FUELING AMERICA'S FUTURE: HOW INVESTMENT EMPOWERS SMALL-BUSINESS GROWTH

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FUELING AMERICA'S FUTURE: HOW INVESTMENT EMPOWERS SMALL-BUSINESS GROWTH

WEDNESDAY, APRIL 2, 2025

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

The Committee met, pursuant to call, at 10:03 a.m., in Room 2360, Rayburn House Office Building, Hon. Roger Williams [chairman of the Committee] presiding.

Present: Representatives Williams, Stauber, Meuser, LaLota, Finstad, Wied, Jack, Downing, King-Hinds, Schmidt, Velázquez, McGarvey, Cisneros, Latimer, Tran, Simon, Olszewski, and Goodlander.

Chairman WILLIAMS. Let me welcome everybody.

And before we get started, I want to welcome Congressman Stauber from the great State of Minnesota to lead us in the pledge and a prayer.

Mr. STAUBER. Dear Lord, thanks for this wonderful day. Thanks for bringing us together. Thanks for the leadership of our Ranking Member and our Chairman today as we do the people's business.

Lord, we thank you for the safe travels of our witnesses to come here and testify, give us their experience.

And we pray for all of our staff, who work so hard behind the scenes to help us all become successful. We are one United States of America, and we shall never forget that.

In your name, we pray. Amen.

Chairman WILLIAMS. Amen.

Mr. STAUBER. Would you please join me in the Pledge of Allegiance?

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. Okay. Good morning to everyone. And 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.

Welcome to today's hearing, "Fueling America's Future: How Investment Empowers Small-Business Growth."

I want to thank our witnesses for being here today. Many of you have traveled a long way to share your experience and perspectives, and we deeply value your time and your voice.

When small businesses succeed, America succeeds. Small businesses excel when they have access to the capital needed for growth on terms that support them.

Today's hearing will focus on the essential role of private capital and public-private partnerships in small-business investment.

Given the tightening of bank lending standards and the persistence of high interest rates from Biden's disastrous economic policies, creating investment opportunities for small businesses is more valuable today than ever before.

Thankfully, under the leadership of President Donald Trump, Main Street America is more hopeful than ever. President Trump is bringing back American manufacturing, cutting regulatory red tape, revitalizing small business, and supporting American investment.

By prioritizing economic growth over political agendas, we are unleashing capital back into the hands of job creators and innovators and fueling a new era of prosperity that strengthens main street and empowers small-business owners.

Renewed optimism in America's next golden age is inspiring greater investment in small businesses, which drives entrepreneurship and American innovation. These private investments will help fuel small-business growth, creating opportunities for strategic guidance, mentorship, and industry connections.

In addition to private investment, small businesses can also seek out public-private partnerships. The SBA's Small Business Investment Companies program, known as the SBIC program, demonstrates how the government partnering with private investors and allowing the private sector to make investment decisions stimulates innovation, strengthens domestic supply chains, and enhances national security.

SBICs are privately owned companies that are licensed and regulated by the SBA. SBICs raise private capital to invest in small businesses through debt and equity. The SBA doesn't invest directly in SBICs, but supplements private capital with government-backed funds to strengthen support for small businesses.

My friend and colleague, Congressman Dan Meuser from the great State of Pennsylvania, introduced a bipartisan bill, the Investing in All of America Act of 2025, to expand access to capital through SBICs for small businesses in manufacturing, critical technology industries, and rural areas. I look forward to working across the aisle and with the Senate to move this bill forward.

When investors support business growth and businesses generate returns for investors and the business itself, it creates a cycle of success that strengthens America's economy and propels main street toward economic success.

With that, I will yield to our distinguished Ranking Member from New York, my friend, Ms. Velázquez, for her opening remarks.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. This is a very important and timely hearing. I want to thank all the witnesses for being here this morning.

Today is "Liberation Day," the day President Trump said he plans to roll out a set of tariffs that he promises will free the United States from foreign goods. In anticipation of today, our public markets slipped again yesterday in another volatile day of trading.

The uncertainty surrounding the President's tariff policies has put our public markets on a roller-coaster ride. On Monday, the S&P 500 touched a 6-month low. For the first quarter, the index lost 4.6 percent, while the NASDAQ Composite dropped 10 percent. That marked the worst quarterly performance for both benchmarks since 2022. The Dow has dropped 1.3 percent during the first 3 months of the year.

With confidence in our public markets never shakier, it is vital that our private markets step up and facilitate financing to our nation's small businesses.

Traditionally, small businesses have been more reliant on bank financing for their credit needs than large businesses. But, as we will explore today, in recent years, small employers have increasingly relied on private forms of investment and credit to meet their financing needs.

The SBA SBIC program is a responsible and effective method for small businesses and startups to partner with private equity investors. Currently, the SBA partners with more than 300 privately-owned and -managed SBICs to provide financing to small businesses with private capital the SBIC has raised through an SBA-guaranteed debenture. As of 2024, the SBIC program has made more than 194,000 investments and deployed more than $130 billion of capital to small businesses.

Under the Biden-Harris administration, the SBA created two new types of SBIC, the Accrual and Reinvestor SBIC, and made important updates to the program. I look forward to discussing how these changes have streamlined and modernized the program.

More broadly, private funds, like private equity, private credit, and venture funds, have become a critical source of financing for small firms, particularly those that need retooling or are just on the cusp of growth. For example, the private equity industry invested in 18,000 businesses in 2022, 40 percent of which had fewer than 50 employees. Likewise, private credit firms facilitated loans to 3,600 companies in 2022 and tend to serve small- to middle-market businesses with 150 employees or fewer.

So, while there is no doubt that the role private funds play in the American economy is significant, these funds can also present serious risks for small businesses, their employees, and their communities. It is important to note, these funds have drawn significant criticism over the years for the strategies they at times choose to employ.

Like conventional bank loans, the research unfortunately demonstrates that women- and minority-owned and small businesses outside a certain geographic area have less access to private funds that their counterparts. For example, Black and Hispanic female entrepreneurs received less than 1 percent of all venture capital investment in 2020.

I look forward to exploring all these issues and more to ensure our private markets are appropriately regulated, transparent, and working for the long-term benefit of our small businesses and their employees, especially at a time when federal agencies are losing critical staff and funding.

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

Chairman WILLIAMS. The gentlelady yields back.

And I will now introduce our witnesses.

Our first witness here with us today is Mr. Brett Palmer. Mr. Palmer has served as president of the Small Business Investor Alliance in Washington, D.C., since 2008.

Prior to that, Mr. Palmer worked as the managing director of government relations at the National Association of Insurance Commissioners. Before joining the SBIA, Mr. Palmer also served as an Assistant Secretary for Legislative Affairs and Deputy Assistant Secretary for Trade Legislation at the Department of Commerce. He has served in several roles in the House, including as a policy aide to former Speaker Newt Gingrich.

Mr. Palmer holds a Bachelor of Arts degree from Davidson College.

And I want to thank you for being here today and taking time to let us hear your conversation with us.

Our next witness here with us today is Bill Baumel. Bill has served as the managing director of the Ohio Innovation Fund in Columbus, Ohio, since 2016. He spent more than 20 years as a venture capitalist in Silicon Valley before bringing his experience back to Ohio.

Outside of the Ohio Innovation Fund, Mr. Baumel serves as director at multiple companies, including Aware, Stirling Ultracold, and others. In addition, Mr. Baumel is an investor and an advisor at Immuta, Enable Injections, Trace 3D, and ScriptDrop to name a few. He is also a member of the National Venture Capital Association.

Mr. Baumel holds a Master of Business Administration from the University of Michigan and a Bachelor of Science in accounting and economics from The Ohio State University.

So who do you root for on Saturday? That——

Mr. BAUMEL. Ohio State.

Chairman WILLIAMS.—is the question.

So thanks for joining us today, and we look forward it our conversation, okay?

And I now recognize the Ranking Member from New York, Ms. Velázquez, to briefly introduce our last witness.

Ms. VELÁZQUEZ. Thank you, Mr, Chairman.

I would like to introduce and welcome Mr. Anthony Cimino to the Committee.

Mr. Cimino is Vice President and Head of Policy at Carta, a private markets infrastructure company that provides equity management and valuation services for more than 45,000 companies and fund administration services for 6,500 funds and fund vehicles.

Prior to Carta, Mr. Cimino worked on policy for trade associations focused on driving capital to more people, more entrepreneurs, and more businesses. In addition, Mr. Cimino served as senior staff for the Committee on Financial Services during the financial crisis and the Committee's work on the Dodd-Frank Act.

Mr. Cimino has an MBA from Johns Hopkins and an undergraduate degree from UCLA.

Mr. Cimino, thank you for joining us here this morning.

I yield back.

Chairman WILLIAMS. The gentlelady yields back.

And thank you to all of you again. We appreciate all of you being here today.

So, before I recognize the witnesses, I would like to remind them that their oral testimony is restricted to 5 minutes in length.

Now, if you see the light turn on in front of you, it means your 5 minutes is up, it has concluded, and you need to wrap it up quick. And if you don't, you are going to hear this: [Bangs gavel.] Okay? And that means it's over, all right?

And, also, one other thing I want to say: We have a lot of other hearings going on today, so you may see a lot of the Committee, including the Ranking Member and myself, get up and leave, come back. It has nothing to do with it your testimony; it is just that we have a lot going on today.

Ms. VELÁZQUEZ. We have a markup——

Chairman WILLIAMS. We have a markup——

Ms. VELÁZQUEZ.—in Financial Services.

Chairman WILLIAMS. We do.

Ms. VELÁZQUEZ. Yeah.

Chairman WILLIAMS. And that is a long thing to do, right?

Ms. VELÁZQUEZ. Yeah.

Chairman WILLIAMS. If you will keep it short, we will get through quicker.

Okay. I now recognize Mr. Brett Palmer for his 5-minute opening remarks.

STATEMENTS OF BRETT PALMER, PRESIDENT, SMALL BUSINESS INVESTOR ALLIANCE; BILL BAUMEL, MANAGING DIRECTOR, OHIO INNOVATION FUND, ON BEHALF OF THE NATIONAL VENTURE CAPITAL ASSOCIATION; AND ANTHONY CIMINO, VICE PRESIDENT AND HEAD OF PUBLIC POLICY, CARTA

STATEMENT OF BRETT PALMER

Mr. PALMER. Good morning, Chairman Williams and Ranking Member Velázquez and Members of the Committee. Thank you for holding this hearing.

My name is Brett Palmer. I am president of the Small Business Investor Alliance, and our mission is to maintain a robust, healthy, and competitive market for small-business investing right here in the United States.

SBIA was formed in 1958 to represent small-business investment companies, America's original venture capital and private equity funds. Prior to SBICs, the only source of equity capital for new or growing businesses were corporations and the three F's of capital access—family, fools, and friends. President Eisenhower knew he could do better than the three F's, and for our small businesses, he created the SBICs to kick-start a new private capital market that is now the envy of the world.

It is hard to believe it, but it is true; the federal government created what we now call the venture capital industry with the establishment of the SBICs. And for nearly 70 years, SBICs have been a critical part of getting institutional capital to small businesses that are often overlooked by the biggest financial firms or in the most concentrated population areas.

SBIC is an American success story, an example of successful public policy that aligns the power of private markets with the public interest of job creation and economic growth.

While some small businesses don't want to grow, that is fine. But some small businesses do. And that is what we want to do, is we want to help them grow. Because when they do grow, they need outside capital and they need outside experts to help them scale up. Because sometimes it is called a valley of death, going from small to medium.

The only way to be a successful SBIC is to find those smaller businesses and help them grow into bigger, better, more resilient businesses. Because SBICs are only able to make a profit by successfully growing the small businesses, they cannot cut their way to profitability; they have to grow it.

There are icons of American industry, including Federal Express, Apple, Intel, Callaway Golf, and many others, that have received SBIC capital when they were small and when they were young. These companies are recognized globally. But most small businesses backed by SBICs simply grow into robust middle-size businesses. They never go public, but they succeed.

The Library of Congress did a study a couple years ago, and when they looked at it, they found that SBIC investments that were debt-oriented grew small-business employment by about 150 jobs per small business, and for equity investments into those small businesses, it was about 350 new jobs. Those are really big numbers for small businesses. And the study found that, when they looked back, the SBICs created about 3 million new jobs across those small businesses. That is really powerful.

And while some of these small businesses are high-tech world-changers that I mentioned, most are doing the services or are manufacturing the products that are invisible on the national stage, but they make our economy robust and they make their communities stronger.

For example, Builders Buying Group in Representative Scholten's district. They help independent home builders lower costs by helping them buy products at scale to compete with national builders and get better pricing. Since the SBIC investment, revenue and earnings have increased by more than 125 percent.

Another is Advanced Industries in Representative Alford's district. It is a small manufacturer of complex containers, some of which are used by DOD. Since their investment at the depth of the pandemic, they have been growing employment by over 16 percent.

From Peachtree City; to Oakland; to Mission, Kansas; to Hardinsburg, Kentucky; to Winona and Hayfield, Minnesota; to Odessa, Missouri; to Cornwall, Pennsylvania; and Appleton, Wisconsin, there are small businesses and particularly small manufacturers that are able to grow.

To put it in the simplest terms, SBIC funds are private investment vehicles that pool capital from institutional investors like pension funds and endowments, and then they use SBA leverage to invest in those small businesses. So the private capital leads and the SBA leverage follows and amplifies. It is 100 percent small business, 100 percent domestic, with a lot of investments in manufacturing and in low-income areas, all of which is done at zero subsidy to the taxpayer.

Because access to capital is key to growth for small businesses and will always be a challenge to small businesses, scale is real. It is a challenge for everyone.

And, traditionally, as the Ranking Member pointed out, banks help finance small businesses that have a stable revenue history and assets to borrow against. Unfortunately, a lot of newer businesses and smaller businesses, particularly in low-income areas and rural areas—and rural areas are generally low-income areas—tend to have more difficulty accessing traditional sources of capital and credit because they don't have the balance sheet of big businesses and they are seen as too risky.

This is where SBICs fill the gap by changing the balance sheets and being the first institutional capital deployed into many small businesses. Once the SBIC capital is invested into a small business, then a small business is able to access conventional bank capital. With SBICs, small businesses can access the capital markets in a similar way to big businesses.

And the SBA is doing interesting things with DOD. There is a strategic partnership to license critical technology SBICs. These funds are designed to support critical national-security industries and supply chains to compete with other countries around the world who are being very aggressive as far as, you know, what they are doing with their economies versus ours.

And demand for SBIC capital is such that SBICs are looking at 400 to 500 individual small businesses before they invest in a single one. The demand for the capital is real and it is there. And there are about 100 new SBICs forming, representing about 20 billion new dollars in small-business investment that is going to help fill this ongoing gap. This market has grown dramatically for private credit, private equity, venture, and venture lending.

And I thank the Committee for having this hearing, and I would be happy to answer any questions that you may have.

Chairman WILLIAMS. I now recognize Mr. Baumel for his 5-minute opening remarks.

STATEMENT OF BILL BAUMEL

Mr. BAUMEL. Chairman Williams, Ranking Member Velázquez, and distinguished Members of the U.S. Committee on Small Business, thank you for the opportunity to discuss an issue vital to our country's prosperity: empowering America's entrepreneurship.

I graduated from Ohio State and Michigan. My first venture capital startup investment was based in Bemidji, Minnesota—the first company to provide fiber home systems that bundled voice, video, and data services in underserved rural areas.

I continue to invest and partner with founders across a variety of sectors, from groundbreaking health technology like the first continuous glucose monitor for diabetics, to cutting-edge data security solutions used by global giants like Starbucks, Walmart, Chevron, Citigroup, General Motors, and the U.S. Air Force.

Over the years, many of the startups I have worked with have gone public or been acquired by companies like Nvidia, Intuit, Medtronic, Dell, and Oracle. I have worked 15 years in Silicon Valley and Boston and 15 years in the Midwest, partnering with hundreds of entrepreneurs to navigate the challenging journey of scaling a startup.

Currently, I run the Ohio Innovation Fund, a venture capital firm founded in 2016 specializing in sectors like software, artificial intelligence, cybersecurity, and biotech. Our portfolio companies form partnerships with industry leaders like Sanofi, Roche Genentech, Eli Lilly, Samsung, Dell, ServiceNow, and Snowflake, with many of the Fortune 500 and leading medical institutions as clients or clinical trial partners.

At Ohio Innovation Fund, we provide the real-world experience and market insights that startups need to succeed, offering guidance on business strategy, product development, financing, and team-building. Many of the entrepreneurs we work with in the Midwest are first-time founders relying on our expertise to realize their startup's full potential.

For example, we partnered with Stirling Ultracold, a company based in Appalachian Ohio manufacturing ultra-low-temperature freezers for leading biopharma companies. Our support helped them scale to 100 million annual shipments, and many of the original investors and employees became millionaires. And now they are local angel investors, which has contributed to a cycle of wealth creation and reinvestment in Appalachia.

eFuse, a leading e-sports software platform, was founded by a college intern we mentored. In only 5 years, eFuse has grown to tens of millions in revenue, partnered with companies like Epic Games and Activision, with influencers and investors such as Odell Beckham, Jr., and Tim Tebow's WaterStone Impact Fund. Founder Matt Benson says, "Bill mentored me, offering both strategic guidance and invaluable access to his networking expertise. I am living proof of the impact OIF makes by empowering the next generation of innovators."

OIF worked with Aware, a cybersecurity company, leading to an acquisition by Mimecast, which has established an AI hub in Columbus to provide enhanced and new, innovative solutions to their combined 40,000-plus customers, creating jobs and expanding opportunities for our local community. Aware founder Jeff Schumann, head of AI strategy at Mimecast, says, "OIF's world-renowned go-to-market expertise and hands-on, collaborative approach was like bringing a superhero onto our team, equipping us with unparalleled power and capability."

Bank funding is not an option for most startups, so early-stage venture funding partnered with public capital sources, such as those from the Small Business Administration, is essential.

For Clarametyx's CEO, without venture support from OIF and public funding sources like CARB-X and the National Institutes of Health, their groundbreaking biotherapies would not have reached clinical trials. This partnership enabled them to advance collaboration with a major biopharma company.

Beyond supporting startups, we are committed to helping seed the next generation of entrepreneurs. Each year, we engage with hundreds of students through internships, boot camps, and mentoring, helping them gain practical experience and connect with the startup world. Many go on to join top firms like Goldman Sachs, J.P. Morgan, and Anduril, but many more stay in the Midwest VC ecosystem, including at Ohio Innovation Fund and our companies, contributing to the growth of the next wave of innovators.

Our success stories highlight the transformative potential of entrepreneurship outside traditional hubs. It is critical to continue fostering innovation in areas like Ohio, where capital is limited and ecosystems are still developing.

State resources also play a key role. For example, Stirling Ultracold partnered with JobsOhio to receive capital to help scale up his manufacturing operations, which allowed him to grow to $100 million in revenue over a couple years.

In conclusion, the success of entrepreneurs depends on a combined effort from venture capital, federal government support, and State resources. Together, we can provide the resources and guidance needed to create a high-growth business that will drive the economy forward.

Thank you again for the opportunity to testify, and I look forward to discussing how we can work together to improve capital access to empower entrepreneurs across the United States.

Chairman WILLIAMS. Thank you very much.

And now we recognize Mr. Anthony Cimino for his 5-minute opening remarks.

STATEMENT OF ANTHONY CIMINO

Mr. CIMINO. Chairman Williams, Ranking Member Velázquez, and Members of the Committee, thank you for the opportunity to testify today on expanding investment and the role of the SBA.

I am proud to be here on behalf of Carta, a company that serves as the infrastructure for private capital. Carta provides equity management and valuation services for 50,000 private companies and their employees. We provide fund accounting, portfolio management, and investor reporting for approximately 7,000 funds. Our end-to-end platform connects private capital, ultimately supporting the development of this ecosystem.

Startups and small businesses and the private capital that backs them are this nation's economic and innovation engine. This ecosystem has created 70 percent of net new jobs since 2019. It accounts for half of U.S. economic activity, and it spurs innovation. Over the past 50 years, the U.S. has started twice as many companies as the rest of the G7 combined. This is what has provided our nation its competitive edge and, importantly, led to more opportunities for more Americans.

But to start and grow a business to contribute to this economic dynamism, startups and small businesses need access to capital. It is a gating issue. And for many entrepreneurs, traditional financing is not available. Banks typically do not lend against an idea or an unproven product in an unproven market.

That is where private capital steps in. Private capital provides entrepreneurs and small businesses with long-term, risk-forward capital to launch and build companies. The company gets a check, and the investors get a stake in the business.

But these investments are more than a check. These funds become strategic and operational partners helping these companies succeed. In broad terms, venture capital helps turn a concept into a company, and private equity can help it grow and mature.

And, yes, the private capital ecosystem is growing, but it is still too concentrated. Capital is the lifeblood of small businesses, but these funds are flowing to specific regions and to select communities.

To illustrate this point, California companies attracted half of all venture investments last year. Even in New York, which attracted approximately 11 percent of venture funding, the bulk of that capital hit places like Manhattan, not necessarily places like Brooklyn. This disparity in access is even more stark when you examine it across the broader country.

So our collective charge is to change this. We must not merely bolster this economic engine, but broaden it—broaden it to more people, to more investors, to more companies, to more communities.

And to do this, we need to expand the investor ecosystem into more regions. Regional capital can create regional economic hubs. This starts the flywheel: Emerging and regional managers tend to invest early, invest locally, and invest diversely. These investors back entrepreneurs in the region, and these entrepreneurs launch and build companies, which attract employees to the region. These employees earn income, develop skills, further broadening the ecosystem in which to invest and on which to build.

It all starts with the investors that increase access to capital. And policy can help drive this to more places in the country.

First, we should build on the success of the SBIC program. This program enables proven investment managers to tap more capital to invest in startups and small businesses, all while being a strong steward of taxpayer resources. The SBIC's recent enhancements to allow accrual debenture and reinvestor offerings will align more with venture-focused funds and put more money into the ecosystem. SBICs are making a difference, and we support ensuring the SBIC has the operational capacity to support this program and even more stakeholders to engage with it.

Second, we should continue to improve the SBIC program. The bipartisan Investing in All of America Act does just that. This legislation incentivizes capital deployment to overlooked and underserved rural areas and into the national-security sector. Driving investment into these segments is in the national interest, both unlocking more economic growth and helping us maintain our global competitive edge.

Third, we can do more to broaden employee ownership. Expanding ownership helps attract, retain, and align talent with the businesses, ultimately helping them thrive. And for employees, ownership enables them to participate in the profits they are helping build as well as have access to an uncapped upside. And, importantly for the community, employee ownership makes it likely that these small businesses will continue to operate and create economic growth even after an entrepreneur retires.

American ingenuity is not limited to certain areas and people. Unfortunately, capital—and, consequently, some of that opportunity—remains too concentrated. Policy can help change that, expanding access to capital to more small businesses and more communities.

Carta looks forward to supporting this Committee's effort. I thank the Committee and the staff that work tirelessly on these issues, and look forward to answering any of your questions.

Chairman WILLIAMS. Thank you very much.

And we will now move to Member questions under the 5-minute rule. I recognize myself for 5 minutes.

Mr. Palmer, strengthening domestic manufacturing and investing in critical technologies are the key to enhancing economic competitiveness and national security. However, small businesses, especially those in rural communities, often struggle to access the funds needed to scale innovative manufacturing operations.

President Trump and SBA Administrator Loeffler have taken immediate action to return manufacturing to America. Through SBA's Putting American Manufacturing First initiative, small businesses are put in the driver's seat of the resurgence. Infusing investments and other support to small-business manufacturers will bring the golden age of America to us.

Small-business investment companies play a critical role in investing in areas and industries that have fewer investment opportunities.

So, Mr. Palmer, can you speak to how SBIC investments support the revitalization of American manufacturing in rural communities?

Mr. PALMER. Sure.

Manufacturing is important. It is important nationally, it is important to SBICs, it is important to our national security, it is important to our economy.

Our manufacturing base has to constantly be reinvented. We have new manufacturers who need to be created, but we also need to take the manufacturing base that we have and take it to the next level with new technologies, new efficiencies, new markets.

And that is done commonly through SBICs. SBICs invest in old metal-benders and reinvent them and take them to the next level. SBIC investments fail very rarely. They overwhelmingly succeed. And that manufacturing is a key part of that.

The Department of Defense partnership with the SBA is a really good idea. It is long overdue. I am surprised we didn't come up with this 30 years ago. But they are working—the DOD is collaborating very closely with the SBA to make sure that the small businesses that are doing these industries that are important to our manufacturing and to our global competitiveness, not just from a government contracting perspective but just industries we want here and not in China, for example, that they can access that capital. And that is what the SBICs are doing, with DOD.

Chairman WILLIAMS. Thank you.

And I want to follow up on that. Your SBICs have been engaging with the Department of Defense Office of Strategic Capital to track private investment into technologies critical to national security. So can you tell us a little bit about how SBIC investments help boost America's national security?

Mr. PALMER. Sure.

You know, just like in sports, the best defense is a good offense. You know, just keep putting points on the board. You know, we have to constantly be putting points on the board, economically, to our country, being a dynamic economy that is not rigid, that is constantly reinventing itself.

And that is what the SBICs are doing. And they are doing it in areas that are related to the computer industry, related to the manufacturing of metals that get used in defense industries, that get used in avionics for satellites and communications. It is all integrated. And it is also all used by civilians too. We have to have both; they are not a separated economy. And that is what the SBICs are connecting.

Chairman WILLIAMS. One more quick followup. What steps can Congress take to enhance SBICs' ability to invest in America's small businesses?

Mr. PALMER. Well, I think the Investing in All of America Act by Congressmen Meuser and Scholten is really critical, because it creates an incentive, not a financial incentive but an investment incentive, to invest in areas that have sometimes been forgotten or passed over, and particularly for industries like manufacturing. That has a piece in there.

So I think that would be the best thing this Committee could do.

Chairman WILLIAMS. Okay.

Mr. Baumel, in the time I have remaining, in just over 2 months, the Trump administration has already helped push $2 trillion into private investment in the United States, and these investments are important to help businesses grow as we enter the golden age of America.

So, last Congress, we heard from small businesses about the barriers they face when looking to attract investors, particularly in rural communities, again.

So, Mr. Baumel, you chose to create your investment fund in Ohio rather than California, and how has that decision helped to find investment opportunities that may have been overlooked? And what can be done to better connect the types of businesses you invest in with the investors throughout America?

Mr. BAUMEL. Sure. There is just as much talent in Ohio, Pennsylvania, all the different States in the Midwest as there is in Massachusetts, Boston, or in Silicon Valley. The main thing is empowering, enabling them and bringing the expertise, and that is what Ohio Innovation Fund brings.

And so we have done that, particularly in rural areas. I mentioned Stirling Ultracold before. That is an advanced manufacturing company. Advanced manufacturing—manufacturing was kind of a necessary thing to do in the past, a lot of times outsourced. Manufacturing is now a strategic advantage.

And, you know, to Ranking Member Velázquez's comment, that also, by doing that in rural areas, we actually partner with community colleges, we partner with local universities, and train the next generation of advanced manufacturing personnel, you know, to go in those areas.

But the opportunities, whether that be in biotech, cybersecurity, data science, and all of the different areas, are just as strong in Ohio as anywhere else. Money and expertise.

Chairman WILLIAMS. My time is up. And I would say, don't forget Texas.

Mr. BAUMEL. Sorry about that, sir.

Chairman WILLIAMS. Okay. Thank you.

I now recognize the Ranking Member for 5 minutes of questions.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Mr. Cimino, can you explain why the SBIC program remains an important source of investment financing for so many small businesses and startups? And can you explain how this program fulfills the statutory mission of SBA?

Mr. CIMINO. Yeah. Thank you for the question.

When we look at most entrepreneurs, in many cases they couldn't even access traditional financing. So, unless they were independently wealthy, many of them would only be able to build those ideas at incumbent companies. So private capital itself is so critical to unlocking more people to become entrepreneurs and build small businesses, ultimately driving much of this economic growth.

So the first part is the availability of that loan. The next piece is working with these fund managers in ways that can get customizable arrangements, whether that is equity or debt, that more aligns with the business and then becoming strategic partners.

Where SBICs come in is, in many cases, broadening that reach. Because, as I mentioned, 50 percent of the capital went to California, on the venture side. When you look at the SBIC program, only 10 percent of the capital went to California. That means 90 percent of that is going into the areas of the country that the traditional funders weren't.

And this is exactly what SBIC is doing. It is taking that professional manager and giving more access to capital for more entrepreneurs.

Ms. VELÁZQUEZ. Thank you.

Mr. Palmer, I heard you mentioning the investments that have been made through the SBICs in places like Kentucky, Michigan, Pennsylvania, Minnesota. I didn't hear even New York or Brooklyn.

Mr. PALMER. As a New Yorker——

Ms. VELÁZQUEZ. Was that a slip?

Mr. PALMER. No, no. As a native New Yorker, I apologize——

Ms. VELÁZQUEZ. Okay.

Mr. PALMER.—to my New York brethren. No, New York is a huge area for SBICs, and there is—it is all over the place.

I was mentioning that just because, when people think of investment, they think of New York——

Ms. VELÁZQUEZ. Yes.

Mr. PALMER.—they think of Chicago, they think of San Francisco. They don't necessarily think of Maryland or Minnesota. And so I was trying to just——

Ms. VELÁZQUEZ. I was just testing you.

Mr. PALMER.—but I apologize.

Ms. VELÁZQUEZ. Mr. Palmer, Reinvestor SBICs are an often-overlooked SBIC type that is based on a fund-of-funds model that uses accrual, debenture, and 2x tiers of leverage to reach more underserved communities.

Can you explain how the Reinvestor SBIC works and why it can help investment capital reach more rural and underserved communities?

Mr. PALMER. Sure. No, actually, I think it is great question, because I don't get asked it very much, and I think people should know about it.

The reinvestor model is basically a development league for new venture capital and new private equity funds to serve underserved industries like manufacturing, underserved markets like rural or low-income, or other underserved in different varieties, whatever you want to make it.

Basically, it takes a SBIC—and it is a fund-of-funds, which is not a common term outside of finance. But the SBIC then invests in non-levered SBIC funds around the country that are investing in different types of businesses.

So it uses the portfolio effect to distribute risk, but develops a whole next generation of investors, whether it be venture, private equity, growth equity, around the country. And it is a really market-driven development league.

Ms. VELÁZQUEZ. Thank you.

Mr. Palmer, let me start with you on this question. With the announced plan by the SBA to cut more than 40 percent of the workforce, what consequences do you foresee happening to the SBIC program without the proper personnel in place to manage it, especially when the SBIC requires technical understanding about market strategy, time horizons, deal flaws, and the utilization of leverage to properly manage and oversee?

Mr. PALMER. Sure.

The SBIC program is about $50 billion, and it is managed on about $11 million of salary. That is about 100 times more efficient than generally the private sector runs on when they are managing private equity funds.

It is a really specialized skill set that is needed. It is a taxpayer protection, particularly on the licensing side to know what you are getting into.

But, so far, we haven't seen any negative impacts on the SBIC side of the house yet. Again, it is early days.

Ms. VELÁZQUEZ. Well——

Mr. PALMER. But it is important to maintain that skill set. And one of the things we would like to see is the fees that the SBICs pay stay inside the SBIC program so we can maintain the staff that we have and you can bring in other expertise.

Ms. VELÁZQUEZ. Mr. Cimino, would you care to comment?

Mr. CIMINO. Yeah. I think it is really critical that we double-down on the programs that are working. This is a public-private partnership that is driving capital to more entrepreneurs, and it is doing so while protecting taxpayers. That staffing to make sure that these funds are operating correctly gets at that point.

Ms. VELÁZQUEZ. So that means that a chainsaw is not the proper tool to deal with reorganization.

Mr. CIMINO. I——

Ms. VELÁZQUEZ. Thank you.

Mr. CIMINO. We recommend this program maintain its support.

Ms. VELÁZQUEZ. Okay.

I yield back.

Chairman WILLIAMS. The gentlelady yields back.

I now recognize Congressman Stauber from the great State of Minnesota for 5 minutes.

Mr. STAUBER. Thank you very much.

You know, public-private partnerships like the SBIC program pair government-backed support with private-sector investment. These programs not only strengthen small businesses but they also help secure supply chains and advance national security.

Mr. Palmer, I, for one, don't mind that you mentioned Minnesota before you do New York. I appreciate that. It is the Midwest.

A couple of things. I will tell you that—you had mentioned something about the success rate when SBICs get involved. Can you kind of give me a percentage of the success rate or maybe the limited failure rate?

Mr. PALMER. Well, the SBIC program went to zero subsidy—the SBIC debenture program has run zero subsidy for 27 years. That is a good, long run. In the last 2 years, they haven't had to write off a dime of debentures there. It has been running at a surplus. We hope it continues that way.

Even in the event that—look, not every—sometimes businesses—things don't work out.

Mr. STAUBER. Yep.

Mr. PALMER. In the unlikely event that happens, everything is covered by fees paid by the SBIC fund to protect the taxpayer.

So the SBICs, again, on average, add about 150 new jobs for a debt——

Mr. STAUBER. Yep.

Mr. PALMER.—offering private credit and about 350 for equity. Those are really big numbers for small businesses.

Mr. STAUBER. Yeah.

Mr. PALMER. It is very unusual to have a strikeout in the SBIC world.

Mr. STAUBER. And so, can you explain a little bit more—the SBICs, they have been used to support manufacturers in underserved or rural communities like the one I represent. And what more can we do to the outreach?

I love when you talk about 90 percent of the venture capitalists go to the coastal elites. But what about in the heartland, the SBICs coming to the heartland? Are we doing a good job of that? And what can we do even better?

Mr. PALMER. Well, Minnesota has a very large number of SBICs. And, actually, the Chairwoman of my board in I think 3 years will be from Minnesota. And you actually—and excuse me if I butcher the name. Is it "Baudette"?

Mr. STAUBER. "Baudette," yes.

Mr. PALMER. You have a pharmaceutical manufacturer that is backed by an SBIC up there.

I think the key is, you have to have—you know, geographic diversity matters, because proximity matters, and also sizes. You have to allow for small SBICs as well as big SBICs, because, you know, you just have different check sizes that are needed for different places.

And so the program has grown from, when I started in 2008, from about $2 billion in capital, between private capital and SBA leverage, to nearly $50 billion today. And it is done at a zero subsidy.

That is continuing. I think there is massive room for more growth in that. And I think the licensing is helpful. They just licensed their first fund in North Dakota. They have just given their first green light to a fund in Mississippi. They are forming funds in Kentucky. We have a number of them in Texas.

Sorry I left out Texas earlier, Mr. Chairman.

But, you know, we can and should have more.

Mr. STAUBER. Again, you can take Minnesota over Texas. You can say that first. I am okay with that.

Is that okay, Mr. Chair?

Chairman WILLIAMS. Whatever you say.

Mr. STAUBER. So this is really good news. So this is—as the Small Business Committee, this is where we need to invest more of. As the gentleman Mr. Cimino said, we need to invest more where things are working and reduce the investment where the return on the investment isn't there.

Mr. PALMER. Yeah. This is working.

Mr. STAUBER. Mr. Baumel, what advantages have you seen in investing in businesses outside the traditional coastal hubs? And what more can be done to connect investors with small businesses in regions like your central Ohio or my northern Minnesota?

Mr. BAUMEL. Yeah. As I mentioned, my first investment was in Bemidji, Minnesota, Optical Solutions (ph).

Mr. STAUBER. Yeah.

Mr. BAUMEL. Since then, both coasts, I said, and Ohio.

In terms of, you know, the Midwest, the work ethic is absolutely strong. The passion is very——

Mr. STAUBER. Could you repeat that?

Mr. BAUMEL. The work ethic is very, very strong. There is a Midwestern——

Mr. STAUBER. Thank you. I agree with you.

Mr. BAUMEL.—work ethic and a Texas work ethic——

Mr. STAUBER. Good one.

He covered you, Mr. Chair.

Mr. BAUMEL.—and there is a passion. Our founders are not thinking about, oh, in data science, what might be an interesting algorithm to write? They are running into real-world problems.

We have a person and a case, MDPCA (ph) program, that says, these binders of clinical studies are crazy, and trying to find them and where they are, and compliance sign-offs—someone forgot—and doing multi-trial sites. Well, let's automate all this and have a nice workflow.

So the entrepreneurs are very passionate, and they really believe in what they do.

And the people don't switch—the grass isn't always greener. The people who join Midwestern startups stay and see it through. They have fortitude. They make it happen. I am sure it is the same way in Texas. They make it happen. They are not looking for, oh, this could be better, or this is a little bit more attractive, my options here, my options there.

I will tell you, to your previous question, we do get some people that are SBIC-backed that co-invest with us, but not enough. In terms of doing that, though, if the regulation and compliance is reasonable, I think that will be key. Because I can't hire—I mean, I am operating under hundreds of thousands of dollars in fees, which isn't much to cover a staff of six and everything else. I can't hire a whole compliance department, and I can't go through a whole ton of regulation. It has to be reasonable.

Mr. STAUBER. I like that, reasonable regulations.

And, Mr. Chair, I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Mr. McGarvey from the great State of Kentucky for 5 minutes.

Mr. MCGARVEY. Thank you, Mr. Chairman.

I appreciate everybody being here today.

You know, I think we are at the fork in the road right now in our country, and we have a choice to make between tearing down or completely tearing apart these federal programs that have supported entrepreneurs and innovation for the last half-century or continuing to invest in these partnerships that have made the U.S. a leader in innovation because we want to stay a leader in innovation.

Just this morning, there is an interesting, if angering, and thought-provoking piece by Thomas Friedman in The New York Times about, what is the future of American innovation? So I think it is really important we are talking about this today.

And I think we can look at some of the successes we have had. You know, with the Defense Advanced Research Projects Agency, commonly known as DARPA, housed under the Department of Defense, not only do we gain a technological advantage on the battlefield, it enabled us to have things like GPS. It enabled us to have great technologies. The internet came out of DARPA that not only do we use for defense but have applications in all of our lives, private and in the business community.

The SBIC program, the Small Business Investment Company, this has been really successful. This has helped us bring Samsung, Apple, Intel, Whole Foods, so many more American success stories, driving business, driving innovation right here in this country.

I think the question we have to ask ourselves is not whether we can afford to invest in and support programs like the SBIC; it is, can we afford not to?

And, Mr. Baumel, I appreciate what you said about startups and that they are not just for the coastal elites. Now, you guys neglected to mention a Kentucky work ethic when you talked about these things. But you also went to Ohio State and Michigan, so I don't know if you can be completely trusted.

But I think you are 100 percent correct that we must remember the heartland and not just Silicon Valley and Wall Street when looking for the next investment opportunity to invest in that next unicorn, to invest in that next business which is going to do incredible and great things in our country.

So I will start with you, Mr. Baumel. What growth opportunities does the middle part of the country present? And how can we encourage more investors to follow your path and to invest in small businesses and startups outside of Silicon Valley?

Mr. BAUMEL. Going back to Silicon Valley, everything started with Fairchild Semiconductor. And from there, Intel spun out, Kleiner Perkins spun out, all these things spun out.

Very early on in the Midwest, in Ohio, Kentucky, and other areas, there is a huge risk for entrepreneurs to start a business if there isn't reasonable access to capital. There is a huge risk for someone to leave Procter & Gamble or Nationwide Insurance and join a startup if that startup, you know, 80 percent of the time, might not work out. Where do I go next? Do I try and reapply to Nationwide?

So, you know, programs that allow additional funding to come in and maybe incent people like myself—they call us "boomerangs," that, you know, I was out in Silicon Valley, I have been in Boston, I have come back to do this in the heartland. We need to incent more, you know, seasoned venture capitalists who are willing to set up shop and willing to mentor and willing to train and willing to hire.

And I know, you know, in Cincinnati, we have a number of companies—Enable Injections, that, you know, is likely a company—that likely will be a unicorn-type exit, providing, you know, kind of, on-body drug delivery, you know, at home versus an IV in a clinic.

Northern Kentucky, I know that a lady just set up a, kind of, biotech area there, and there is a lot of biotech activity happening right across, you know, the Ohio River. You know, but we need that capital. We need—I mean, there is myself and a few other people in Ohio. There is not much. And as far as experience, there is not much.

So we need, you know, this type of program to say, okay, we want to incent, we want to enable, we want to be somewhat user-friendly, you know, with the people that we are trying to incent and give capital to through the SBA programs to come and set up the venture fund and work with all them, not make it a headache.

Mr. MCGARVEY. Yeah. I appreciate that.

And Mr. Cimino? Sure.

Mr. CIMINO. Just on that—and I agree with everything—and we have talked about this: That first check, distance really matters. Capital is mobile, but proximity matters. And there is actually a very significant body of research about how much distance matters.

But it is also about building that flywheel, which I think you have done. Because what we have also seen is that a startup with the same positioning in a generic town versus that in S.F., S.F. has a 277 percent chance more likelihood that that startup grows and has an exit. And the reason that is is because of talent.

And so you not only need that first check, you need those SBICs and those investors continuing to build that infrastructure around it. Otherwise, as soon as that startup or small business starts growing, they are encouraged to move back to where those infrastructures exist.

So it is a comprehensive problem that needs to be solved. That first check is so critical, but then it is, to your point, how do we keep more investment going there.

Mr. MCGARVEY. Thank you so much.

And I think this partnership is so important to innovation, to growth in American business. And if we are not doing it, other places are.

Mr. Chairman, I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Mr. Meuser from the great State of Pennsylvania for 5 minutes.

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

And thanks to our witnesses.

I am certainly a big fan of the SBIC, as we really all should be.

We are very happy SBA Administrator Kelly Loeffler and the Trump administration are going to be focused like a laser beam on fueling small business, because small business has not had a good 4 years. That needs to change. In some cases their sales are up, but their net income is way down. And that shows in the type of tax revenue that is coming in, because tax revenue comes from profitability, and small-business tax revenue is way down. You can't argue with those numbers. But we are going to work on changing that.

So the SBIC plays a big role here. And it has been very, very successful. The fact is that—no subsidies and cost to taxpayers. Over $130 billion is being invested in public-private partnerships, basically, so there is a lot of private-sector skin in the game. And this has created great opportunities. It is a great government program, which is hard to say, right? But it is.

You know, and we are talking, kind of joking about Minnesota versus New York and California and Texas, where things are booming, but the fact is that 75 to 80 percent of the SBIC current investments go towards urban areas.

And that is primarily why—Mr. Palmer, you are well-aware, and I think all of you are—that I am introducing the Investing in All of America Act to expand beyond the cap level of $175 billion, to increase it by about $125 billion, strictly towards—or $175 million—strictly towards—$125 billion wouldn't be bad either—towards rural investments—that is where it is designated, so it is on top of what is currently allocated—focused on manufacturing and critical technology sectors.

So, Mr. Palmer, what do you think of that? How have the SBIC programs been successful in their current operation? And how will the Investing in All of America Act help enhance investments in Pennsylvania and in some of the more rural areas of our great nation?

Mr. PALMER. I think, if we get this legislation through and it becomes law, I think you will see every SBIC, or nearly every SBIC, dedicate their business development teams to finding small businesses in those areas. Because it is a meaningful cap that they have now and that they will continue to have, but it is—if you invest in manufacturing or if you invest in a rural area—and, frankly, most new manufacturing is going to be in rural areas because of taxes, regulations, just where can you afford to by the land to build a really big, you know, building to put this stuff in.

I think you will see a meaningful pivot for a lot of those business development folks to get out of where they normally are and spread their deal-sourcing and small-business opportunity-seeking to those areas, both industry-wise as well as geographically.

Mr. MEUSER. Great.

Mr. Baumel, do you agree? Do you think we need to expand this great lending service where there is a two-to-one match from the SBA to the private lenders, SBIC, regulated lenders?

Mr. BAUMEL. Anything that brings more capital to partner with the expertise and incents the expertise to be in the heartland, the better. That—you know, that is——

Mr. MEUSER. Yeah.

Mr. BAUMEL.—about what I have to say on that.

Mr. MEUSER. All right. Well, that sums it up. I like that.

Do you agree, Mr. Cimino?

Mr. CIMINO. I do. We support the bill.

And I would just say, coupling that with some of the recent refinements we have seen from the SBIC, like the fund-of-fund structures, it is going to, I think, do an even better job of finding additional avenues to drive investment into rural areas and broaden this ecosystem.

Mr. MEUSER. Great. Would you encourage everyone on this Committee, perhaps throughout Congress, to be supportive of this all-important bill?

Mr. CIMINO. I think that is great idea.

Mr. MEUSER. All right. Great. Thank you.

Hey, Mr. Baumel, the SEC has estimates that going public these days costs $12 million for a business. So maybe elaborate a little bit on why these private markets are so important and such an important alternative for small businesses to raise capital.

Mr. BAUMEL. Yeah. When I started in venture capital, even with the internet, some companies with $10 million, $20 million went public. Now, companies need to have hundreds of millions and, in some cases, billions of dollars to go public. So accessing, you know, the public market is difficult.

And the regulatory burden there is also very difficult. So growing these companies to the public market—because that point is a longer process, not a few years but a decade. And, therefore, that relationship is needed and the capital is needed and expertise is needed to get them there.

Mr. MEUSER. Thank you all very much, and please keep up the great work.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Mr. Cisneros of the great State of California for 5 minutes.

Mr. CISNEROS. Thank you, Mr. Chairman.

And, look, no offense to our witnesses here today—thank you for being here; thank you for taking time out of your schedules to be here today—but we really need to have somebody from the SBA, whether the Administrator or other staff, here to be here to answer these questions, to talk about what the theme of this hearing is, fueling America's future. We should have people from the SBA here answering those questions.

And I call on the Chairman and the Committee to bring in the SBA Administrator, bring in SBA staff, to start answering these questions.

And if the SBA Administrator were here today, I would have the following questions for her: You know, what is the extent of DOGE's access to SBA headquarters and systems? And what has been done at the SBA to ensure that systems are not abused or accessed by individuals without clearance?

What specific offices or departments within the SBA are affected by the announced 43-percent reduction of the workforce? And how is that going to affect SBICs? Where is the SBA relocating the six regional offices, and will any others be closed in the future? And how is that going to affect SBICs?

You know, how are appropriated funds being used or not used, with the SBA undergoing such drastic changes that Congress has not authorized? And what is the SBA's plan to handle a $1.7 trillion student-loan portfolio with less staff and staff not trained to work with such a complex student-loan system?

So, again, I call on this Committee to bring in the SBA Administrator, to bring in SBA staff, and let them answer the questions about what their job is going to do and how they are going to handle that job as far as dealing with small businesses across America.

And, with that, I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Mr. Finstad from the great State of Minnesota for 5 minutes.

Mr. FINSTAD. Thank you, Chairman Williams.

And thank you to our witnesses for being here today.

Since the start of President Trump's administration, optimism among our nation's small-business owners has soared. President Trump has put small-business owners first by cutting regulations and red tape for main street.

Southern Minnesota is home to some of the most innovative companies that do cutting-edge manufacturing to provide critical products for our nation. We are the home of great ag companies. We have counties that have more pigs than people. We are the home of Hormel. If you like Spam, you like southern Minnesota. We are the home of the Mayo Clinic and all of the great healthcare and med-tech innovations that come out of our district. We are really proud of that. And we also have a lot of small businesses that are working with our Department of Defense.

Small businesses are the backbone of our economy in Minnesota, and we have the opportunity to craft meaningful policies to encourage investments in these businesses that produce critical goods for our nation's security while providing stable, high-paying jobs in our communities.

So, with that being said, I want to talk to Mr. Baumel.

Throughout your career working in numerous States, including Minnesota—I am happy to hear you spent some time in Bemidji—I am sure you have worked with numerous companies that touch rural America. And as I travel around my district and around the country, specifically in rural America, you hear a lot of the same themes of, you know, access to capital, the lack thereof. Venture capital looks at rural America as a flyover area.

And so I want to talk to you a little bit about that. So, with your fund, are you more likely to engage with entrepreneurs in rural communities located in middle America rather than companies located on the coasts? And why is that?

Mr. BAUMEL. You know, our fund does not invest on the coasts to any degree, less than probably 5 percent of capital. So we are all within, you know, the heartland, I will call it. Within the heartland, probably about 25 to 30 percent of our investments are in rural America, such as Stirling Ultracold in Athens, Ohio, and those sorts of things.

And as I mentioned previously, what we have found is, the entrepreneurs in those areas run into real problems, and they want to solve those. And so they create companies to do that, but they have no idea how to scale that up—the hiring, the product roadmap, the strategic partnerships, the marketing, the sales, the go-to-market, the fundraising, how to navigate SBIC, how to navigate, you know, eventually, as you become larger and profitable, bank lending, additional venture rounds.

But these entrepreneurs are also very—so hardworking and fortitude, but they are also very reasonable. So, you know, we have reasonable terms—we form a true partnership where everyone has equity. We have equity, they have equity, we all work together. And we are just taking a pie and trying to make it as big as possible for everyone.

And what I have found is, when you do that, whether that is in Bemidji within Minnesota, whether that is in Athens, Ohio, as I mentioned earlier, when there is that initial success, they catch the startup bug too. It is not just the founders; the people that work there, the people in engineering, the people in marketing, the people everywhere catch that startup bug, and they want to continue to that. And so then they form more startups. And then, you know, the people that made a nice return then invest as angel investors in startups. It is kind of, you know, a cycle like that.

And so I have found it a very great place for innovation. It is also less competitive and less crazy. You know, keeping people focused is a lot easier in Athens, in Columbus, in Bemidji, Minnesota, than it is in Silicon Valley, keeping them focused on the mission, making it happen, getting successful returns.

I mean, we are—you know, like, Stirling Ultracold, we sold the company for, let's say, anywhere from $200 million to $400 million—because it was for stock—on a $10 million investment. And like I said, now there are 40 angel investors out there in Athens investing some of those proceeds in the next startup that wants to, you know, succeed and such.

Mr. FINSTAD. I appreciate those comments.

And what I hear there is, the investments and the partnerships with innovation and entrepreneurs in our rural communities really are a great opportunity not only to create jobs and wealth and security for our rural communities but also future opportunities of investments and catching that entrepreneurial bug that you talked about. That is great to hear.

So our colleagues across the aisle, you know, have called for, you know, demanding the SBA and government to come in front of us and talk to us about more government. I am so happy that the Chairman has chose to bring real people that are doing real things for our communities to come in front of us today.

And so, with that being said, lastly, I just want to know, Mr. Baumel, in your view and the experiences that you have on Main Street America, what can we do in Congress and on this Committee to drive economic growth in rural America?

Mr. BAUMEL. I think, you know, as I said earlier, capital and less regulatory, you know, tape around it and less barriers to that. And then partnering with the expertise, the venture capitalists, the people with experience in those areas, to then deploy that and help these companies grow and keep that cycle going.

Mr. FINSTAD. I appreciate those comments.

I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Mr. Olszewski from the great State of Maryland for 5 minutes.

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

And thank you to all of our witnesses for your time today.

I am going to actually pick up—I was not planning on doing this—picking up on my colleague's comments as we talk about the importance about the private sector but also government. And I will just open with a question for all of you.

I mean, there is value in partnership. I mean, we certainly believe in the private sector, but there certainly is power and promise in having the government, done right, partner with the private sector.

Is that something we can all agree to?

Mr. PALMER. Yes.

Mr. OLSZEWSKI. Okay. Very good.

So, Mr. Chairman, I just want to say, you know, we certainly are grateful for the ways in which you are bringing in folks who are real people leading the work out there, but I actually think that these conversations would be even more robust if we also had the leadership of SBA alongside these leaders doing the work.

So, gentlemen, thank you for being here, for the work you are leading. But I will just reinforce the point of my colleague, that I think this is done best when we actually have those conversations together and collaboratively.

You know, I wanted to pick up a little bit on, Mr. Cimino, some of the comments you were talking about and this "access to capital" idea.

I was struck by a recent statistic that says that private credit firms that are at least 50 percent women or minority-owned hold a combined total of less than 2 percent of $1.6 trillion of private credit assets under management.

Now, those numbers are slightly higher in private equity, at just over 3 percent, and 6 percent in venture capital.

I am just curious what you think those statistics say about the state of these industries or the small businesses in which they are investing.

Mr. CIMINO. Well, I think it is pretty clear that we have not done enough to drive more capital into the hands of these entrepreneurs. And I think that is what this Committee is focused on, on broadening access into not only the overlooked communities but, I would say, untapped. There is a huge amount of ingenuity and talent in these communities and among these segments.

And so how do we actually get capital in their hands and help them build? We think about doing that through lowering barriers to entry and supporting more and more emerging managers that can be in these regions and these communities helping not only drive capital but partnering to broaden it and help them grow.

Mr. OLSZEWSKI. That is great. I appreciate that.

I mean, yeah, according to recent data from Morgan Stanley, we could be missing out on more than $4 trillion in value by not investing in more underserved entrepreneurs.

And so, just for the panel, I just wanted to open it up: Just, sort of, ideas on how we can get more capital to more places so that we can access this untapped potential.

Mr. PALMER. Well, one thing I would add—you touched on women. Like, my executive board is two-thirds women. I mean, in the SBIC world, women are normal. You know, that is not necessarily true in the rest of the finance and banking world and the venture world. The SBIC world has been far more opening and welcoming in that regard, and supportive. Maybe that is because it is small versus big; I don't know. But we want to continue that.

But, ultimately, you know, the economics will drive it. But I think, as we see more women fund managers, as we see more minority fund managers, as we have more fund managers, like Bill mentioned, you know, that are boomerangs, that are leaving the big money centers and coming back to middle America—I think we just have to make sure that we are open to everybody and being inclusive, as far as, like, making sure that the meritocracy rises to the top, and then the good people will rise, and we are going to see good things from them.

Mr. OLSZEWSKI. Bill?

Mr. BAUMEL. I would like to add, you know, for example, the National Venture Capital Association has something called, kind of, the Forward program, which is looking at, you know, those that typically haven't been represented as much in venture capital and entrepreneurship. And, actually, myself and one of my colleagues, Faith Voinovich, were one of the initial mentors of that program.

So there are programs like that being done within the venture capital community to—because it is more of a craft. So, you know, mentor, teach and all that, and open up that access, which can cut across demographics, as you mentioned, but also, you know, geographics, in the Midwest.

Mr. OLSZEWSKI. Yeah. Well, we certainly welcome the chance to work with you to bring more investment to Maryland as well.

Again, thank you all for your time and your feedback today.

And, Mr. Chairman, with that, I will yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Mr. Downing from the great State of Montana for 5 minutes.

Mr. DOWNING. Mr. Chairman, thank you.

And thank you to our witnesses for providing these testimonies.

I represent Montana's Second Congressional District. It is one of the least populated areas of the country, about 7.6 people per square mile. And another fun status: We have more than twice as many cows as people. You get a lot of windshield time driving around my district.

But the issues are, a lot of these population centers are far apart and isolated from a lot of these communities. And so it is hard, you know, having access to economic hubs, having access to capital. It can be difficult for small businesses and for farms and ranches.

I believe we need to pay more attention to these rural capital-access challenges. That is why I introduced the Expanding Access to Capital for Rural Job Creators Act earlier this year. This legislation requires the Securities and Exchange Commission's Office of the Advocate for Small Business Capital Formation to report on capital-access issues faced by rural small businesses.

So I am going to start, Mr. Palmer, with, do you believe the federal government, particularly under the Biden administration, has paid adequate attention to the difficulties that rural small businesses face in securing capital?

Mr. PALMER. I don't think anyone has provided adequate attention to rural America. Part of it is because there are fewer people and it just doesn't get media coverage.

I mean, I remember, I was in New Orleans after Hurricane Katrina, and New Orleans got all the coverage, and people skipped over just what happened in Mississippi, which was just as bad or worse——

Mr. DOWNING. Right.

Mr. PALMER.—because you just—when you—you can't see people crying.

And I think rural America has suffered from that for a long period of time. I think this hearing has been fantastic in helping highlight that.

But I do think the SEC looking at that, and the Small Business Advocate, makes a lot of sense. I want to take a look at your legislation. I think the Meuser bill helps in that regard.

But there are definitely unique challenges that rural America has, whether it be broadband, whether it be infrastructure for manufacturing as far as rail lines and highway lines, employee base. You know, there are unique challenges, but I think this is where informed public policy can help develop that.

But, you know, I think we really have to be deliberate in helping rural America. It is not just going to happen magically.

Mr. DOWNING. Can you provide any insight into what role SBICs can play in supporting small businesses in, you know, less populated, less dense areas?

Mr. PALMER. Sure.

I think one of the things that States like—because Montana and Wyoming and Alaska have had very few—Hawaii is another—have had very few SBIC investments. They have had a handful but not nearly enough.

I think part of that is—and this is something Bill touched on—is, the cost of forming an SBIC can run north of $500,000 to form one. And if you are—you need smaller funds in smaller markets.

You know, I mean, sure, it would be great if someone had a multi-billion-dollar platform in Bozeman, you know, and liked to hike in the Bob Marshall Wilderness, one of my favorite places in the world. But, you know, you need smaller funds for these smaller markets that can write smaller checks for these transactions these small businesses need.

And I think not losing sight of the smaller funds is important, because they can serve places like Nevada and Wyoming, and that is what we need. We need more smaller funds, not just big.

Mr. DOWNING. And so how do you see—or what specific advantages do you think SBICs have to provide for rural small businesses than traditional bank lending and government-issued loans?

Mr. PALMER. Well, I think they do two things.

One, they are a capital amplifier. So the private sector leads. It is not the government saying, "You shall invest this way," because it is generally not going to work. You know, the private sector sees the opportunity, they put their money where their mouth is, themselves first, and then the SBA amplifies it with the SBIC. I think that is really helpful.

I think having more of these SBICs in smaller markets will be helpful, but to do that, they need to allow more smaller funds to get formed. Because for a long time they wouldn't license anyone who hadn't raised at least $25 million or $30 million in a two-to-one that is a $90 million fund.

Look, every small business would love, you know, a $10 million check. Some of them need a $1 million check or a $500,000 check. And so we have to make sure the program scales down to these smaller markets to make sure that they can be developed markets too.

Mr. DOWNING. So, in my district, we don't have any registered SBICs. What are some ways that we can expand participation and access to these programs?

Mr. PALMER. I think, for Montana—and Wyoming, too, which is one of your neighbors who faces a similar challenge—I think bringing the banks together is the first start.

Because the banks—up until Gramm-Leach-Bliley, most banks actually had an SBIC internally, because banks aren't allowed to take equity positions in small businesses. They weren't allowed to under Glass-Steagall; that changed with Gramm-Leach-Bliley. But SBICs used to have an internal one so they could take some of their capital and do equity investments, the likes of which banks can't normally do. But banks weren't allowed to invest in SBICs.

And so, if we get the regional banks and the—and also RBICs, Rural Business Investment Companies, which are done by USDA, which are our members. I think if we get them together, you know—I would be happy to talk to you offline. I hear the tapping of the gavel.

Mr. DOWNING. Yeah. I have run out of time. Thank you very much.

Mr. PALMER. I would be happy to talk to you more.

Mr. DOWNING. Mr. Chair, I yield.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Mr. Tran from the great State of California for 5 minutes.

Mr. TRAN. Thank you, Mr. Chairman.

Mr. Palmer, in December of 2022, the Biden administration launched the Small Business Investment Company Critical Technology Initiative. This is a joint initiative between the SBA and Defense Department that utilizes the SBIC program to strengthen U.S. national security by attracting and scaling public-private investment into the DOD critical technology areas.

First, are you supportive of the initiative?

Mr. PALMER. Very.

Mr. TRAN. And if so, can you explain why SBICs are appropriately positioned to further this initiative?

Mr. PALMER. Well, a couple reasons.

One, SBICs are market-driven. And so it is not, you know, just a subsidy and pumping things up. It is looking for genuine opportunities that can sustain themselves.

They are geographically dispersed, where not everything else is.

And they are regulated in a way that can limit foreign investors, as DOD, I think, sometimes needs. Because one of the things that does happen is—you know, one of the ways you can do industrial spycraft if you are a hostile foreign power is, you have your folks invest in venture funds or private equity funds and you see what technologies are working and which ones aren't. And so I think, you know, knowing who you are doing government contracts with, or things that are adjacent to government contracts, to make sure that they are aligned with Americans' national-security interest just makes a lot of sense.

Mr. TRAN. Yeah.

And on that same note, you know, and from a more macroeconomic perspective, can you explain the importance of continuing to utilize the SBIC program to invest in critical technologies in order to compete on the global stage against foreign adversaries, including the CCP?

Mr. PALMER. Yeah. And I think we need to compete with everyone but particularly—these other countries are actively supporting their companies with subsidies, with industrial espionage, with all sorts of other things. We don't need to do the underhanded stuff; we just need to do the smart stuff.

And the smart stuff is making sure we are putting our money where our mouth is, making sure we are supporting investing in American manufacturing, in industries that we want here that may not be manufacturing.

And these aren't all government contractors. There are certain industries, like AI, that we need here. And I think, you know, Bill touched on, like, supercooling. Like, these computers, you have to keep them cold, you know, for a high-speed, you know, transaction in certain cases.

And so some of that technology and some of that research that has been done by the Department of Defense that the U.S. taxpayers already paid for, let's make sure that technology is being used for American companies to do those things. Because, you know, it is already there. Let's get it in the right hands of the right Americans to make use of it.

Mr. TRAN. Thank you.

And, Mr. Cimino, similar question: Are you supportive of this initiative? And how do you recommend we engage further and scale up investments in critical technology, both in terms of the SBIC program and more broadly?

Mr. CIMINO. Yes, we do support the program and the expansion of it. To, I think, your last point, this is how we actually win as a country, is continuing to double-down on what works.

And, specifically, the private capital model is what allows this type of scale and growth. Not only does it provide that long-term, patient capital, where it is going to be challenging, hard problems, but putting the capital and investment behind it to tackle it, but then it is going to be strategic partners that have the same vision in mind to ultimately build that.

When you couple that with the SBIC's process on everything from licensing to oversight, it does ensure that those visions are aligned for a very not only good technological outcome but one that benefits the country.

Mr. TRAN. Thank you.

And, you know, I proudly represent California's 45th Congressional District, which is a majority-minority community, where minority-owned businesses are a significant part of Orange County's local economy. But minority entrepreneurs still face numerous barriers to success, such as having a difficult time obtaining capital from external investors or lenders.

According to recent data published by Morgan Stanley, venture capital investors could be missing out on more than $4 trillion in value by not investing in more underserved communities and entrepreneurs.

Mr. Cimino, wouldn't you agree that focusing more on underserved entrepreneurs and small-business owners could help investors increase their returns?

Mr. CIMINO. A hundred percent. It would not only lead to economic activity and benefit for the specific entrepreneur and the people they employ and the community, but it would lead to a huge amount of untapped economic opportunity for those investors. And we need to do more to support that.

And when we think about that, it goes down to emerging managers, which—when you look at the study, minority emerging managers are 40 percent more likely than their counterparts to invest in underserved communities. And so really empowering them and making it easier for them to form funds and deploy capital starts to address some of that problem. Ultimately, that leads to wealth creation, attracting even more capital and supporting that ecosystem.

Mr. TRAN. Thank you so much.

And thank you, all the witnesses, being here.

Mr. Chairman, I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Ms. King-Hinds from the Northern Mariana Islands for 5 minutes.

Ms. KING-HINDS. So everybody is giving a shout-out to their States. I don't know if you have heard of the Northern Marianas, but I represent the Northern Marianas.

And so, you know, there is underserved and rural, and then there is the Northern Mariana Islands. We are just geographically isolated. Shipping costs are insane. And right now our economy is tanking, as we speak. We have one primary economic engine, which is tourism. It hasn't recovered to pre-pandemic levels.

And so, you know, I am here looking for opportunities for my community. Every single business in the Northern Marianas is practically a small business. And I thank you for offering your time and your ideas, because what I want to hear are your thoughts on how we can—you know, what can the SBA do to get SBIC-backed investments working in the Marianas?

Mr. CIMINO. I am not going to pretend to be an expert on some of these problems, and I do think we need to deliberately think about it.

But I think this goes back to what was discussed a little bit earlier, is, how do we help more fund mangers, smaller fund managers with smaller checks be identifying and supporting these areas?

I know we talked a little bit about what SEC can do on that front, but I think, from a SBA and SBIC perspective, I am optimistic—and I don't think this will happen by itself, but—that we can use things like their recent expansion into that Fund-of-Fund or Reinvestor program where you have fund managers that might be sitting in Ohio or in San Francisco but recognize that there are opportunities elsewhere, and what they would know is that they don't have the expertise but they can start tapping into and helping smaller fund managers form, grow, and ultimately deploy that capital into these communities.

It will not happen overnight, but I think the SBIC is already moving in that direction through the fund-of-fund strategy. Hopefully we can be a little bit more deliberate, not only to solve some of your problems, but to other rural areas that we have already talked about as well.

Mr. PALMER. We have trouble getting investments in Hawaii because it is difficult. It is not a concentrated area. The Northern Marianas and other, you know, American territories are tough, really tough.

Now, I will say, again, I was not—I don't have an easy answer for you on that, or a quick answer. But one of the things that has been kicked around both with the last administration—the Biden administration proposed a sovereign wealth fund; President Trump has proposed a sovereign wealth fund.

If they do a sovereign wealth fund—and I think they are serious about doing it, but it is an "if"; I don't know. But if they do one, I would encourage this Committee to have a separate one for small business and not have it wrapped up in the giant fund. Because it is very easy for small business to get sort of get crammed down and sort of forgotten about. But if you had a sovereign wealth fund, you could equitize and sort of anchor-invest, you know, funds for specific purposes to specific local needs that are unique. Because I think the CNMI have unique issues.

But I think, you know, as that idea percolates and develops, that might be something to pay attention to, but I don't know of any easy answers to that in the short term. But I would be happy to talk to you when we are not under a 5-minute clock.

Ms. KING-HINDS. Yeah. For sure. Thank you.

Did you want to chime in?

Mr. BAUMEL. I guess, you know, I don't have—like he was saying, I don't have any easy answers. I will just tell you, when I have been going into emergent communities, one of the things that has to be done is really understanding, kind of, the core and history of that community.

For example, in Ohio, there is a ton of healthcare—Nationwide Children's, Wexner Medical Center, Cincinnati Children's, Cleveland Clinic. How do we leverage that, you know, to create new companies?

Enable Injections, the on-body drug delivery, the needle—is in Cincinnati Children's. We have two biotech companies that spun out, partnered with NIH and BARDA and CARB-X in biotherapeutics and such.

So I don't know enough about, you know, your community, but really looking at a community and saying, is there some history or area that we can be innovative in, you know, within tourism or whatever it is, you know, for software opportunities or marketplace opportunities or what have you?

So each region has its unique history and base to leverage in its own unique way. That is all I can really offer.

Ms. KING-HINDS. Thank you.

Thank you for sharing your thoughts, and thank you for your time.

I yield my time.

Chairman WILLIAMS. The gentlelady yields back.

And I now recognize Mr. Latimer from the great State of New York for 5 minutes.

Mr. LATIMER. Thank you, Mr. Chairman.

And thank you to our guests for being here today.

I represent the "coastal elites" of the North Bronx, of the cities of Yonkers and Mount Vernon. And, while we are on the East Coast, we have our challenges as well.

And I do just want to say in general—and I take some of the comments, you know, with a grain of humor, but—America, to me, is one nation, indivisible. And the rural parts of this nation are important, even though I don't represent them, as the urban areas are important that I do represent, and the suburban areas.

I have lived in the State of Pennsylvania. I have lived in the State of Ohio. I worked for a corporation in my corporate years for 11 years that was headquartered in Texas, and I had to return to Texas monthly to interact with people. So I see all of that together in one broad context.

I must say, I have not been to the Northern Mariana Islands. I don't know if my seat on Foreign Affairs will allow that, but time will tell.

More specifically, though, we have talked a lot about the needs in the rural areas, which I respect, but the urban areas, too, represent an area not only of need but of potential growth.

And when I talk to the people in my district—this morning, I was on a chamber of commerce call for one of the cities that I represent; I went to one of them when I was in the district last week—I hear other issues that rise.

I hear the issues about the unsurety of what this tariff imposition will be and what it is going to mean to them in terms of the products that they sell. I hear about the unsurety of workforce issues with the immigration policies that we have, and will they find themselves unable to properly staff up to provide the services due to things they need to do in back-of-the-house situations.

So there are other issues aside from access to capital. Access to capital is very high on that list.

And just very simply, one question, which I would appreciate each of you commenting on: How do you see the challenges of—and the strategies necessary to incentivize small businesses in urban settings?

Now, we know that there are large businesses. I have them in my home county. I was county executive for 7 years. Well aware of those businesses and the equivalent ones that exist in Silicon Valley and so forth. But there is still an urban energy and entrepreneurship that we have to figure out, how do we incentivize that? It might fall into the category of women or minority, but it may or may not, but they are in an urban environment.

And so I would appreciate your thinking on it. I will start with Mr. Cimino, and I appreciate each of you commenting.

Mr. CIMINO. First, I really commend you on your comments of—I know we were all joking around, but, yes, it is very much a united front here.

I think to drive more capital is key, as we have discussed. But I think the other component of capital—and I completely understand your point of, like, it is not just about capital. But when we see investment come in through private sources, they often turn into partners.

And so the SEC has recently talked about: Businesses that accept investment from either venture or P are 12 percent less likely to fail. And that is because they become strategic partners and help them think through everything from how might a government regulation need to be adhered to or navigated, to how they might help with connecting them to partners, customers, the right technologies. And so we treat this very much as, there is skin in the game for these businesses.

I think the other component there that we have to look to is, how do we think about empowering more of the employee base to have ownership in these types of companies? Because, ultimately, that not only, as I said earlier in my statement, improves performance of the company itself by creating a more talented and aligned workforce, but then helps them have a stake in an economic benefit that comes out of that company and makes them even more part of that community, where they are able to tap into more and more of that network.

Mr. BAUMEL. Quickly, what we learned in some of the urban communities—downtown Cleveland, downtown Columbus, and downtown Cincinnati—is create a space for that that looks innovative, that is open, that allows collaboration and all those sorts of things.

So you need some sort—it is tough walking down the street to say, I am just going to start a startup in downtown Columbus or in Brooklyn or such. But if you have an area, you know, that is meant for these startups to get started, to work together, to collaborate, to share stories and all that, that epicenter can really be helpful in allowing, you know, entrepreneurs to come together, you know, and grow.

Mr. PALMER. Congressman, I would say that a lot of the reason why the discussion is about rural is because that is where it is missing. A huge amount of the investment by SBICs and private equity and venture is in urban. There is just a lot more economic activity and opportunity in urban areas. You have more people, you have more money around, you have more connectivity of universities and other things. So there is a lot there.

And, actually, as it relates to the SBICs, we have a lot of them—forgive me for being a Long Islander, of, everything north of Harlem is "upstate"—but it is a—there is a—the bulk of the SBICs in New York are in upstate New York, in Buffalo, Albany, places not that far from you. But they are investing in places like your backyard.

But I think the key thing is just making sure—for urban areas, making sure that it is a vibrant, safe place. You have a lot of banks, a lot of financial institutions. Keeping those chambers of commerce together to connect with the private capital markets. And there are huge advantages they have over everyone else.

Chairman WILLIAMS. The gentleman's time is up.

Mr. LATIMER. Thank you, Mr. Chairman.

Chairman WILLIAMS. He yields back.

I now recognize Mr. Wied from the great State of Wisconsin for 5 minutes.

Mr. WIED. Well, thank you, Mr. Chairman, for holding this hearing.

And thank you to the witnesses who have come here today to share their experiences.

Small Business Investment Companies, SBICs, with the support of the Small Business Administration, provide important capital investment to small businesses across our nation.

In my district, manufacturers are a significant portion of our economy. We have over 1,000 manufacturing firms, employing almost one-quarter of our working population, with 89 percent of those manufacturing firms in my district classified as small businesses.

SBICs provide needed capital investment for manufacturers like Vehicle Security Innovators in Green Bay, which hired six new employees after SBIC investment.

However, gaps in manufacturers' access to capital continue to exist. To help fill those important gaps, I am proud to cosponsor the Investing in All of America Act, which will incentivize SBICs to invest further in manufacturers in rural America—what I call "real America," main street—which is our district, with no new spending mandates or subsidies.

So, Mr. Palmer, under Administrator Loeffler, the SBA has made revitalizing American manufacturing a top priority. So how will increasing manufacturers' access to SBIC investment help American manufacturers?

Mr. PALMER. I think you have—first of all, thank you very much for sponsoring the bill.

And, yes, we have some SBIC investments in manufacturers in Appleton. Quaker Bakery Brands and others do some really interesting stuff, and you have some—Century Tool—companies in Green Bay and other areas.

But the more we can amplify capital, not on our—we have a lot of capital that is being raised from—let me take it back a step further.

The private market sees the opportunity in small business; they don't always know how to access it. And one of the things about the SBICs is they know how to access it, and they are leading with that private capital. And, a lot of times, because of the limits of where they are now, that capital can't be amplified because it hits the caps that SBA will do.

What your legislation would do is say, hey, if you invest in a manufacturer, that cap doesn't apply to that investment. You still have to have the same amount of private capital, which is the taxpayer protection, in front of the SBA capital, but we are not going to put an artificial break on anything that is in a rural area or a low-income area, whether that is a rural or urban low-income area, and particularly for manufacturing and these national defense sectors.

So it just lets the private capital lead without restraint. So I think it would be very helpful. And thank you for your support.

Mr. WIED. And, Mr. Baumel, my district is several hours away from large cities like Madison and Milwaukee. What can this Committee do to ensure small businesses have access to the capital they need to grow and innovate?

Mr. BAUMEL. I mean, we have the same situation, you know, in Ohio, where Athens is about an hour-and-a-half drive, Dayton is about an hour drive. So I don't know specifics other than, you know, experienced fund managers who are willing to go out there with SBIC and other type money and make that drive and such. And most people that are in these communities, like in Wisconsin, Ohio, do have that passion, you know, to follow up.

And the other thing I will say is, there are a lot of macroeconomic things that can be done as well. I know there is a new Developing and Empowering Our Aspiring Leaders Act coming up, as well, that will allow fund managers who have very limited fees—the average, you know, early-stage fund is about $20 million—about, you know, $200,000 to $400,000 annual fees to cover every expense—all the employees, the rent and everything else. You know, getting the regulatory burden down with filings with the SEC; allowing these small businesses to, you know, expense R&D more quickly; and those sorts of things.

So there are both macroeconomic and microeconomic solutions.

Mr. WIED. Great.

Thank you for all the work you do.

And, with that, I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Ms. Simon from the great State of California for 5 minutes.

Ms. SIMON. Thank you, Chair Williams.

I appreciate you all being here today.

And I would agree—before I go into my comments—I am very interested, this quarter, in this Committee having an opportunity to meet with and have a conversation in a hearing form with the leadership of SBA. I think we would all learn so much, particularly to understand, you know, what the next 4 years will look like under the new SBA brass. I am very excited about that opportunity, and I hope we get it.

You know, I am from the great State of California, from Oakland, California, surrounding Berkeley and Emeryville and Alameda. And I have to tell you that California's 12th District is the hub. And, actually, I wanted to thank many of you all for your investments in my district. Particularly, you all know that the AI revolution, the biotech revolution, it is happening right across the street from my office. And I am proud to be in that district.

You know, there are a couple of amazing small businesses that have benefited so deeply from the private sector, from venture, that haven't had the opportunity to seek support from SBA. Or even the thought of obtaining NIH funding in this moment is also really, really difficult for some of these companies. I want to talk about a couple of them.

There is a group called Science Corp., which is in Alameda. And Science Corp., which is a small business led by brilliant engineers and physicians and data scientists—and we believe in the next 10 years this group will cure retinal pigmentosa and macular degeneration. The brilliant folks at Science Corp. are going day-in and day-out, coming early and leaving late, to innovate to make sure that folks like myself with visual impairments have hope.

There is another group that I visited that requires a ton of research and support for what they are doing to ensure that mothers actually live past a terminal diagnosis of breast cancer. Exelixis is right in Alameda County.

Institutions like these have created opportunity, not only employment opportunities, but really deep hope for folks who are struggling with ailments and disabilities.

Between 2020 and 2023, $5.8 billion was invested in Oakland entrepreneurs, and this is double what Oakland businesses received in the 3 years before the pandemic. My district sees tremendous venture capital investment, and so, again, I am so thankful.

But what about our underserved communities? I understand that the administration doesn't want to talk about inclusion, but I do. In this conversation, you know, I think it is important that we continue to lift up a whole America.

According to Crunchbase, venture capital funding to Black-owned businesses in the Bay Area fell 88 percent since 2001. Again, venture capital funding to Black-owned businesses in the Bay Area fell 88 percent since 2001.

In fact, less than 1 percent of venture capital funds go to Black businesses nationwide. I will read that again: Less than 1 percent of venture capital funds go to Black-led businesses nationwide.

You know, I have a question just quickly for Mr. Cimino.

According to the data published by Morgan Stanley, venture capital investors could be missing out on more than $4 trillion in value by not investing in more underrepresented entrepreneurs. So the big question is, well, why? Why and how are we getting this so wrong in our economy?

And wouldn't you agree that focusing more on underserved communities, like the ones that I have mentioned, and focusing and supporting those entrepreneurs in small businesses could help investors increase their own returns?

Mr. CIMINO. Absolutely.

And I think that you said it very well. This isn't about taking things away from your district; it is about bolstering that. But it is also about broadening it to more folks within your district but also more places around the country.

One of the ways we see that opportunity is by making it easier and empowering more fund managers, especially those with diverse backgrounds. Because the data shows that a diverse fund manager is up to 40 percent more likely to invest in a diverse founder. And so, to your point, that is likely to get more capital into these communities.

And, frankly, these are untapped talent, where they are going to outperform, they are going to show that that value is not only for them and their business but for the investors. And I think as you start to see more and more of that data, you will start to see more of the investment community look to resource those communities.

Ms. SIMON. Thank you.

We are leaving genius on the table.

I yield back.

Chairman WILLIAMS. The gentlelady yields back.

I now recognize Mr. Jack from the great State of Georgia for 5 minutes.

Mr. JACK. Thank you, Mr. Chairman. And thank you for your continued leadership in this space.

And thank you to our witnesses for testifying today.

Just to personalize this, my congressional district, based on some data that our team pulled together, we have over 7,000 private-equity-backed companies who provide roughly 418,000 jobs within my district, which represents about a $730 million investment within my district alone.

So I am grateful for each and every one of your testimonies today, because it impacts the people that I serve here in Congress.

But if I could start—and I also want to thank Mr. Palmer. I think your testimony was incredibly insightful.

And I would love to walk through, if I could, and give you an opportunity—within those policy recommendations, you have spoken to a couple of my colleagues today on it, but specifically I would like to highlight the bill that Mr. Meuser and Ms. Scholten introduced. Could you walk me through why SBIA so strongly supports passage of this bill?

Mr. PALMER. Well, the program works. And that is number one. If we are not actually getting the outcomes of helping small businesses, we want to stop it. It protects the taxpayer. We don't want the taxpayer exposed to anything. That is good.

There is more opportunity for more small businesses to get capital, for more businesses to innovate, and we are capped. Inflation has chewed up the leverage caps that were put in place in about 2010, 2012, that time period. And so there is more private-market interest in small business, but it can't be levered. And so it is sort of capped and we are cutting ourselves off, even though we know the model works.

Also, we know there are parts of America that have been forgotten for a long time and have been overlooked, and they need to be looked at. That covers manufacturing. That covers rural America. That also covers, you know, inner-city low-income areas.

And so what it does is it uses a market-driven mechanism—not government mandate, but opportunity—for private equity funds and venture capital funds to look at those areas and then invest in them and be able to access the SBIC leverage.

So it is a market-driven incentive to get more to all of America, and, thus, the title of the bill. It just works. And so we are excited about it.

Mr. JACK. And would you mind elaborating on—one of the third policy recommendations you provided to the Committee was talking about some of the fees collected as it relates to SBIC. Could you walk me through or, rather, expound upon that?

Mr. PALMER. Sure.

So there are a number of fees that are collected by the SBA on the SBICs, and some of those are effectively an insurance policy to make sure that there is no taxpayer exposure. And that has worked for 27 years. And that is good, and those should be maintained.

And the other thing they charge, they charge for licensing fees. And that is so—when you apply for a license, you pay, I think, $25,000 or so. And, you know, folks that are coming through the process pay that fee. And then there are examination fees. But some of those funds then get diverted to other parts of the SBA instead of staying inside the SBIC program.

And the SBIC program is about $11 million in total salary for $50 billion of management. I mean, normally, when you are managing in the venture world, private equity world, it is 1-1/2 to 2 percent of the assets is what you charge for a fee to run it. The government is being about 100 percent more effective and more efficient than that.

Now, that is good to a point, but you do need to make sure you have the resources in hand to make sure that you have someone overlooking the SBICs to make sure there are no bad actors, there is no fraud.

And so we want to make sure that those fees stay inside the program to make sure that we have the cops on the beat to make sure we are serving those small businesses and protecting the taxpayers simultaneously.

Mr. JACK. Thank you very much.

And, Mr. Cimino, you mentioned in your testimony that private capital is highly concentrated in certain areas. You know, California, the Northeast, I think, were the two regions you specifically referenced. And while it is plentiful, it is, you know, clearly, at times, unevenly distributed.

So I am just curious, recommendations that you have to this Committee as to how we can attract more capital to, say, my home district, Georgia's Third Congressional District, just southwest of Atlanta.

Mr. CIMINO. Yeah. It is definitely the charge that we have before us.

One, I think what the SBA's SBIC program is already doing is working. When we look at the data, about 50 percent of venture goes to California, but when you look at the SBIC's allocation, only 10 percent goes to California. And so it is already broadening capital out there.

And especially enhancements that not only include the fund-of-fund piece but accrual that fits the venture model better are helpful. And then investing in all of America, which you are obviously expert on, will, I think, add to that.

I think even beyond this Committee, though, there are opportunities, as you think through tax, around how you drive capital and talent to the ecosystem, things like qualified small-business stock, but there are also some SEC-related regulations, all of which get at, how do we support the investment community?

Because if you can support the investment community, they are more likely to invest early, locally, and diversely. That then identifies those entrepreneurs that can build companies, those companies hire the talent, and it just starts turning that flywheel of an ecosystem and building out those infrastructures.

Mr. JACK. Very well put.

Thank you to all of our witnesses for their testimony.

And, Mr. Chairman, I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Ms. Goodlander from the great State of New Hampshire for 5 minutes.

Ms. GOODLANDER. Thank you, Mr. Chairman.

And thanks to our witnesses for being here today.

Mr. Palmer, I wanted to—your—thank you for your testimony. You point out that over—or, I guess, around 2,400—in the lifetime of the SBIC program, SBI has—SBA has licensed—many acronyms in this hearing ——

Mr. PALMER. It is a mouthful.

Ms. GOODLANDER.—has licensed 2,400 SBICs, Small Business Investment Companies.

Mr. PALMER. Uh-huh.

Ms. GOODLANDER. New Hampshire is not home to an SBIC currently.

Mr. PALMER. It has one. Seacoast Capital.

Ms. GOODLANDER. All right. We have one.

What is your advice to those of us who are representing mostly rural districts? And what difference have you seen—what is the difference that is made by having more SBICs actually in our community?

Mr. PALMER. It helps. I mean, proximity matters, and, you know, if you are around people that are investing in businesses, you are more likely to be able to connect them.

Because this is not, like, you know, the publicly traded markets, where you go online and say, "I am going to go to my Schwab account, and I am going to find small business X and put money into them." It is a relationship business, and you have to understand, you know, what you are getting into. So having more locally is very helpful.

And given the proximity to Boston, I would like to see more funds formed in New Hampshire. And back in the 1990s, there were several SBIC funds in New Hampshire and Vermont. When they pivoted away from equity investing, it concentrated the venture world in only a couple markets, and it also—they sort of disappeared from a lot of these smaller markets that were doing these small-dollar venture funds and private equity checks. As the SBA has pivoted back to allowing more equity investing, I think you are going to see more of those develop.

I think the key is—and this goes to Congressman Jack's point—is, you have to make sure the barriers to entry aren't, you know, overly—aren't too big for smaller funds to form. Because bigger funds forming, they have the resources, they have the lawyers, they have the compliance people. But you have to have smaller funds that can get into and access these SBA products to be able to serve these smaller businesses in these smaller markets.

And then they may not be small after a while. They may grow and grow everything around them. So it is an ecosystem matter.

Ms. GOODLANDER. Thank you for that.

You also mentioned in your testimony the SBIC Critical Technologies Initiative.

Mr. PALMER. Uh-huh.

Ms. GOODLANDER. I serve on the House Armed Services Committee. And, you know, being on both of these Committees is, I think, really important, because as I look at the U.S. economy, I see consolidation everywhere, especially when it comes to our defense industrial base.

Mr. PALMER. Uh-huh.

Ms. GOODLANDER. What changes can be made and, especially, what more could DOD be doing to leverage this program and to really grow this incredibly important sector of our economy?

Mr. PALMER. I think they are on the right track. I mean, I think the partnership between the SBA and DOD was the right move. The creation of these critical technology SBICs and this joint-licensure-type model they have, where the DOD doesn't license them but they are involved in who gets the licenses to make sure we have the right people in our national-security places, you know, makes a lot of sense.

You know, I think establishing the ones that are forming now as successes and sort of setting the market model that, hey, this works, this isn't—you know, because when things are new, they are scary, and, you know, it requires training, and, "Hey, why am I going to build a business around this new concept? Let me see if the concept works." We have got this concept started, anchored. I think it is going to be a significant success. And as that success takes off, I think we can get more of these critical technology funds in more parts of the country, and I think it is a real opportunity.

So I think it is a—it is not a pilot. It is a real, established entity. But I think, with a little bit of time, once those critical technology SBICs really latch into the market, I think you are going to see a lot more funds forming as them.

Ms. GOODLANDER. Well, I would welcome any recommendations you have or other witnesses here today have for how we could improve upon this program and get DOD's involvement.

Mr. BAUMEL. Okay. I have—going back to your original comment, I am actually surprised there is only one SBIC in New Hampshire. Because I remember I did, early on, a lot of investing in Boston. I actually think I flew out of—flew Southwest back out of New Hampshire.

So what we have done in Ohio——

Ms. GOODLANDER. Manchester-Boston Regional Airport.

Mr. BAUMEL. Exactly.

Ms. GOODLANDER. Excellent airport.

Mr. BAUMEL. Yeah, excellent airport.

I mean, one of the things we have done in Ohio is talked about the quality of life versus other areas—and we have actually attracted a lot of people from Boston—where, you know, it is a little bit more simple, the house is a little bit more affordable, it is a little different quality of life.

I think, you know, as a State, I think you can do that in terms of attracting both venture capital professionals up there as well as companies to form there, particularly if they could have some SBICs around there. So I actually think your problem is very solvable.

Mr. CIMINO. And if I could just maybe add really quickly to kind of combine a little bit of the two things that were added: One, if you can grow more funds—and even on the Carta platform, there are actually 11 or 12 funds in New Hampshire. You obviously have the proximity to Boston. Hopefully the SBIC's fund-of-fund structure can help.

But it is interesting, on the DOD point, to your point, people don't like to do unproven things. We have actually had funds come to us and say, is this SBIC program itself, not even the DOD part, for real? And these are pretty prominent funds.

Ms. GOODLANDER. Uh-huh.

Mr. CIMINO. I think the more education around this, the more funds will be interested in realizing this is actually working, it is an additive process for us. And all of a sudden, they will start thinking about how to leverage it more. And so the more education we can do about it, the better.

Ms. GOODLANDER. Well, I thank you all.

And I yield back, Mr. Chairman.

Chairman WILLIAMS. The gentlelady yields back.

And I would like to thank our witnesses today for being here for your testimony and for appearing before us.

Now, 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.

I ask the witnesses to please respond promptly if that happens.

If there is no further business, without objection, the Committee is adjourned. Thank you.

[Whereupon, at 11:50 a.m., the Committee was adjourned.]

A P P E N D I X

Written testimony of
Brett Palmer, President, Small Business Investor Alliance (SBIA)

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

"Fueling America's Future: How Investment Empowers Small Business Growth"

2360 Rayburn Building at 10:00AM

April 2, 2025

SMALL BUSINESS INVESTOR ALLIANCE

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 into 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.

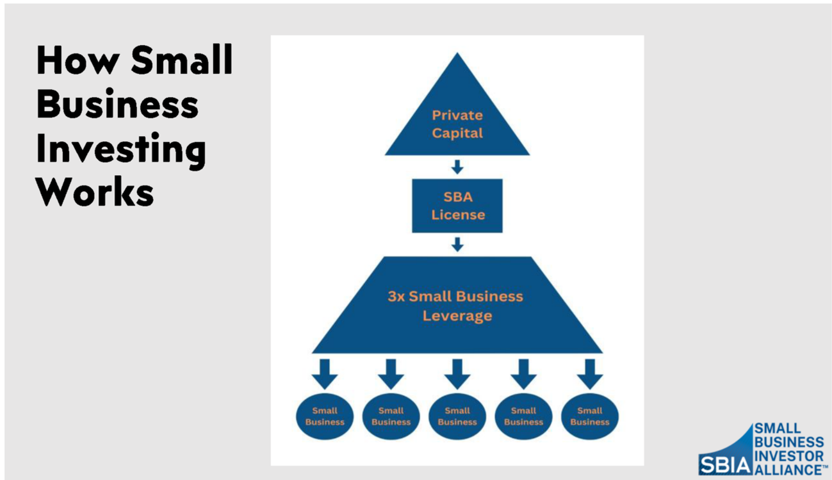
Private Capital Markets, Private Equity, and Venture Capital 101

The American capital markets are the envy of the world. Our capital markets are one of our greatest advantages in the highly competitive global economy. Our public markets are well known, with stock prices of very large businesses readily available and often at the top of the news. In contrast, private equity, private credit, and venture capital are far less understood, but arguably of equal or greater importance because they empower entrepreneurs to unleash innovation and growth. Private capital markets are critically important to small businesses in scaling up and becoming regionally, nationally, and globally competitive.

Private equity is a very broad category of capital providers who are commonly misunderstood and often misrepresented. The truth is, investing by private equity is a powerful force for good. Private equity is a driver of job creation, innovation, and expanding prosperity to the people and places that are not yet fully benefiting from our system of free enterprise. The profits from private equity fund the retirement security of millions of pensioners and provide the scholarship money used to provide educational access to a new generation of college students. These private equity investments are commonly made in areas of the country that are otherwise passed over or passed by. Most of our member funds are located in Little Rock, Indianapolis, Buffalo, Omaha, Kansas City, and many other places that far from Wall Street or Silicon Valley. Regardless of investing style, private equity investors in small and medium-sized businesses make money by helping the businesses grow and succeed. The idea that private equity funds make money by having businesses fail is just not true.

How Private Equity Works

To put it in the simplest of terms, private equity and venture funds are investment vehicles that pool capital (largely from institutional investors like pensions and endowments) and then invest in businesses that are not publicly traded to help them grow.



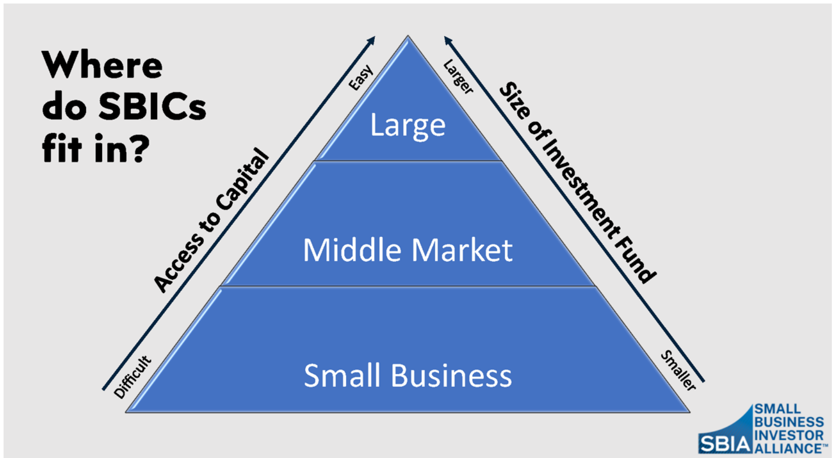
Private equity helps business grow by not only providing critical, patient capital that conventional banks cannot, but also by helping the smaller business learn how to grow and make big leaps forward that they otherwise would not have been able to achieve on their own. The only way to be a successful private equity fund in the lower and middle market is to find smaller businesses and help them grow into bigger, better businesses.

<u>Small Business Investment Companies (SBICs)</u>

SBICs are an American success story and 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 operate in what is commonly called "the lower middle market." The small businesses that compose the lower middle market are employer firms, typically with $5-$150 million in annual revenues. Not every lower middle market business will be eligible for SBIC investment, they still must meet the size standards set by Congress and the SBA for the program. SBICs typically invest in businesses just entering the lower end of the middle market and in small businesses with growth potential to enter the middle middle market ($150-$500 million revenue/annually). Very few of these growing companies want to become publicly-traded companies and very few will ever have an IPO.

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



SBICs invest exclusively in domestic small businesses, creating jobs and empowering U.S. small businesses to compete in our 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.

Small businesses that are experiencing a generational transfer warrant special mention because private equity, and SBICs in particular, play a critical role in successfully managing these changes. 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, that 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.

When these businesses facing generational transfer are sold to an SBIC or private equity fund these businesses grow. The new owners are investing for the longer term –in new equipment, new technologies, new products, and new employees. These businesses innovate like a startup but do so with the critical advantage of a proven business model. It is common for the family or founder of the business to retain a minority ownership stake in the business and therefore participate in the ongoing success of the now growing business. The failure rate of these investments is low and the growth rate (both profit and employment) is high.

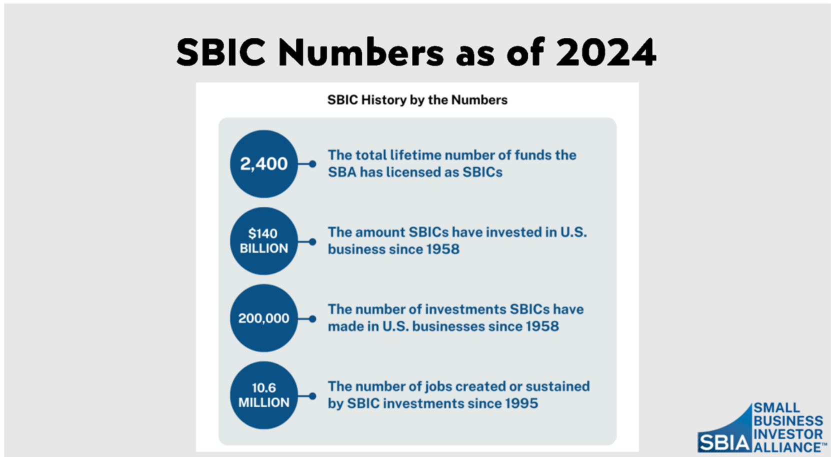
Impact of SBICs

SBICs are a critical part of the small business capital markets. SBICs investments are overwhelmingly the first institutional capital to ever be deployed into the small business they are backing. Further, once SBIC capital is invested into a small business then the small business is often able to access more conventional bank capital. SBICs are only able to make a profit by successfully growing small businesses.

Since inception, 2,400 SBICs have made over 198,000 investments in U.S. small businesses totaling $140 billion. These investments are in real companies with real staying power and real growth potential.

In FY2024, the capital committed to U.S. small businesses from licensed SBIC funds was nearly $47 billion, a record level over 50 percent higher than five years ago.[2] Nearly one in four investments, moreover, were made in underserved small businesses.[3] During 2024, the SBIC program had 318 active funds[4].

[2] Small Business Administration, *Small Business Investment Company (SBIC) Program Overview Report for FY2024* (last visited March 11, 2025)
[3] The Office of Investment and Innovation reports financing information based on data collected on the SBA Form 1031. The term "Underserved" and represents women-owned, minority-owned, and veteran-owned small businesses or small businesses who are located in a low-to-moderate (LMI) income area.
[4] Id.



[5]

SBIC Structure

Most SBICs are levered (debenture) funds, which means those funds are authorized to borrow money from a federally authorized credit facility using the Federal Home Loan Bank system. It is critical to note that unlike other SBA programs, the investments made by the SBICs have zero investor guarantee. All private capital can be lost with a bad investment – the private sector is fully exposed to risk with the SBA leverage protected by the private capital. Access to this SBA/Federal leverage permits individual SBICs to multiply paid-in private capital up to two times capital or $175 million, whichever is less. Almost all SBIC Funds have a finite term, with an investing period of 5 years and then a harvesting period of another 5 years. As such, SBICs commonly have several SBIC funds that are in different parts of their investing/harvesting life cycles (investing, harvesting, and then forming their next fund). The maximum leverage for an SBIC family of funds (a group that holds multiple SBIC licenses) is currently $350 million. Leverage is provided at a **zero-subsidy rate**, with no annual appropriations necessary to fund up to $6 billion a year (FY25 Continuing Resolution), which is eventually paid back in full to the SBA with interest and fees. (*See Appendix for the typical lifecycle of a traditional SBIC*).

Accrual Debentures and Reinvestor SBICs

SBA has relatively new additional tools to fill more types of capital access gaps in the market: Accrual and Reinvestor SBICs. Accrual SBICs are leveraged funds but interest accrues and is paid back by the SBIC at the end of the 10-year debenture period to better align with the cash flows of long-term, equity-oriented funds. Equity investments allow small businesses to retain their liquid capital for both growth and working capital. Reinvestor SBICs are a subset of Accrual SBICs for the express purpose of

[5] Jobs are a sum of findings from Library of Congress report entitled "Measuring the Role of the SBIC Program in Small Business Job Creation" from 1995-2014 and data from SBA SBIC annual reports 2014-2024.

reinvesting in a portfolio of smaller investment funds to increase the geographic reach of the SBIC program. Reinvestor SBICs are in a category commonly referred to in the investing industry as "funds-of-funds". Reinvestor funds are a market-driven developmental league to provide more capital to a next generation of emerging small business investors.

SBIC Critical Technologies Initiative

The SBIC Critical Technologies Initiative is a partnership between SBA and the Department of Defense (DOD) to increase investments in a broad range of small businesses that operate in critical national security industries and supply chains. These small businesses are not necessarily government contractors, but are in key industries we need to develop domestically. SBA and DOD have identified gaps in the credit markets for high-tech startups and small businesses that could produce the technology needed for future national security efforts.

License Type	Investment Strategy	Details
Standard SBIC	Private Credit, Structure Equity or Mezzanine	• Uses Standard Debenture • Eligible for up to 2 tiers of leverage • $175M for one fund or $350M for family of funds
Accrual SBIC	Venture, Growth or Buyout	• Uses Accrual Debenture • Eligible for up to 1.25 tiers of leverage • $175M cap for one fund, $350M for family of funds
Non-Leveraged SBIC	Benefits of an SBIC license, without SBA leverage	• No funding from SBA • Typically established and owned by a bank • Provides financial institutions with opportunities to receive Community Reinvestment Act credit and a limited exemption from the Volker Act
Reinvestor SBIC	Fund-of-Funds	• Uses Accrual Debentures • Must invest ≥ 50% of capital in private funds • Eligible for up to 2x tiers of leverage • $175M cap for one fund, $350M for family of funds
Critical Technologies SBIC	Heavy focus on National Security and Defense	• Can be Standard or Accrual • Must invest 60% in Critical Technologies • Partnership with DoD • Critical to National Security

State of Small Business Access to Capital

For small businesses, access to capital is a distinguishing feature that often determines success or failure. It is noteworthy that access to capital often is the single highest concern for growing small businesses. It is much more difficult for smaller businesses to access long term patient capital than it is for medium-sized or larger businesses.

Traditionally, community and regional banks generally help finance businesses that have assets to borrow against. Even when banks can provide capital, they generally cannot provide equity or many of the flexible types of capital that growing small businesses need. Unfortunately, smaller and more rural businesses have even more difficultly accessing traditional sources of capital, particularly if there is any equity in the transaction. Also, many small businesses do not have adequate assets to access the amount of bank loans that they need. Smaller businesses are seen as too risky for most banks and larger financial institutions. Equity and subordinated debt provided by SBICs, RBICs, and other PE/VC funds enable small businesses to access bank loans that otherwise would be unavailable.

Additionally, smaller businesses need hands-on help to manage growth while some need help to navigate changes in the competitive landscape. Some family-owned small businesses need help to transfer ownership when the original founders are ready to retire but want to maintain the business as a going concern. This is the kind of help that SBIC funds can provide.

SBIA Policy Recommendations

While the SBIC program has shown record growth over the past 15 years, there are policies this committee can consider to expand access to capital in unserved geographies, ensure the SBICs remain on par with rising inflation, and provide the Office of Investment and Innovation with the resources necessary to administer the program.

SBIA thanks Members of the Committee for supporting H.R. 754, the Investing in Main Street Act

During the first weeks of the 119th Congress, the House unanimously passed H.R. 754, the Investing in Main Street Act.[6] The bill has passed the House of Representatives the last five Congresses.

The bill, introduced by Reps. Judy Chu (CA-28), Andrew Garbarino (NY-2), LaMonica McIver (NJ-10), and Brad Finstad (MN-1) would rectify a historical disconnect between banking law and small business investment law and allow a bank or federal savings association to invest up to 15% of their capital and surplus in SBICs, while still subject to the approval of the bank regulator if above 5%. This would dramatically increase the amount of private capital in the SBIC program, which will then be deployed to domestic small businesses, at no cost to taxpayers.

SBIA strongly supports passage of H.R. 2066, the Investing in All of America Act

SBIA strongly urges Congress to consider and pass H.R. 2066, the Investing in All of America Act, to increase access to capital through the SBIC program. This bipartisan legislation, introduced by Reps. Meuser and Scholten, will encourage private capital investments in the parts of America that are often overlooked, including small manufacturers. SBIA wants to thank Reps. Meuser and Scholten for their leadership.

Last Congress, the Committee made meaningful improvements to the bill, including an adjustment to how college and university investments are treated which will unlock significant new investment into SBICs to the benefit of both students and small businesses. That bill passed the House unanimously last year.

This year's version of the bill makes one additional, and very important, improvement to make investments in small manufacturers eligible for bonus leverage. The new SBA Administrator has made U.S. manufacturing a top priority for SBA, and we believe the new Investing in All of America Act will fulfill that goal.

[6] Actions - H.R.754 - 119th Congress (2025-2026): Investing in Main Street Act of 2025 | Congress.gov | Library of Congress

The Investing in All of America Act reforms the Small Business Investment Company program at SBA to encourage private capital investment 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 domestic manufacturing and critical technologies.
- Inflation adjustment allows the program to remain competitive as prices rise.
- Market-led and market-driven.

The Investing in All of America Act would streamline the current bonus leverage provisions to make them simple and straightforward, with no need for new appropriation for implementation as drafted. Specifically, the bill provides SBICs with bonus leverage to invest in rural, low-come, manufacturing, or national security-focused businesses. SBA already captures zip codes and NAICS codes of the small businesses financed. Simply adding check boxes and drop-down menus on the Form 1031 (Form 1031 must be completed by SBICs and submitted to SBA for every financing made to a small business. It includes details of the financing and information on the small business) for "rural", "low-income", and "critical technology" captures the remaining data needed to exclude the cost basis of the investment when calculating an SBIC's outstanding leverage.

The legislation would also adjust the leverage commitment levels by a factor of inflation from the last time they were adjusted in statute and make annual adjustments thereafter. This ensures successful SBICs do not grow out of the program and can continue assisting job-creating small businesses across the country for years to come.

The SBIC program had an inflation adjuster for many years prior to raising the caps in emergency legislation (ARRA) during the Great Recession. However, the leverage caps have not been adjusted since 2015 for single licensees and 2018 for a family of funds. In that time, inflation has risen nearly 30%. In the face of current and future inflationary pressure, reinstating the inflation adjuster is necessary to ensure the program's investment power remains consistent with the broader markets and small businesses can continue to receive the capital they need.

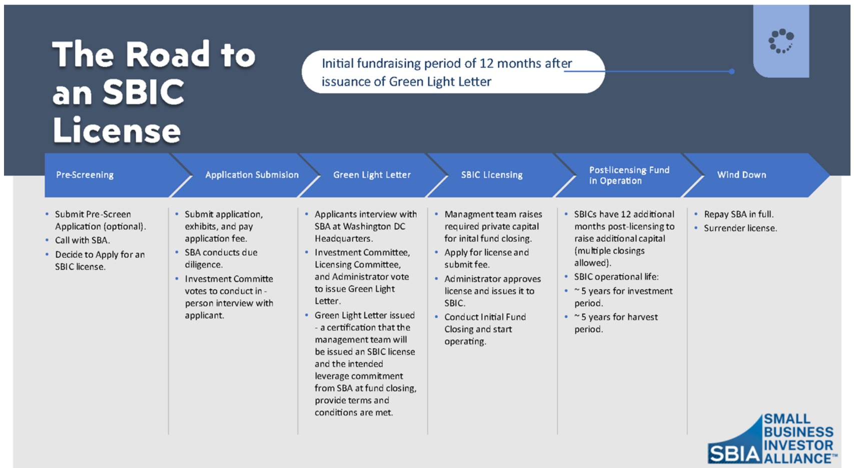
<u>SBIA urges Congress to ensure all fees charged to, and collected from, SBICs are used by OII exclusively to administer the SBIC program.</u>

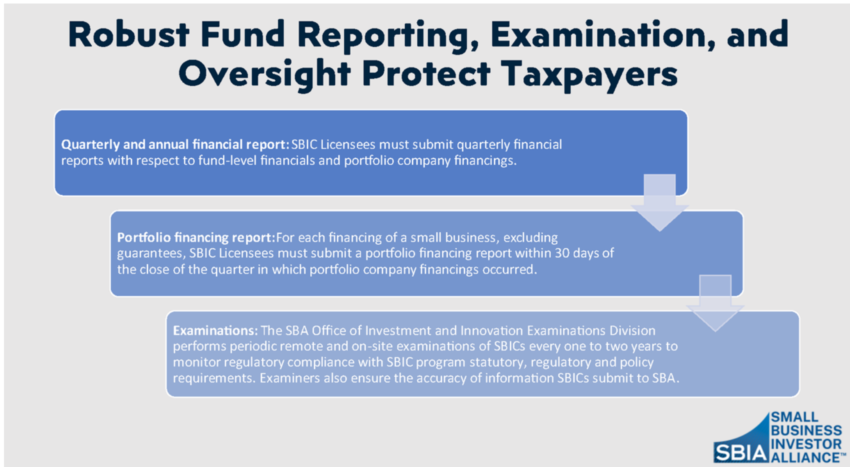
The SBIC program has experienced significant growth recently. As mentioned previously, today there are nearly 320 licensed funds with combined SBA commitments and private capital exceeding $46 billion. There has also been record-setting interest from prospective and returning licensees. As of mid-March, the Office of Investment and Innovation indicated it had over 118 licenses applications in their queue with more coming in every day. To put that in perspective, the Agency issued just 26 licenses in all of FY2023.

Ensuring the fee revenues collected from SBICs by the Office of Investment and Innovation are used to provide the personnel and resources to process and manage the influx of new and existing licensees is critical.

SBIA thanks the Committee for holding this important hearing and looks forward to working with Members on bipartisan legislation that will increase capital access for all of America's small businesses.

APPENDIX I




Robust Fund Reporting, Examination, and Oversight Protect Taxpayers
Quarterly and annual financial report: SBIC Licensees must submit quarterly financial reports with respect to fund-level financials and portfolio company financings.
Portfolio financing report: For each financing of a small business, excluding guarantees, SBIC Licensees must submit a portfolio financing report within 30 days of the close of the quarter in which portfolio company financings occurred.
Examinations: The SBA Office of Investment and Innovation Examinations Division performs periodic remote and on-site examinations of SBICs every one to two years to monitor regulatory compliance with SBIC program statutory, regulatory and policy requirements. Examiners also ensure the accuracy of information SBICs submit to SBA.
SBIA SMALL BUSINESS INVESTOR ALLIANCE™

Testimony of Bill Baumel, Managing Director, Ohio Innovation Fund

Before the U.S. House Committee on Small Business

Hearing on "Fueling America's Future: How Investment Empowers Small Business Growth"

April 2, 2025

Chairman Williams, Ranking Member Velazquez, and members of the U.S. House Committee on Small Business,

Thank you for the opportunity to speak with you all today, it is an honor to be here to discuss empowering American entrepreneurship.

To begin, I would like to underscore the importance of today's discussion. As an investor both on the coasts in Silicon Valley and Boston for fifteen years and in the Midwest for fifteen years, I have worked with upwards of a hundred entrepreneurs across our nation navigating the winding and onerous path of scaling a new business from an idea and passion in a founder's head and heart to a thriving enterprise with hundreds to thousands of employees and products made in America that transform our citizens life's for the better. I'm here today to share my experience helping entrepreneurs and leveraging private capital to truly scaling companies in remarkable ways.

<u>About Bill Baumel</u>

I am a graduate of The Ohio State University and the University of Michigan, so the Rose Bowl is an annual family event one way or the other. The initial startup company I worked with in the late 90's was founded in Bemidji, Minnesota - the first provider of telecommunications systems to enable fiber optic delivered bundled voice, video and data services to American's homes – starting in many underserved rural areas. From there I have continued to invest in and partner with founders in scaling game-changing, high impact technology and life sciences startups – from launching the first continuous glucose monitor device for diabetics to partnering with the National Institutes of Health, CARB-X , and the Cystic Fibrosis Foundation on therapeutics to help resolve significant respiratory issues with researchers from Nationwide Children's and Ohio State to providing Agentic AI-driven data privacy and security solutions to leading financial services, pharmaceutical, Fortune 500 and government agencies such as Citi, General Motors, the U.S. Air Force, and Roche. Many of these startups have gone public as well as been acquired by companies such as NVIDIA, SAP, Medtronic, Dell, Intuit, Oracle, Marvell, Stryker, Hitachi Data Systems, Motorola, Mimecast, BioLife Solutions, Calix and Skyworks, among others.

<u>About Ohio Innovation Fund</u>

Currently, I oversee all operations of The Ohio Innovation Fund, a venture capital firm founded in 2016 and based in Columbus, Ohio, and a startup in itself. The Midwest and Ohio are becoming a center for innovation with globally recognized leadership in cell and gene therapy, bio pharma, and MedTech, as well as a blossoming tech market in data science and cyber security, including Mimecast (with over forty thousand customers) creating their AI-hub in Columbus last year.

We believe that innovation at its core is creating a better future for all, and we invest in startups with transformative technology who do just that.

Our companies are globally competitive and impactful, making waves throughout their respective industries, achieving partnerships with powerhouses such as Sanofi, Roche/Genentech, Samsung, Snowflake and ServiceNow, among many others. Almost every major corporation in the United States is a partner or customer of our companies, and many of the leading academic medical and research institutions are customers and/or clinical trial site partners.

At Ohio Innovation Fund, we bring valuable market insights and expertise in business strategy, product, financing options, mergers and acquisitions, and management team building to Ohio companies with innovative technologies in high growth markets. The founders in Ohio and the Midwest are often first-time founders who need that level of deep partnership to help their startup realize its potential in transforming our world.

Building the Next Generation of Innovators

In addition, my firm interacts with hundreds of students each year from schools, including The Ohio State University, Northwestern University, University of Michigan, Carnegie Mellon University, Case Western Reserve, Indiana University, Duke University, Washington University in St. Louis, Miami of Ohio, University of Wisconsin and Kent State University. We have a student experience program that offers shadow days to first explore entrepreneurship, week-long boot camps to work in teams of four in analyzing a live startup investment opportunity, and our capstone summer internships. These students have gone onto successful positions with Welsh, Carson, Anderson & Stowe, Goldman Sachs, JP Morgan Anduril, Orlando Health, and well as Ohio Innovation Fund and its startups. In addition to building today's forward-thinking companies, we are passionate about propping up the next generation of thought leaders.

We also work within the universities at the classroom level. At Kent State University, we co-created the Idea Competition in 2018. In that initial year, we hoped that seven to ten students would participate to pitch their ideas. Instead, the interest blew past our expectations. Over seventy students signed up and many have now launched their ideas as startups in areas spanning software to fashion. Similarly, at Ohio State we teach real-world experiences about startups and venture capital and sponsor the Integrated Business and Engineering Programs' (approximately 60 students who travelled to Ohio State instead of ivy-league schools for this program) annual startup competition and mentor, with our startup founders, students and student-athletes at the Best of Student Startups Program (BOSS) - these students can advance their business plan where the winner receives $20,000 in funding from Ohio State to launch their venture.

All these students, our next generation of smart, creative, hardworking leaders are drawn to innovation and having an impact by creating high growth startups in these industries of the future – all right here in the Heartland. This is so different than when I started in venture capital and entrepreneurship where the only people interested in launching a startup were on the coasts.

<u>The Value of Venture Capital in the American Startup Ecosystem</u>

I have seen first-hand the value that venture capital can bring to startups. VC support of entrepreneurs extends beyond just capital – I have robust experience working firsthand with founders to set them up for success. Our founders run into real world problems, such as a Case Western MD/PhD who felt that clinical trials could be automated from a workflow and storage perspective, which would assure better compliance as well, to a founder who while at Nationwide Insurance wanted to provide the safety needed by corporations around collaboration tools such as Slack and Microsoft teams. These startups then provided solutions to customers such as Ascension Health, UCSF, Northwestern Medical Center, Emory Medical Center among others, and Starbucks, T-Mobile Astra Zeneca among others, respectively.

One example is Stirling Ultracold, who is headquartered and manufactures their ultra-low temperature freezers in Appalachian Ohio. These biorepositories store lab samples at –20 to –80 Celsius for many of the leading bio pharma companies on both coasts and internationally. We worked closely with the company to 1) develop with the founder a go forward product road map, 2) build out and enhance the management team, 3) enhance operations to provide storage of Covid vaccines in partnership with UPS in the US and Europe and then UNICEF for developing countries 4) helped to negotiate an acquisition that made approximately 40 of Stirling Ultracold's individual/family investors millionaires, many who have now become angel investors in that region – creating a positive cycle of startup, job, and wealth creation in Appalachian Ohio.

Another example is eFuse, founded by a college intern in our offices. We worked with the founder to build out the original team and launch eFuse as the software platform for hosting esports and gaming events, partnering with Epic Games and others. From there we have become the esports and gaming platform loved by content streamers and gamers alike, and have grown our business from $0 to $10's of millions in under five years, and attracted investment and partnership from esports and gaming influencers such as Travis Kelce, Tim Tebow's Waterstone Impact Fund, Denzel Ward, Odell Beckham Jr., and Mr. Beast.

To further illustrate our support, Matthew Benson, founder of eFuse, provided the following statement:

I'm proud to share how instrumental Bill Baumel has been in my entrepreneurial journey. I first connected with Bill as a college student when he took a chance on me as an intern. He then mentored me as an Entrepreneur in Residence, offering not only strategic guidance but also invaluable access to his network and expertise. When I launched eFuse, Bill became one of our earliest investors—his belief in our vision provided the confidence and capital we needed to get off the ground. More than just an investor, Bill has been a true champion of young founders in Ohio, and I'm living proof of the impact he makes by empowering the next generation of innovators.

Similarly, our work with Aware's founding team was all encompassing – from building out the executive team, go to market (GTM) strategy, marketing programs, strategic partnerships, and attracting $50+ million in additional investment from both coasts. Jeff Schumann, founder and CEO, now Head of AI Strategy at Aware's acquiror Mimecast states:

OIF provided us with unparalleled access to advisors and a deeply experienced partner team, crucial for our early success. Their world-renowned GTM expertise and hands-on, collaborative approach was like bringing a superhero onto our team, equipping us with unparalleled power and capability. I had complete confidence that any challenge we faced could be met with their expertise *or connections. This level of connection and experience is invaluable, something money can't buy any founder, and is crucial for the development of an early-stage startup navigating the highs and lows of its journey.*

Today, Mimecast's AI Hub in Columbus is up and running and expected to grow to over 200 people.

As we engage in conversation around capital solutions for American entrepreneurs, it is important to underscore the comprehensive value that venture capital brings to startups. Yes, we are the financiers of these startups, but we are also the mentors, consultants, cheerleaders, and so much more – we work in lockstep with our founders to achieve the common goal of success.

As we discuss avenues of providing capital for entrepreneurs, we celebrate successful federal programs and grant dollars – and work to amplify our common goal of scaling companies. Venture capital takes on the highest of risk when investing in early-stage entrepreneurs. Typically, banks will not lend to startups until they are profitable and/or have a strong and diversified customer base and then loan against receivables from these customers. It often takes multiple years for a startup to prove its success and reach those banking milestones, so without you and I, these startups will never get there.

Support Opportunities in Non-Traditional Tech Hubs

Although fundraising in non-prime ecosystems has more than doubled in the last decade, increasing from 5.9 billion in 2014 to 12.2 in 2024, entrepreneurs continue to struggle to access the capital needed to scale. While we celebrate all American innovation, it is important to uplift innovation taking place in non-traditional hubs, like Ohio, and identify capital access solutions to create sustainable opportunities for entrepreneurs throughout the United States.

That's why the various avenues of accessing capital we're discussing today are so important. They promise to help ensure that great ideas can lift up the next generation of thought leaders in *every* state – not just the traditional tech hubs.

<u>Value of Public/Private Partnerships</u>

As I have mentioned, bank funding is typically not available to many startups, they often require over $20 million in revenues and profitability. Thus, supplementing early-stage venture funding with public capital sources such as from the Small Business Administration and others is critical.

I mentioned Clarametyx earlier by reference to the biopharma provider spun out of Nationwide Children's and Ohio State. David Richards, CEO of Clarametyx summarizes below what government funding and venture capital investment working together has meant for them:

Clarametyx's groundbreaking technology simply could not have advanced into clinical studies without the foundational and strategic support of venture partners like Ohio Innovation Fund. Equipped with resources, expertise and risk tolerance, VC has fueled the progress of our truly novel innovation pipeline towards addressing some of the most prevalent and challenging chronic respiratory conditions with a new category of medicine for patients in need. This is the real impact of why venture matters to the future of human healthcare.

Venture funding is an essential driver of the healthcare ecosystem, taking forward innovation that originates with institutions and universities backed by NIH funding. In identifying and advancing the next generation of life-changing innovation, venture funding plays a critical role in financing the incubation and refinement of disruptive ideas, derisking them and building compelling value positions to attract larger scale pharma investment, partnership and advancement. Without the combination of grants, like we have received from CARB-X and NIH, and venture funding, many of the advances that have benefitted huge proportions of the US population would simply be lost.

To further evidence how this collaboration between the government and venture capital bears fruit - one of the NIH funded programs at Clarametyx is now being taken forward in partnership with an over $100 billion market capitalization biopharma company – without BOTH NIH and OIF funding and guidance, this would not happen.

Leveraging State Resources

In addition to leveraging federal grants, utilizing state resources has supported building company success. One of the companies I work with, Stirling Ultracold partnered with JobsOhio, a state-authorized non-profit with the goal of stimulating economic growth through new industries, to provide approximately $2 million in additional capital to help build manufacturing hiring and operations. In less than two years following this partnership, our production run rate increased from approximately $10 million to approaching $100 million in annual revenues. JobsOhio has provided valuable resources to ten of our Ohio-based startups over the past five years and serves as an amazing partner to OIF and its startups.

I support federal grant solutions that provide entrepreneurs with the greatest likelihood of success.

Thank you for the opportunity to testify, I welcome the opportunity to answer any questions and work with the Committee to identify forward-thinking solutions that will improve capital access.

Testimony before the U.S. House Committee on Small Business
"Fueling America's Future: How Investment Empowers Small Business Growth"

Anthony Cimino
Vice President & Head of Policy, Carta, Inc.

April 2, 2025

Chairman Williams, Ranking Member Velázquez, and members of the Committee, thank you for the opportunity to testify at today's hearing on the importance of investment in driving small business growth.

I am pleased to testify today as the Head of Public Policy at Carta—a privately held financial technology company that builds the infrastructure of the private market ecosystem.

Carta is an end-to-end platform connecting private capital—equity management and valuations for private companies and their employees; fund accounting and portfolio management for funds; and investor reporting and communications for limited partners. These tools bring transparency, accuracy, and timeliness to private markets. Today we support more than 50,000 private companies with 2.4 million stakeholders and $3 trillion in equity. We provide fund administration services for nearly 7,000 funds and fund vehicles, representing $150 billion in assets under administration. Our platform makes it easier for companies to launch and grow, employees to become owners and optimize the value of their equity, and investors to raise capital and deploy it into the innovation ecosystem.

Our aim is to bolster this ecosystem and—importantly—broaden its reach to more investors, more entrepreneurs, more employees, more companies, and more communities. To do that, we need to build the right infrastructure. Carta works to be a part of that infrastructure. But policy is the foundation of that infrastructure.

For today's hearing, I will focus my remarks on:

- The role of private investment and how it functions
- The importance of broadening the investor ecosystem
- The role of the Small Business Administration (SBA) and Small Business Investment Company (SBIC) program
- Policy recommendations to broaden and bolster the ecosystem:
    - Cement and build the SBA's SBIC program
    - Legislative efforts to broaden the SBIC program's impact
    - Policy to expand and optimize employee ownership

Private capital drives America's innovation engine

Startups, small businesses, and the investors that back them are this nation's economic and innovation engine. This ecosystem creates jobs, expands economic opportunity and growth, and drives innovation, all of which ensure America's competitive edge in the global economy.

The impact is clear:

- *Job creation*: Startups and small businesses create the bulk of net new jobs, accounting for approximately 55% of total job creation from 2013 to 2023.[1] And since 2019, startups and small businesses have created 70% of net new jobs.[2]

- *Economic value*: Small businesses make up 99% of U.S. firms,[3] employ nearly half the U.S. workforce, and contribute nearly half of U.S. economic activity.[4] Further, of all initial public offerings, approximately 50% were backed by private capital—venture capital or private equity—at some point in their economic journey.

- *Innovative edge:* America has driven every major technological innovation in the past 50 years and has started twice as many companies as the rest of the G7 countries combined. A critical factor—the venture capital model.[5]

Private capital model

This impact is fueled by private capital's model. Venture capital and private equity funds raise capital from limited partners to invest in startups and small businesses. These funds provide entrepreneurs patient, risk-forward funding to solve ambitious problems and build businesses. Without private capital, many ideas for companies would remain just that—ideas. That is because most startups are unable to access

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[1] Bureau of Labor Statistics, *The Economics Daily*, Small businesses contributed 55 percent of the total net job creation from 2013 to 2023, *available at* https://www.bls.gov/opub/ted/2024/small-businesses-contributed-55-percent-of-the-total-net-job-creation-from-2013-to-2023.htm

[2] U.S. Department of the Treasury, New U.S. Department of the Treasury Analysis Shows Growth of Small Business and Entrepreneurship During the Biden-Harris Administration, Sept. 3, 2024, *available at* https://home.treasury.gov/news/press-releases/jy2555.

[3] Bureau of Labor Statistics, *supra* note 1.

[4] Business News Daily, Why Small Businesses are Good for Local Economies, Oct. 23, 2023, *available at* https://www.businessnewsdaily.com/1298-small-business-good-for-economy.html.

[5] Will Gornall and Ilya Strebulaev, The Economic Impact of Venture Capital: Evidence from Public Companies (June 2021), *available at* https://ssrn.com/abstract=2681841.

bank loans or traditional financing they would need to start their businesses because they do not have a track record, revenue, or assets to pledge.

Instead, entrepreneurs often turn to friends and family, angel investors, or venture capital, which provide capital in exchange for equity ownership—and a piece of the uncapped potential. One no longer needs to be independently wealthy to finance their vision or bring their ideas into the large incumbent companies at which they work instead of starting their own company. Venture capital broadens opportunity by empowering more entrepreneurs to transform ideas into reality. This is only possible with long-term capital that comes with greater risk tolerance.

But that is merely the start. As the company grows, venture capital and private equity invest throughout a company's lifecycle, helping it raise funding to hire additional talent, develop products, and improve operations. The first check may enable that business to launch, but the additional capital will help that business hire, grow, and mature.

The private capital model democratizes ingenuity, unleashing startups and small businesses across this country.

Broadening Growth

Despite the growth and importance of private capital, it unfortunately remains too concentrated.

- *Regional disparity:* California startups claimed nearly 50% of venture capital deployed in 2024. New York accounted for 10%. And even within those states, the concentration is within specific communities, limiting access to capital for entrepreneurs and small businesses operating outside these hubs.[6]

- *Equitable access*: In 2023, Black founders received only 0.48% of venture capital investment, all-women founder teams received 2%, and Hispanic -founded companies received about 2%.[7]

- *Fewer investors*: The median number of limited partners investing in funds fell drastically between 2022 and 2024. For funds between $25M - $100M in

[6] Kevin Dowd, California rises, Florida falls, and other ways the map of VC funding shifted in 2024, Carta, Mar. 3, 2025, *available at* https://carta.com/data/VC-funding-geography-2024/.
[7] Nasdaq Entrepreneurial Center, Revitalizing Innovation: Models of Equitable Entrepreneurship across the United States, 2024, *available at* https://nasdaqcenter.org/wp-content/uploads/2024/12/Venture-Equity-Report-2024-Revitalizing-Innovation-Oct-7-24-compressed.pdf.

assets under management (AUM), the number of LPs fell by a third (to 37 LPs). For funds between $10M - $25M in AUM fell 20% (to 33 LPs).[8]

Again, our collective charge should not only be to bolster this ecosystem, but to broaden it.

Expanding economic opportunity and innovation

To broaden access to capital, we need to broaden the investor ecosystem. We do this by empowering strong regional and emerging managers with more capital that they can invest into startups and small businesses across the country, especially in overlooked and underserved communities. The SBA has worked effectively to establish public-private partnerships that do just that, in particular through its SBIC program.

Fund managers are not the end goal, but they invest in and drive the startup and small business ecosystem forward. Emerging and regional managers are more likely to invest early, invest locally, and invest in underserved communities. Investors start the regional flywheel. Fund managers identify and invest in entrepreneurs. These entrepreneurs start and build businesses, attracting talent and growing an employee network. These employees gain economic benefits and training, ultimately enriching the regional ecosystems. This creates a more sustainable base in which to invest, turning the economic and innovation flywheel to build regional ecosystems.

The SBA and the SBIC program

The SBA is dedicated to supporting small businesses across the country. Access to capital is the key driver for small business creation and growth. In addition to other programs, the SBA implements the SBIC program, a public-private partnership that taps the expertise of proven fund managers to invest long-term capital and support small businesses.

SBICs are privately owned and managed investment funds that are licensed and regulated by the SBA. To obtain an SBIC license, fund managers must have a track record, demonstrate investment skill and operational experience, and outline their strategy and objectives, as well as their economic model and governance. Once approved for a license, the SBIC must provide key reporting information on a quarterly and annual basis. And to the extent the SBIC falters or does not live up to its standard, the SBA may place it on notice.

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[8] Peter Walker, Michael Young, & Kevin Dowd, VC Fund Performance 2024, Carta, Mar. 24, 2025, *available at* https://carta.com/data/vc-fund-performance-q4-2024-full-report/.

Put simply, this program enables strong, effective investment managers to tap more capital to invest in startups and small businesses, all while being a strong steward of taxpayer resources for this zero-subsidy program. The results are clear: In FY 2024 alone, SBIC funded over 1,100 businesses, totalling $7.2 billion in capital across the country.[9] The profound part: although California companies may have taken 50% of venture funding last year, they received only 10% of funding from SBICs because it was deployed more broadly across the country.

SBICs are making a difference. They are driving capital to regions where it likely would not have been deployed. These funds help entrepreneurs and small businesses access capital. But importantly, these SBICs are often more than an investment. They are strategic and operational partners, helping these businesses capital and with their partnership.

SBIC expansion

As the market evolved, so has the SBIC offering. In 2023, the SBA enabled new approaches to better reflect how the private fund model operates and help drive more capital to more parts of the country.

- *Accrual debenture*: The first refinement was the introduction of the Accrual Debenture instrument, which shifts the debt service and interest repayment to the end of the debenture period rather than the normal SBIC structure that requires semi-annual debt service payments. This action helped expand the SBIC program on a practice basis to more venture firms with an operational model where the funds use their capital for equity investment that will appreciate and be realized after a sale at a later date. The SBA's risk management and financial security remains in place, and interest and annual charge payments must be made prior to distributions to limited partners. The timing of the debt services has just shifted to make it more aligned with the current investment model and, therefore, more enticing for more managers who are able to deploy more capital.

- *Reinvestor SBIC*: The second refinement is the Reinvestor SBIC, which enables SBICs to make fund-of-fund investments in other investment funds that have an underserved focus. Although seemingly small, this change will have a strong impact. In the near-term, this drives more capital into more places, especially to emerging managers that may not have had as much capital to invest in startups and small businesses. But over the medium- and

[9] Small Business Investment Company Program: Financing to Business by State, *available at* https://www.sba.gov/document/report-small-business-investment-company-sbic-program-financing-businesses-state.

> long-term, these first-time and emerging fund managers who receive Reinvestor SBIC investments will likely become more involved SBICs themselves, creating a longer-term user that continues to support and drive capital into the broader ecosystem.

While it is still early, the accrual and reinvestor programs appear to be off to a good start. Following the introduction of these new programs, in 2024 the number of applications (127) has surged past historical averages (35), and most were first-time applicants (84).[10]

Recounting the importance of the SBA's SBIC program and lauding its recent evolution to better reflect market dynamics may seem backward looking. But it is important to emphasize the good work that has and continues to be done by the SBA and the SBICs themselves.

Policy recommendations

Build on the SBIC program

As policymakers assess how resources are being spent, the SBIC program continues to advance our nation's mission of economic growth and innovation. The SBA's recent enhancements to SBIC program offerings to better reflect market practices and should be cemented and built upon. The increase in interest for the new accrual and reinvestor programs underscores the potential; the challenge will be ensuring the agency has the licensing capacity to meet the demand. The aim should be to drive more resources where they are working, including ensuring that the SBA's SBIC program has proper staffing, continues to refine the operational expertise and process, and continues to market and educate current and potential stakeholders—funds, investors, and companies — about the program and how to leverage it.

Investing in All of America Act

Bolstering this ecosystem is important. Broadening it is critical. Carta supports *H.R. 2066, the Investing in All of America Act*, introduced by Reps. Dan Meuser and Hillary Scholten. This bipartisan legislation incentivizes capital deployment to overlooked and underserved areas by removing investments in rural areas and national security sectors from the SBIC leverage cap. Driving investment into these segments is in the national interest, and doing so through professionally managed SBICs ensures it is done responsibly while protecting taxpayers. The legislation would also tether the leverage levels to reflect inflation. This is not only smart policy

[10] *Id.*

to create flexibility around macroeconomic conditions, but also ensures SBICs can keep pace as company funding levels rise and they themselves grow.

American ingenuity is not limited to certain areas and people. But unfortunately capital—and consequently to a certain extent opportunity—remains concentrated. Policy like the *Investing in All of America Act* would support SBICs in their work to drive capital to overlooked and underserved areas, while also pushing more investment in the critical technologies this nation needs.

Expand ownership and investment incentives

In addition to the great work of the SBA's public-private SBIC partnership, the policy framework can do more to unleash startups and small businesses. One area is broadening the ownership to more employees and making the ownership meaningful.

Broadening employee ownership coupled with a meaningful wage helps companies attract and retain top talent. It creates a more engaged and productive workforce aligned with the long-term vision of the company. In short, it helps companies excel. For the employees, ownership enables them to participate in the profits they help create and have a long-term appreciating asset that has an uncapped upside. And importantly for the community, employee ownership makes it more likely these small businesses will continue to operate and create economic growth even after entrepreneurs retire.

Policy to help broaden ownership is critical, and I commend Ranking Member Velázquez on her ongoing legislative work that would enable employee-owned businesses to have access to the SBA, and others on this Committee for their work to expand employee ownership. We must continue this work of creating an ownership economy.

Part of employee ownership is helping them maximize its value. The tax code is key. As Congress considers tax reform this year, Carta urges it to preserve and expand qualified small business stock (QSBS) treatment. QSBS drives capital and talent to startups and small businesses by enabling long-term shareholders in small businesses that hold those shares for five years to be exempt from capital gains. This helps early-stage companies that are higher risk attract investor capital and talent that could work elsewhere. It also enables employee owners to optimize the equity they received for the risk they took and the work they put in.

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Carta is proud to provide the infrastructure to support our innovators: the founders, investors, and employees who drive the innovation economy. Policy is part of that infrastructure—it affects nearly every aspect of the ecosystem and can drive innovation or bind its growth. It is critical we have the right framework and public-private efforts like the SBA's SBIC program to broaden economic opportunity and American innovation.

I appreciate all the work this Committee is doing on that front, and we look forward to supporting your leadership.

I look forward to your questions.

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119TH CONGRESS
1ST SESSION

H. R. 2066

To amend the Small Business Investment Act of 1958 to exclude from the limit on leverage certain amounts invested in smaller enterprises located in rural or low-income areas and small businesses in critical technology areas, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 11, 2025

Mr. MEUSER (for himself and Ms. SCHOLTEN) introduced the following bill; which was referred to the Committee on Small Business

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A BILL

To amend the Small Business Investment Act of 1958 to exclude from the limit on leverage certain amounts invested in smaller enterprises located in rural or low-income areas and small businesses in critical technology areas, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Investing in All of America Act of 2025".

SEC. 2. SMALL BUSINESS INVESTMENT COMPANY MAXIMUM LEVERAGE EXCLUSION.

(a) DEFINITIONS.—Section 103(9) of the Small Business Investment Act of 1958 (15 U.S.C. 662(9)) is amended—

(1) in subparagraph (A)(ii), by striking "and" at the end;

(2) in subparagraph (B)(iii)—

(A) in subclause (I), by striking "established prior to October 1, 1987";

(B) in subclause (II)—

(i) by striking "or" and inserting ","; and

(ii) by inserting ", or a foundation, endowment, or trust of a college or university" after "pension plan"; and

(C) in subclause (III), by striking the semicolon at the end and inserting "; and"; and

(3) by adding at the end the following new subparagraph:

"(C) does not include any funds obtained directly or indirectly from any Federal, State or local government or any government agency or instrumentality, except for funds described in subclauses (I) through (III) of subparagraph

(B)(iii), for the purpose of approval by the Administrator of any request for leverage.''.

(b) MAXIMUM LEVERAGE EXCLUSION.—Section 303(b)(2) of the Small Business Investment Act of 1958 (15 U.S.C. 683(b)(2)) is amended—

(1) in subparagraph (A)(i), by striking ''300'' and inserting ''200'';

(2) in subparagraph (C)—

(A) in the heading—

(i) by inserting ''OR RURAL'' after ''LOW-INCOME''; and

(ii) by inserting '', CRITICAL TECHNOLOGY AREAS, OR SMALL MANUFACTURERS'' after ''GEOGRAPHIC AREAS'';

(B) in clause (i)—

(i) by striking ''(i) In calculating'' and inserting the following:

''(i) IN GENERAL.—Except as provided in clause (iii), in calculating'';

(ii) by inserting ''or companies'' after ''of a company'';

(iii) by striking ''subparagraph (A)'' and inserting ''subparagraphs (A) and (B)'';

(iv) by striking ''equity''; and

(v) by striking "the company in a smaller enterprise" and all that follows and inserting the following: "the company or companies in—

"(I) a small business concern located in a low-income geographic area (as defined in section 351 of this title) or in a rural area (as defined in section 343(a)(13) of the Agricultural Act of 1961 (7 U.S.C. 1991(a)(13)));

"(II) a small business concern operating primarily in a covered technology category (as defined in section 149(e) of title 10, United States Code); or

"(III) a small manufacturer (as defined in section 501(e)(6) of this Act)."; and

(C) by amending clause (ii) to read as follows:

"(ii) LIMITATION.—While maintaining the limitation of subparagraph (A)(i) and consistent with a leverage determination ratio issued pursuant to section 301(c), the aggregate amount excluded for a company or companies under clause (i) from the calculation of the outstanding leverage such company or companies for the purposes of subparagraphs (A) and (B) may not exceed the lesser of 50 percent of the private capital of such company or companies or $125,000,000''; and

(D) by amending clause (iii) to read as follows:

"(iii) PROSPECTIVE APPLICABILITY.—An investment by a licensee is eligible for exclusion from the calculation of outstanding leverage under clause (i) only if such investment is made by such licensee after the date of enactment of this clause."; and

(3) by adding at the end the following new subparagraphs:

"(E) ANNUAL ADJUSTMENT.—Except as provided in subparagraph (F), the Administrator shall adjust the dollar amounts described in subparagraphs (A) and (B)—

"(i) on the date of the enactment of this subparagraph, by a percentage equal to the percentage (if any) by which the

Consumer Price Index (all items; United States city average), as published by the Bureau of Labor Statistics, increased during the period—

"(I) beginning on December 18, 2015, and ending on the date of the enactment of this subparagraph, with respect to a dollar amount under subparagraph (B); and

"(II) beginning on June 21, 2018, and ending on the date of the enactment of this subparagraph, with respect to a dollar amount under subparagraph (A); and

"(ii) on the date that is one year after the date of the enactment of this subparagraph, and annually thereafter, by a percentage equal to the percentage (if any) by which the Consumer Price Index (all items; United States city average), as published by the Bureau of Labor Statistics, increased during the one-year period preceding the date of the adjustment under this clause.

"(F) EXCLUSION.—Subparagraph (E) shall not apply with respect to a small business investment company authorized to issue accrual debentures (as defined in section 107.50 of title 13, Code of Federal Regulations).".