



Subcommittee on Economic Growth, Tax, and Capital Access Hearing: “Enabling Success: Examining the Competitive Landscape for Small Businesses” - Engine’s Statement

September 19, 2023

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

Dear Chairman Landsman, Chairwoman Meuser, and members of the House Subcommittee on Economic Growth, Tax, and Capital Access of the House Committee on Small Business,

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

Access to capital is one of the most critical barriers startups face when launching. Most startups launch with a limited amount of funding, often scarcely put together from a mix of personal loans and family savings. The average seed stage startup only has roughly \$55,000 a month in resources, which, after payroll and expenses, leaves little room to cover extras.<sup>1</sup> Given these limited resources and time constraints, capital access issues can be a huge burden on startups. Improved and more equitable access to capital is crucial to create a brighter economic outlook for startups and promote further innovation.

Access to credit is one component of the capital landscape and is crucial for the growth of startup enterprises. Without access to credit, startups would encounter challenges in conducting basic operation activities, from accessing the essential resources required for inventory acquisition, to staff recruitment, to investment in marketing and advertising. Moreover, credit access can be the financial means to purchase technology and equipment, which in turn can enhance operational efficiency and productivity for the company.

The availability of credit empowers startups to secure loans from banks or alternative lenders, enabling the acquisition of materials or services that would otherwise be costly. This strategy

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<sup>1</sup> Engine, *Engine Releases Report On The State Of The Startup Ecosystem*,  
<https://www.engine.is/news/engine-releases-report-on-the-health-of-the-startup-ecosystem>

helps maintain lower overhead costs and supports the continuous growth of their enterprise.<sup>2</sup> Furthermore, credit access allows startups to establish a track record of financial responsibility. Many lenders consider a business credit score of 75 as “acceptable” making it harder for those with a lower score to receive a loan.<sup>3</sup> By demonstrating their ability to manage funds and repay debts, startups foster credibility with lenders. As a result, this streamlines their access to larger loan amounts in the future. Most importantly, credit access allows businesses to readily secure loans from financial institutions instead of waiting for customer payments, effectively averting potential cash flow challenges that could lead to severe financial turmoil.<sup>4</sup>

Policymakers must continue to improve the regulatory environment in which startups operate to raise capital.<sup>5</sup> Dramatically increased capital requirements for banks, especially smaller banks, for example, may create a more challenging environment for small banks to operate—and they are already on the decline.<sup>6</sup> It may make it difficult for startups to gain access to capital and also hinder smaller banks’ ability to extend loans. While larger banks impose stricter criteria when extending loans or lines of credit, smaller banks tend to cultivate more intimate connections with their customers, simplifying the process for startups to access essential banking services. Smaller banks may display greater willingness to engage clients who might appear too risky to larger institutions, and their quick decision-making often appeals to startups. Moreover, these smaller banks frequently have the flexibility to customize their offerings, such as offering specialized industry advice and assisting in building professional networks, to meet their clients’ specific needs.<sup>7</sup> According to the Independent Community Bankers of America, “In stark contrast to the nation’s largest banks, community banks operate under an entirely different business model—one that’s based locally and is relationship focused. As small businesses themselves, local community banks take pride in serving the unique needs of their customers and communities.”<sup>8</sup> Especially for rural businesses and startups, these increased capital requirements among smaller banks may make it even more difficult to raise capital for their business.

As was mentioned by members of this subcommittee, policymakers can take action, particularly in the tax space to support the startup ecosystem. For example, policymakers can address the current lending conditions by enabling interest payments to be tax-deductible for all

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<sup>2</sup> Intrepid Executive Group, *The Importance of Financing for Startups*,

<https://www.intrepidexecutivegroup.com/blog/the-importance-of-financing-for-startups/>

<sup>3</sup> U.S. Small Business Administration, *10 Stats That Explain Why Business Credit is Important for Small Business*,

<https://www.sba.gov/blog/10-stats-explain-why-business-credit-important-small-business>

<sup>4</sup> Faster Capital, *The Importance of Credit for Startups*,

<https://fastercapital.com/content/The-importance-of-credit-for-startups.html#:~:text=Access%20to%20credit%20is%20essential%20for%20startup%20companies%20because%20it,invest%20in%20marketing%20and%20advertising.>

<sup>5</sup> Engine, *Startup Policy Agenda 2023 - Capital Access*,

<https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/63dd2e301ff9d014aea0bee/1675439664886/Startup+Policy+Agenda+2023+Capital+Access.pdf>

<sup>6</sup> *Small U.S. Banks See Record Drop in Deposits after SVB Collapse* (Mar. 25, 2023),

<https://www.cnn.com/2023/03/25/business/small-us-bank-deposit-decline/index.html>.

<sup>7</sup> Engine, *SVB: What Happened, How the Fallout Impacts Startups, What Policymakers can do Next*,

<https://www.engine.is/news/category/what-policymakers-need-to-know-about-the-svb-collapse-and-startup-fallout>

<sup>8</sup> ICBA, *Silicon Valley Bank and the Nation’s Largest Banks Are Not Community Banks*,

<https://www.icba.org/newsroom/news-and-articles/2023/03/13/icba-silicon-valley-bank-and-the-nation-s-largest-bank-s-are-not-community-banks>

startups. And as Rep. Landsman suggested, Congress can look beyond direct business benefits to how we can better support workers and families, which will in turn help founders, would-be founders, and their employees. Passing a permanently expanded child tax credit is one option—which will reduce child poverty, enable working parents to remain in the workplace and work more hours, and would in particular, support women founders.<sup>9</sup> It is crucial for policymakers to take an all-of-the above approach to improve the capital landscape for startups while also easing other barriers to entrepreneurship.

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

Sincerely,

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<sup>9</sup> See letter from women founders and ecosystem leaders in support of an expanded child tax credit: <https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/65035de9a09d8f4381dc46e1/1694719465665/Final+-+Women+Founder+CTC+letter+%281%29.pdf>