. Eakinomics certainly did. This is not the typical stuff of Sunday Night Football. But it is a good indicator of the intensity of conflict over the Fed's (and Federal Deposit Insurance Corporation) proposed rules.

The rules in question are known as the "Basel III endgame," a moniker that derives from the town of Basel, Switzerland where international bank regulators have three times met and reached agreement on regulatory standards for banks. The rules are the proposed U.S. implementation of this agreement.

Except that they are far more aggressive and ill-designed than a mere implementation. As Eakinomics previously opined:

> [T]he Fed will likely raise the capital requirements on the largest banks even though there is no evidence of any need for the increase. And it will expand to the regional banks the same requirements because of the failure of Silicon Valley Bank, even though there is zero evidence that capital requirements or risk models led to its problems. And how does it conclude that this is a good idea? By ignoring costs.
>
> Sure, there are benefits to regulations, but there are also costs and not all regulatory expansions will pass a benefit-cost test. The Fed seems to have forgotten about half of the issues in evaluating capital requirements.

Nevertheless, Eakinomics has been skeptical that the Fed would modify its proposals much despite the overwhelming economic case for doing so. First, those pointing out the flaws are unsympathetic public figures – large banks and the financial community. Second, the rules need to be finalized quickly in order to insulate them from potential congressional rollback under the Congressional Review Act in the next Congress.

Yesterday, however, *Bloomberg* published an intriguing story indicating substantial internal discomfort with the rule at the Fed itself, including a tepid endorsement from Chairman Powell: "The Fed's unusually close 4-2 vote to advance the rule came as a surprise from an organization that prides itself on consensus. Two Republican-appointed Fed governors voted no, and Chair Jerome Powell — whose approval came with reservations — signaled that the final version would need 'broad support' from the board."

Thus begins the endgame for the Basel III endgame rule. "To get the 1,087-page package across the finish line, Barr will make changes to address any substantive gaps in the proposal and try to reach consensus within the Fed, according to two people familiar with his thinking." The most important substantive gap is any serious analysis addressing the costs and benefits of the rule. Given that the international agreement was reached in 2017, it is far from a hasty step to undertake a real analysis of the proposed implementation. It is long overdue.



Full Committee Hearing: "Unleashing Main Street's Potential: Examining Avenues to Capital Access" - Engine's Statement

February 1, 2024

House Committee on Small Business
2361 Rayburn House Office Building
Washington, D.C., 20510

Dear Chairman Williams, Ranking Member Velázquez and members of the House Committee on Small Business,

Thank you for convening a hearing last week covering capital access challenges for small businesses and startups. Engine is a non-profit technology policy, research, and advocacy organization that bridges the gap between policymakers and startups. Engine works with government and a community of thousands of high-technology, growth-oriented startups across the nation to support the development of technology entrepreneurship through economic research, policy analysis, and advocacy on local and national issues. Equitable access to capital for startup founders is a core tenet of Engine's work, and we are grateful for the opportunity to provide our feedback on the struggles and successes of entrepreneurs in our network.

Access to capital is one of the most significant barriers startups face when launching. Most startups launch with a limited amount of funding, often put together from a mix of personal loans and family savings, with just a small fraction securing venture capital.[1] Even the most successful startups that have gone on to attract outside funding only have roughly $55,000 a month in resources to cover all expenses.[2] Given these limited resources, capital access issues can be a huge burden on startups. Improved and more equitable access to capital is crucial to create a brighter economic outlook for startups and promote further innovation.

Through Engine's Innovation For All Initiative, we've seen that underrepresented founders, including BIPOC founders, rural founders, and LGBTQ+ founders, especially face the burden of capital access barriers across most financing avenues.[3] Founders from underrepresented backgrounds frequently receive approvals for lower loan amounts and are often quoted significantly higher interest rates. For women founders, access to funding sources is also complicated. Kathryn Rose, the founder of getWise, said "We need easier access to debt instruments like loans. I mean, there's loans available out there. But… there are just so many hoops to jump through."[4] Though

---

[1] Kauffman, *Access to Capital,* https://www.kauffman.org/wp-content/uploads/2019/12/CapitalReport_042519.pdf.
[2] Engine, *Engine Releases Report On The State Of The Startup Ecosystem,* https://www.engine.is/news/engine-releases-report-on-the-health-of-the-startup-ecosystem.
[3] Engine, *Innovation For All,* https://www.engine.is/innovationforall.
[4] Engine, *Women Startup Leaders Roundtable: What we Heard,* https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/64346ad31d539c3d06092981/1681156819155/Innovation+for+All+_+Women+Startup+Leaders+Roundtable_+What+we+Heard_Final.pdf.

gender and racially diverse startups are more likely to be more profitable and successful,[5] funding still primarily benefits white-led companies.[6] And without diversity in the innovation ecosystem, diverse viewpoints fail to be acknowledged, and innovation will lag.[7]

Access to capital for underrepresented founders also becomes challenging if startups lack access to smaller banks. Small banks tend to establish closer relationships with their customers, simplifying the process for startups to obtain banking services.[8] Moreover, they have the flexibility to customize their offerings, such as offering specialized industry advice and assisting in building professional networks, to meet their clients' specific needs. According to the Independent Community Bankers of America, "In stark contrast to the nation's largest banks, community banks operate under an entirely different business model—one that's based locally and is relationship focused. As small businesses themselves, local community banks take pride in serving the unique needs of their customers and communities."[9] Additional regulatory burdens can have an outsized impact on smaller banks, impacting lending and the services they offer to startups. And increased capital requirements could make bank lending more expensive or result in customers, like startups, receiving less financing.[10]

Policymakers can take action to support the startup ecosystem by improving the regulatory environment where startups raise capital. This is particularly crucial given indications that the SEC intends to narrow the definition of accredited investor.[11] Policymakers should focus on promoting diversity in the investment community by facilitating greater participation from a variety of investors, particularly those from diverse backgrounds, including by expanding the definition of accredited investor.[12] Policymakers can also tackle capital accessibility challenges through federal funding avenues, such as simplifying grant procedures, enhancing the reach of federal programs, allocating funds to incubators and accelerators, and other organizations that offer essential support, resources,

---

[5] Matt O. Dhaiti and Jamie Dohopolski, *Engine's Response to the Call for Comments on Expanding American Innovation*, Engine (Feb. 23, 2021), https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/60366ecbd288114c62743c45/1614180046522/Engine+USPTO+diversity+comments.pdf.

[6] Suraj Gupta, *Diversity: The Holy Grail of Venture Capital* (May 26, 2022), https://www.forbes.com/sites/forbesbusinesscouncil/2022/05/26/diversity-the-holy-grail-of-venture-capital/?sh=1de992054178.

[7] Engine, *Startup Policy Playbook 2023*, https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/63da7fc7acc7e40d77d84ffe/1675263944074/Startup+Policy+Playbook+2023.pdf.

[8] Engine, *SVB: What Happened, How the Fallout Impacts Startups, What Policymakers can do Next*, https://www.engine.is/news/category/what-policymakers-need-to-know-about-the-svb-collapse-and-startup-fallout.

[9] ICBA, *Silicon Valley Bank and the Nation's Largest Banks Are Not Community Banks*, https://www.icba.org/newsroom/news-and-articles/2023/03/13/icba-silicon-valley-bank-and-the-nation-s-largest-banks-are-not-community-banks.

[10] Bill Hulse, *How New Banking Rules Might Harm Your Business, U.S. Chamber of Commerce* (Nov. 6, 2023), https://www.uschamber.com/finance/how-new-banking-rules-might-harm-your-business#:~:text=When%20capital%20requirements%20for%20banks,main%20street%20business%2C%20and%20consumers.

[11] J.D. Alois, *SEC Publishes Review on Definition of an Accredited Investor* (Dec. 15, 2023), https://www.crowdfundinsider.com/2023/12/218235-sec-publishes-review-on-definition-of-an-accredited-investor/.

[12] Engine, *Startup Policy Agenda 2023 - Capital Access*, https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/63d98e37c99f9e613300ce6a/1675202105904/Startup+Policy+Agenda+2023.pdf.

and programs for startups.[13] Andrew Prystai of Event Vesta, an event promotion and discovery platform located in Omaha, Nebraska agrees that change is needed at the SBA—stating, "I believe the issue overall is access to capital, as SBA can't make loans to asset lite businesses like ours. . . I do think almost anything here (whether loosening restrictions on small grants from the SBA, providing working capital to potential investors, or setting up tax credits for angel investments) would help."[14]

Thank you once again for your commitment to examining the barriers faced by current underrepresented startup owners and exploring how Congress can better support them. Engine is happy to serve as a resource for the committee as you continue this critical work.

Sincerely,

Engine Advocacy
700 Pennsylvania Ave SE
Washington, D.C., 20003

---

[13] *Id.*

[14] Engine, *What Startups are Saying About the JOBS 4.0 Draft*, https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/629a299aff12856973b9a17c/1654270362843/Startup+Feedback+JOBS+4.0+.pdf.

DAN MEUSER
9TH DISTRICT, PENNSYLVANIA

350 CANNON HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
(202) 225-6511

121 PROGRESS AVE.
SUITE 110, LOSCH PLAZA
POTTSVILLE, PA 17901
(570) 871-6370

Congress of the United States
House of Representatives
Washington, DC 20515

HOUSE COMMITTEE
ON FINANCIAL SERVICES

SUBCOMMITTEE ON
CAPITAL MARKETS

SUBCOMMITTEE ON
NATIONAL SECURITY, ILLICIT FINANCE,
AND INTERNATIONAL FINANCIAL INSTITUTIONS

SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS

HOUSE COMMITTEE
ON SMALL BUSINESS

SUBCOMMITTEE ON
ECONOMIC GROWTH, TAX, AND CAPITAL ACCESS
CHAIRMAN

SUBCOMMITTEE ON
RURAL DEVELOPMENT, ENERGY,
AND SUPPLY CHAINS

August 23, 2023

The Honorable Martin Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Dear Chairman Gruenberg:

We write regarding the Federal Deposit Insurance Corporation's (FDIC) May 1, 2023, *Options for Deposit Insurance Reform* (Options Paper).[1] The FDIC prepared the report following runs by uninsured depositors in March 2023 on Silicon Valley Bank and Signature Bank, the second and third largest bank failures in the FDIC's history. These runs were the result of failures by bank management to adequately manage basic banking risks, and supervisory failures that allowed these management failures to go unremediated.

In the Options Paper, the FDIC notes that the U.S. banking system is increasingly reliant on uninsured deposits. At its recent peak in 2021, the proportion of uninsured deposits in the banking system was 46.6 percent, a proportion above anything seen since 1949. Between 2009 and 2022, uninsured domestic deposits at FDIC-insured institutions increased at an annualized rate of 9.8 percent, from $2.3 trillion to $7.8 trillion. Uninsured deposits are concentrated at a handful of institutions, with uninsured deposits representing a particularly large proportion of banks' funding among banks in the largest 10 percent and 1 percent of banks by asset size. Despite this significant growth in uninsured deposits, more than 99 percent of deposit accounts remain under the $250,000 deposit insurance limit.

The Options Paper lays out several alternative deposit insurance schemes to address the potential risk posed by growth in uninsured deposits. First, the existing deposit insurance system can be maintained with increased deposit insurance limits. Second, deposit insurance could be extended to cover all deposits, without limit. Third, unlimited coverage could be extended to certain types of deposits, such as business payment accounts. Fourth, a voluntary excess deposit insurance system can be developed, wherein banks may opt into additional insurance coverage. Finally, the deposit insurance system can be reformed to require that large uninsured deposits be

[1] FDIC, *Options for Deposit Insurance Reform* (May 1, 2023), available at https://www.fdic.gov/analysis/options-deposit-insurance-reforms/report/options-deposit-insurance-reform-full.pdf.

PRINTED ON RECYCLED PAPER

collateralized, which is already required for certain municipal, county, and state government accounts, or to restrict the timing of withdrawals of large uninsured deposits.

As the Deposit Insurance Report highlights, any changes to the deposit insurance system come with costs and consequences for the banking and financial system. Expanded deposit insurance—and unlimited deposit insurance in particular—may have a large impact on bank risk-taking and would remove depositor discipline. Likewise, unlimited deposit insurance may result in an inflow of deposits into the banking system, which could disrupt asset markets. Importantly, any expansion in deposit insurance would likely require an increase in the size of the Deposit Insurance Fund (DIF), and a concomitant increase in deposit insurance assessments.

Given the likely costs of the deposit insurance options presented in the Deposit Insurance Report, we ask that you answer the following questions to ensure that we more fully understand the potential risks and costs associated with any reforms:

1) With respect to unlimited deposit insurance:

   a) Based on uninsured deposits as of June 30, 2023 and recognizing the 2 basis point (b.p.) add-on per the DIF Recapitalization Plan, what additional increase in the average deposit insurance assessment rate would be needed to achieve the legal minimum Designated Reserve Ratio (DRR) of 1.35 percent by September 2028?

   b) Once the 1.35 percent level is achieved, what would be the estimated continuing impact on the average assessment rate?

2) With respect to expanded coverage for business payment accounts up to $1,000,000 or unlimited:

   a) Based on uninsured deposits as of June 30, 2023 and recognizing the 2 b.p. add-on per the DIF Recapitalization Plan, what increase in the average assessment rate would be needed to achieve the minimum legal DRR of 1.35 percent by September 2028?

   b) Once the 1.35 percent level is achieved, what would be the estimated continuing impact on the average assessment rate?

   c) The Options Paper identifies difficulties in identifying eligible business payment accounts while avoiding arbitrage opportunities. Does the FDIC believe that it could address these challenges through rulemaking, if provided appropriate direction and rulemaking authority by Congress?

      i) Would it be feasible for the Federal banking agencies to develop a pre-certification process through either existing supervision processes or deposit insurance assessment processes to confirm eligibility of business payments accounts?

      ii) In the alternative, could the Federal banking agencies through rulemaking require business payment account holders to provide commitments and contractual warrants

regarding the purpose of their accounts?

3) With respect to either option:

   a) Could the legal minimum DRR of 1.35 percent be achieved while excluding community banks with less than $10 billion in consolidated assets (inclusive of assets of any affiliated banks) from any assessments increases?

   b) Is it feasible for the FDIC to revise its risk-based assessments pricing to charge banks with large, concentrated deposits higher rates than banks with smaller, diverse depositor bases?

4) The FDIC's Transaction Account Guarantee (TAG) program, created under a systemic risk exception, was in effect from October 2008 to year-end 2010. The TAG Program was a voluntary differential coverage approach that provided unlimited deposit insurance to a targeted class of transaction accounts for a surcharge fee. According to the Options Paper, the Program collected approximately $1.3 billion in fees and, as of year-end 2022, had an estimated gross loss of around $1.46 billion.

   a) If a program much like the 2008-2010 TAG Program were reinstituted, what level of assessments on deposits covered would be appropriate to completely offset its costs in today's environment?

   b) Given that financial technology has evolved since the 2008-2010 period, are there reasons why a TAG program would be ineffective in guarding against bank runs and contagion today?

5) Raising the FDIC coverage level should not increase the cost when a bank fails because, in almost every case, the FDIC delivers all of the deposits of a failed bank, insured and uninsured, to a healthier bank. Moreover, increased coverage may reduce bank failures by lessening the risk of runs on banks.

   a) In this case, could higher FDIC coverage justify a lower Congressionally mandated minimum DRR than 1.35 percent?

   b) The Options Paper notes that unlimited deposit insurance could disrupt asset markets. What is the expected disruption and what steps could be taken to mitigate such disruptions?

We appreciate your attention to this request. Please respond as soon as possible, but no later than September 1, 2023.

Sincerely,

Dan Meuser
Member of Congress

Blaine Luetkemeyer
Member of Congress

Statement for the Record
for the
U.S. House Small Business Committee
hearing entitled

"Unleashing Main Street's Potential: Examining Avenues to Capital Access"

2360 Rayburn Building at 10:00AM
January 18, 2024



Brett Palmer
President
Small Business Investor Alliance (SBIA)

On behalf of its members, the Small Business Investor Alliance (SBIA) submits the following statement for the record of the Small Business Committee hearing entitled *"Unleashing Main Street's Potential: Examining Avenues to Capital Access."*

The Small Business Investor Alliance

SBIA was formed in 1958 to represent Small Business Investment Companies, the original American venture capital and private equity funds. As the small business investing market grew more complex, so did SBIA. SBIA now includes Small Business Investment Companies (SBICs), Rural Business Investment Companies (RBICs), Business Development Companies (BDCs), conventional private equity funds, private debt funds and other funds investing in American private small businesses. We also represent the institutional investors (e.g., community banks, university endowments, pension funds) who invest in these small private funds. Our association's purpose is to represent the entire lower middle market investing ecosystem, both General Partner and Limited Partner. As such, our public policy goals are balanced and focused on maintaining a robust, healthy, and competitive market for investing in American businesses.

Current Capital Access Market

The Bank Challenge

The paths to accessing capital for many small businesses are currently very strained and are at risk of being further reduced. Without access to capital America's small businesses, located in small towns as well as big cities across the country, will be unable to grow, hire, and innovate. In short, without better access to capital we are stifling our own economy and our economic future.

With the collapse of Silicon Valley Bank in 2023, there were massive outflows of capital (deposits) that flowed from smaller banks to the larger banks because the larger banks were identified as systemically important by regulators and therefore likely to receive aid if the banks came under stress. The smaller banks were given no such assurances by regulators. The resulting rush of capital from smaller institutions to larger institutions cuts off the ability of smaller banks to provide many small business loans. The result is smaller businesses simply cannot borrow from the banks that they have had long-term relationships with. It is not a matter of intent, but a simple matter of cash on hand and regulations.

Further, a significant part of Silicon Valley Bank's collapse was due to it holding long term paper that was purchased when interest rates were very low. Many banks are holding vast sums in this low interest rate paper. If a bank must sell these low interest rate notes when interest rates are higher (as they are today) then the value of those notes plummets and the bank is put under major duress. Rates were too low for too long and went high too quickly. Again, this risk of interest rate dislocation reduces a bank's ability to loan to small businesses.

The flight of capital to large banks was not the fault of the large banks. However, it is important to note that it is just as much work, and often more work, for a large bank to lend to a small business as it is to make bigger loans to bigger businesses. Large banks are trying to fill the lending gap, but they simply cannot replace the role of smaller banks. Large financial institutions are inherently biased towards deploying larger businesses, simply because of the scale of capital involved. This scale problem is exacerbated by the regulations put on large banks by things like Basel III.

In summary, when banking is stressed by market forces or by excessive regulation the first thing that gets cut back on is small business lending.

The Interest Rate Challenge

The steep increase in interest rates is particularly damaging to smaller businesses. As if fewer lenders servicing the small business market were not bad enough, the cost of the few loans available has become prohibitively expensive. To put this in perspective, small businesses that were previously growing at an annualized growth rate of 40% (a very robust clip), are now growing at 5% or less because the cost of growth capital (loans) has risen so high and so quickly. Growth is better than shrinkage, but the cost of borrowing has become a massive drag on economic growth and opportunity in towns across America.

Small Business Investment Companies (SBIC) and Rural Business Investment Companies (RBIC) provide debt and equity capital exclusively to American small businesses. They are a pipeline of growth capital during good times and lifeline of capital during tough times. Demand for SBIC capital has never been stronger, with a record amount of capital deployed in FY2023 (in excess $8 Billion), a record amount of private capital committed to SBICs, and a record amount of SBIC leverage reserved for future investments. However, higher interest rates have impacted SBICs' cost of capital and in the same way that banks are constrained from lending due to capital outflows to larger banks, many smaller banks are facing regulatory limits that are constraining their ability to invest in SBICs (and in turn service small businesses).

SBICs and RBICs regularly empower banks to lend. Often growing small businesses are only able to access bank loans in conjunction with SBIC or RBIC capital. Currently, SBICs are often the only capital providers available because even with the equity and debt provided by SBICs, banks cannot provide loans (at any rate) to small businesses. Without SBICs and RBICs, smaller businesses would be in deeper trouble accessing capital than they already are. Congress should empower SBICs and RBICs to help more small businesses, with common sense, bipartisan regulatory relief.

What Can Congress Do to Improve Capital Access to America's Small Businesses?

1) Congress can provide regulatory relief to allow more SBIC investment into America's small businesses.
    a. Pass **H.R. 5333 – Investing in All of America Act**

    America's small businesses should be able to access growth capital when they are ready for it. This should be true not only for businesses near financial centers, but also for rural and low-income areas. This bipartisan legislation, introduced by Reps. Meuser and Scholten, will incentivize private capital investments in the parts of America that are too often overlooked. Further, current outdated regulatory caps are cutting off billions of dollars in investment by SBICs into small businesses across America.

    The Investing in All of America Act reforms the Small Business Investment Company program at SBA to encourage private capital in underserved areas and industries with the following benefits:

- No new spending.
- No new mandates.
- No subsidies.
- 100% of investment is in American small businesses.
- Encourages investment in Low-income and Rural Areas.
- Encourages investment in industries that are vital to national defense.
- Inflation adjustment allows the program to keep up with inflation over time.
- Market-led and market-driven.

b. Pass **HR 400 Investing in Main Street Act** (passed by the House several Congresses in a row, but no action in the Senate)

This bipartisan legislation (Reps. Chu and Garbarino) fixes a statutory drafting error where banks are currently allowed to invest more capital into SBICs (and therefore into American small businesses), but where SBICs are not allowed to accept more money from banks. There is no cost to this legislation, and it is non-controversial.

c. Raise the Annual SBIC Authorities

The current programmatic caps of $5 Billion dollars are rapidly approaching their limits. These caps need to be raised to at least $6 Billion dollars. This does not increase federal spending or appropriations. It just allows SBICs to grow to fill the demand for small business capital. SBIC Debenture leverage has consistently run at a zero subsidy (or better) since Congress mandated zero subsidy in 1998.

d. Reassess the Impact of Basel III on America's Small Businesses

The proposed higher risk weight averages in the Basel III End Game create a disincentive for banks to make certain investments because it would require them to reserve capital to compensate against the perceived risk of potential loss. Banks are long-standing investors in SBICs and RBICs. The Basel III End Game proposal threatens bank interest in making further investments into these public-purpose vehicles and therefore bank capital would not be deployed to domestic small businesses.

The Small Business Investor Alliance would be welcome the chance to work with the Small Business Committee in its efforts to increase access to capital to America's small businesses.

SUMMARY OF THE SMALL BUSINES INVESTMENT COMPANY PROGRAM

Small Business Investment Companies are an American success story and an example of a successful federal public policy that aligns the power of private markets with the public interest of job creation and economic growth. Congress declared in its original authorizing legislation that the SBIC program should "stimulate and supplement the flow of private equity capital and long-term loan funds which small business concerns need for the sound financing of their business operations" while also stimulating the national economy and job growth.[1]

SBICs invest exclusively in domestic small businesses, creating jobs and empowering U.S. small businesses to compete in a global economy. Companies that in their early stages received SBIC investments and have subsequently grown into icons of American industry include Federal Express, Apple, Intel, and Callaway Golf. While these are recognized companies globally, many more small businesses backed by SBICs have grown from smaller businesses into robust, sustainable mid-sized businesses. Generational ownership changes deserve a special mention because private equity plays a critical role in successfully managing these changes, particularly for SBIA's funds. Most small businesses are "lifestyle businesses" that provide a fulfilling career and support a family, but the business will end when the owner ceases working. But there are also a large number of businesses that are meant to continue on past their founder's time and many of these founders are aging. There are hundreds of thousands of successful businesses, commonly small businesses, which were founded by baby boomers or post-baby boomers, whose owners need to retire and whose business still has its brightest days ahead. In many of these businesses the founder/owner does not have a child who is willing or able to take over this business. Without a buyer, often a private equity fund or a management team backed by a private equity fund, many of these otherwise successful small businesses will simply shut down – harming their employees, the economy, and their communities.

SBICs are essential not only to the success but, in certain cases, survival of these smaller businesses that bring prosperity, employment, and hope to communities across the country, many in Low and Moderate Income (LMI) areas, and underserved markets, because there were no other sources of patient capital available to them.

At the end of FY2023, the SBIC program has grown to nearly 320 licensed funds with combined SBA commitments and private capital exceeding $42.5 billion, an increase of 40 percent since 2019 and the highest level ever in program history.[2]

Over the last five fiscal years, on average, SBICs have invested over $7.6 billion annually in over 1,160 small businesses, creating or sustaining nearly 130,000 jobs annually.[3] Twenty-five (25%) percent of SBIC

---

[1] Small Business Investment Act of 1958, Pub. L. 85-699 (Aug. 21, 1958). 15 U.S.C. 661.

[2] *Small Business Investment Company (SBIC) Program Composition for the fiscal year ending September 30, 2023* (last visited Jan. 11, 2024).

[3] Id. SBA estimates jobs created or sustained using "The 1999 Arizona Venture Capital Impact Study" (confirmed by the DRI-WEFA study of 2001) whereby one (1) job is created for every $36,000 of SBIC investment (adjusted for inflation).

investments were made in small businesses that were either women-, minority- or veteran-owned, or located in LMIs areas.[4]

These investments are in real companies with real staying power and real growth potential.

SBIC Program Structure

The SBIC program is a market-driven platform that serves an important public purpose of facilitating private investment into and filling capital access gaps for domestic small businesses. SBICs are federally regulated, privately-owned and managed investment funds that invest exclusively in domestic small business. SBICs, primarily formed as limited partnerships, provide long-term loans, equity investments, or both along with management assistance to small businesses across a range of sectors, geographic locations, and stages of growth. Some SBICs specialize in an industry sector while others invest more broadly.

Most SBICs are levered (debenture) funds. These levered SBICs invest private capital that is amplified by access to an SBA-backed credit facility using the Federal Home Loan Bank system. This permits individual SBICs to multiply paid-in private capital up to three-times capital or $175 million, whichever is less. In exchange for accessing federal leverage, SBICs limit themselves in a number of ways including investing only in domestic small businesses.

The maximum leverage for an SBIC family of funds (a group that holds multiple SBIC licenses) is currently $350 million. Three times leverage is the statutory limit, which is rarely used and which the SBA will only permit under unusual circumstances. Most levered SBIC funds lever private capital one to two times their private capital. For example, an SBIC may raise $87.5 million in private capital and then, after licensure, may access up to an additional $175 million line of credit (SBA leverage), which combines for a total of $262.5 million – a very large boost in the small business economy. **The leverage is provided at a zero-subsidy rate, with no annual appropriations necessary to fund up to $5 billion a year in SBIC leverage, which is eventually paid back in full to the SBA with interest and fees.**

Successful SBIC small business investing continues to support the community with jobs and local taxes for many years.

[4] Id.

The Washington Post
Democracy Dies in Darkness

Opinion Ignore the bank lobby, regulators. It's high time for banking reform.

By Stephen Cecchetti and Kim Schoenholtz
January 10, 2024 at 6:30 a.m. EST

Stephen Cecchetti is professor in international finance at Brandeis International Business School. Kim Schoenholtz is clinical professor emeritus at NYU's Stern School of Business.

Banks are at it again.

Less than a year ago, runs on regional banks led to the second-, third- and fourth-largest bank failures in U.S. history — First Republic, Silicon Valley Bank and Signature Bank. Yet the powerful banking lobby is once again aggressively resisting reforms that would make the financial system both safer and more efficient.

This time, U.S. authorities must resist and enact their modest proposals for reform without compromise.

The primary debate is over regulators' call to raise capital requirements — that is, increase the fraction of banks' funding that comes from shareholders (equity) rather than from depositors or bondholders (borrowing). Bank advocates argue that this equity is somehow idle, so any increase in required capital wastes resources and depresses lending, reducing the ability of households and businesses to finance essential activities.

This is wrong.

The truth is that capital is *never* a wasted resource. It is a source of funds that the bank uses to provide loans. A well-capitalized bank has more resources to supply credit, not fewer.

Banks (accurately) view equity capital as a costly source of funding, as the owners providing it demand a higher return than the interest rate the banks pay depositors. They would prefer to fund far less of their activity with equity (or retained earnings) and borrow more through deposits or issuing bonds. That is, the banks seek more leverage.

But the banks' preference for financing themselves largely reflects distortions created by public policy. First, though interest payments lower a bank's taxes, payments (dividends) to investors who provide equity do not. Second, the shareholders of a bank with little equity enjoy an enormous upside when the bank turns a profit, while the creditors (ultimately including taxpayers) bear the risk of bankruptcy when there are losses. Third, for large banks that are perceived as too big to fail, the cost of borrowing is further reduced by the presence of implicit government guarantees. As a result of these distortions, the shareholders and bank managers strongly prefer to borrow.

From the public's perspective, none of these distortions is relevant. Hence, the *social* costs of more bank capital are far lower than the *private* costs. In fact, by countering the factors that distort banks' preferences, more capital funding can even *reduce* social costs.

How do higher bank capital requirements make the financial system safer? By creating a buffer against bank insolvency when adverse events lower the value of bank assets. A hefty capital buffer reduces the incentive for uninsured depositors to run — as they did when rising interest rates depressed the value of the assets of First Republic, Silicon Valley Bank and Signature Bank.

Higher bank capital requirements also make the financial system more efficient. Since banks have more "skin in the game," they have greater incentive to scrutinize the use of funds. As a result, they are less likely to lend to unprofitable and highly indebted — sometimes called zombie — firms that can survive only if someone is willing to provide them even more credit.

Granted, a few details of the current proposal, known as the Basel III Endgame, might merit review. For example, the computation of operational risk capital — the owner's net worth that provides a buffer in the event of errors, theft, technology failures and the like — should reflect the lack of correlation among the risks. But these issues are minor compared with the broad thrust of the reform.

Importantly, the regulators' proposal to raise capital requirements directly affects fewer than 40 of the more than 4,500 U.S. banks. Though these targeted banks account for a large share of activity, the reform limits costs and complexity for the rest.

That said, the proposal does extend higher requirements to the large regional banks, such as those that failed so recklessly last year. This is critical: A lasting lesson of the 2023 episode is that banks that will receive generous regulatory treatment in a crisis need a higher level of *self-insurance*. Banks that know the authorities will bail them out have greater incentive to take risks today, making a future crisis more likely. The solution is to compel any bank whose failure puts the financial system at risk to directly bear the broad risks it poses.

Experience with raising U.S. capital requirements is quite favorable. In the years following the financial crisis of 2007-2009, policymakers raised capital requirements significantly. What ensued was the longest business-cycle expansion in U.S. history, supported by increased bank lending. While critics argue that domestic rules will be stricter than those overseas, U.S. banks continue to outperform their international peers. Put simply, being well-capitalized offers an enduring competitive advantage, because depositors, investors and borrowers prefer sound banks.

One frequent objection to higher bank capital requirements is that some risky lending and trading activities will migrate to nonbanks — such as brokers, mutual funds and insurers — without making the financial system safer. However, not all these activities are best funded by bank deposits that are subject to runs and panics, so some of these shifts do make the overall system safer. Moreover, U.S. regulators should aim to treat risks taken by banks and nonbanks in the same way. For example, they can impose minimum down-payment requirements on government-insured mortgages regardless of the lender. Allowing banks to act unsafely is surely *not* the way to address the possibility of risks migrating elsewhere.

U.S. banking regulators — and their congressional overseers — should resist the bank lobby's appeals. Ensuring a stable, efficient financial system starts with safe and sound banks — and that means high levels of capital funding.