

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

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

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

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

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

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

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

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

I would like to suggest some recommendations to the committee.

- 1) Create a payroll protection program to protect non interest paying payroll accounts in regional banks during the inevitable consolidation of over 4,000 regionals down to a market stable number. I first heard of this idea from Senator Hagarty and think it would be helpful.
- 2) Work with the numerous agencies that are implementing both the IRA and CHIPS acts to ensure small businesses receive the fair share of the programs. Form a bi-partisan counsel that advocates for small business in America that is always at the table when new policy is being considered. This would ensure that new government programs and laws are actually supporting small businesses and job creation in America.

Thank You

Kevin O'Leary

