

**Congress of the United States**  
**U.S. House of Representatives**  
**Committee on Small Business**  
2361 Rayburn House Office Building  
Washington, DC 20515-6515

**MEMORANDUM**

**TO:** Members of the Committee on Small Business

**FROM:** Committee Majority Staff

**DATE:** January 12, 2024

**RE:** Full Committee Hearing Titled: “Unleashing Main Street’s Potential: Examining Avenues to Capital Access”

---

On **Thursday, January 18, 2024, at 10:00 AM ET**, the Committee on Small Business will hold a hearing titled “**Unleashing Main Street’s Potential: Examining Avenues to Capital Access.**” The meeting will convene in room 2360 of the Rayburn House Office Building. The purpose of this hearing is to explore the challenges that American small businesses are navigating to access adequate capital, and how trends in traditional funding are changing.

**I. Witnesses**

- **Mr. Kevin O’Leary**, Chairman, O’Leary Ventures
- **Ms. Jill Bommarito**, Founder and CEO, Ethel’s Baking Co.
- **Mr. Douglas Holtz-Eakin**, President, American Action Forum
- **Mr. Everett Sands**, Founder and CEO, Lendistry

**II. Background**

Access to capital is critical for small business owners to start, grow, and sustain their businesses. Unfortunately, small businesses are continuing to navigate unprecedented economic challenges that are making it difficult to succeed. Overwhelmingly, the credit crunch—the decline in bank lending due to tighter lending standards—is hindering the viability of the small business economy. Of existing small business owners, 85 percent say that if access to capital continues to tighten, it will negatively impact their growth.<sup>1</sup>

---

<sup>1</sup> *Small Businesses Continue to Face Capital Crunch*, GOLDMAN SACHS 10,000 SMALL BUS. VOICES SURVEY (Oct. 20, 2023).

American entrepreneurs are facing sky-high interest rates. Higher interest rates on small business loans and other consumer lending products have forced regional and community banks to tighten commercial lending standards across the board.<sup>2</sup> These are the same small banks that have played a key role in lending to small businesses. Small business owners rely on capital to operate or expand their businesses. Less access to more expensive credit will harm small business owners' bottom line or prevent these small businesses from staying open or expanding.

Concurrently, concerns about newly proposed banking regulations are dimming banks' appetites for lending. In July 2023, the federal banking agencies (the Fed, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC)), jointly issued a notice of proposed rulemaking that would replace U.S. banks' current capital framework with an international standard issued by the Basel Committee on Banking Supervision.<sup>3</sup> This proposed rule, known as Basel III, sets out international standards for banks' capital adequacy, stress testing, and market liquidity risk.

While Basel III's primary goal is to prevent additional financial crises, it would directly harm small businesses. Basel III works by requiring a material increase of capital requirements applicable to banking organizations with total assets of \$100 billion or more.<sup>4</sup> As a result, large banks and most regional banks will be required to increase the amount of capital they hold by an estimated 20 percent on average.<sup>5</sup>

When banks are forced to keep more money on the sidelines to fulfill their capital requirements, there is less money that can be loaned out to the communities they serve. Should the Basel III proposal be implemented, it would further prevent banks from making loans at a time when small businesses are struggling to access capital. As a result, more business owners have started to think twice about taking on new loans or drawing upon lines of credit to start their businesses.<sup>6</sup>

Traditional methods of capital access may not be the best funding option for some new companies, such as those looking to achieve rapid growth. These small businesses may instead pursue venture capital (VC) rather than taking out a bank loan. A company using VC funding can exchange equity in the company for money and a support system of experienced professionals while distributing risk among more parties. VC is a high-risk financing route that comes with the potential for high rewards. While 90 percent of startups fail, some of the most successful companies in the world have used venture capital to fund their initial growth.<sup>7</sup>

In 2021, U.S. venture capital investment topped \$329 billion for the first time, nearly doubling 2020's total of \$166.6 billion.<sup>8</sup> However, in late 2022, this market burst. Global economic

---

<sup>2</sup> Jim Dobbs, *Resilient small businesses bolster community banks' credit quality*, AM. BANKER (Nov. 12, 2023).

<sup>3</sup> *Federal Banking Agencies Issue Basel III Endgame Package of Reforms*, GIBSON DUNN (Aug 3, 2023).

<sup>4</sup> *Id.*

<sup>5</sup> *Stop The Squeeze On Small Businesses: Small Business Owners Continue To Face A Capital Crunch*, LIFE HEALTH (Oct. 27, 2023).

<sup>6</sup> Jim Dobbs, *Community banks warn about rates, economy and capital rules*, AM. BANKER (Oct. 10, 2023).

<sup>7</sup> Neil Patel, *90% Of Startups Fail: Here's What You Need To Know About The 10%*, FORBES (Jan. 16, 2015).

<sup>8</sup> Cameron Stanfill, et. al, *Venturing into new territory: A look at VC's record-breaking 2021*, PITCHBOOK (Feb 2., 2022).

changes and a volatile stock market resulted in a massive reset within the VC space.<sup>9</sup> VC funding nearly halved globally in the first six months of 2023, highlighting a lack of enthusiasm on the part of investors along with less demand amid sharply higher interest rates.<sup>10</sup>

### **III. Conclusion**

Access to capital is critical for small business owners to provide them with the resources necessary to compete, and ultimately, contribute to the overall success of the American economy. The Committee remains focused on understanding the current landscape and challenges business owners are facing as they look to expand their operations.

---

<sup>9</sup> Judah Taub, *How early-stage startups can adapt to the new VC landscape*, FAST CO. (May 25, 2022).

<sup>10</sup> Krystal Hu, *Venture capital funding plunges globally in first half despite AI frenzy*, REUTERS (Jul. 6, 2023).