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Subcommittee on Economic Growth, Tax, and Capital Access
"Investing in America: How Private Equity Empowers Main Street."

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“Investing in America: How Private Equity Empowers Main Street.”

Chairman Williams, Ranking Member Velazquez, and members of the Subcommittee on Economic Growth, Tax, and Capital Access, thank you for the opportunity to testify at today’s hearing on the importance of investment in driving small business growth, and on the necessity of entrepreneurship as a cornerstone of the United States of America's economic competitiveness.

I am pleased to testify today as the Founder and General Partner of Mendoza Ventures, a privately held Venture Capital firm investing into AI, cybersecurity, and dual-use companies; and as the Founder and Executive Director of Mendoza Impact. Our nonprofit arm, Mendoza Impact serves the mission of expanding opportunity for all Americans by empowering and funding the next-generation of founders, funders, fellows and small businesses to support their communities through strength and giving back.

My family has lived the American Dream, we are self made entrepreneurs who built a Venture Capital fund out of a technology exit, we live in the perspective we are all trying to promote: fiscal responsibility, innovative technology, and employing Americans to their best capacity. Since 2016, we have deployed over $30M into the American economy, sustaining 15 portfolio companies. We have generated more than 550 full time jobs, and $148M in revenue for our portfolio in 2024 alone, employed countless consultants, lawyers and specialists, and contributed essential technology to our nation’s tech stack, both for the government and the private sector. We have funded veterans, women and several minorities, in fact, our portfolio looks a lot like our great nation. We have co-invested with some of the largest financial institutions in the world, from day one we were determined to build an institutional-quality VC firm that supports founders, and that is what we have done. We have exited four companies, creating generational wealth for other American families through our company. We are philanthropists who have used these exits and the stability it generates to contribute to bipartisan committees, to fund arts organizations, to support educational nonprofits and to mentor the funds and founders following our lead.

This is the place where wealth is generated, access to the American Dream is through private equity, through the growth and sale of businesses, over 50% of millionaires attribute their wealth to the growth and sale of a family or privately held business.[1] It is proven that liquidity constraints can hinder access to entrepreneurship[2] and the associated wealth generation. We often say “you need a launchpad to send a rocket.” You cannot disassociate Main Street America’s stability from our nation’s entrepreneurial ecosystem, they are completely intertwined. Our building is a great example of this. The basement houses Newbury Street Dry Cleaners, a shoe store on the first floor, there is an incubator for hair salons on the second floor, so 5

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[1] Stanley, Thomas J., and William D. Danko. *The Millionaire Next Door: The Surprising Secrets of America's Wealthy*. Atlanta: Longstreet Press, 1996.
[2] Hurst, Erin and Annamaria Lusardi. “Liquidity Constraints, Household Wealth, and Entrepreneurship.” Journal of Political Economy 112, no. 2 (2004): 93–118. https://doi.org/10.1086/381478.

businesses all with 1-3 employees, we are on the third floor with our staff of five, and the fourth is a Private Equity fund investing in real estate.

Malcolm Gladwell spoke to this in his 2008 book *Outliers*: "It's not enough to ask what successful people are like. It is only by asking where they are from that we can unravel the logic behind who succeeds and who doesn't… Successful people don't do it alone. Where they come from matters. They're products of particular places and environments."[3]

The SBA is faced with the tricky task of solving for both launchpads and rockets in their work: to grow the entrepreneurs and make sure they are supported at the same time.

We sit in a unique place in the capital stack. We are funding scaling businesses, and we have a national impact, and yet we are still a small business ourselves. We do this work with a full time staff of three, and a fellows program we have run since 2018 that has a regular cadence of 2-4 talented MBAs from around the country in our office at a regular clip, and a network of dedicated venture partners who support the firm part-time from Dallas, San Francisco, and Miami.

Venture Capital, like all asset classes, thrives on diversification, a healthy ecosystem has a number of well funded players spread out across the nation. Traditionally, this capital has been concentrated in coastal cities, and now we are seeing trends towards a further concentration into a select few firms.

Firms like mine are becoming more rare. The threat to firms like us lie in the scale of capital that moves through the United States economy. Accomplishments always sound impressive when you list them like this, but hold our $100M target raise up against the larger VC Capital stack, where a16z (Andreeson Horowitz) closed $7.2 Billion in 2024 and just announced a $20 Billion megafund,[4] and you see that we are one of a decreasing number of small fish.

Small funds enable Main Street in a way the megafunds do not, larger funds cannot write smaller checks, they just have too much capital to deploy in a typical four or five year investment cycle. We need more small and emerging fund managers to deploy to the seed and early growth stages to sustain an innovation economy.

In an industry where the median fund size is $35.4 million[5], the introduction of these larger megafunds coupled with a slowing IPO market means less capital from LPs for smaller firms, and then less smaller firms, which we see since 2021 with a drop in the number of active venture capital firms in the U.S. by over 25%, from a peak of 8,315 to approximately 6,175

[3] Gladwell, Malcolm. *Outliers: The Story of Success*. New York: Little, Brown and Company, 2008.
[4] Sen, Arasu Kannagi. "Andreessen Horowitz Seeks to Raise $20 Billion Megafund amid Global Interest in US AI." *Reuters*, April 8, 2025. https://www.reuters.com/business/finance/andreessen-horowitz-seeks-raise-20-billion-megafund-amid-global-interest-us-ai-2025-04-08/.
[5] National Venture Capital Association. *NVCA Yearbook 2024*. Arlington, VA: National Venture Capital Association, 2024. http://nvca.org/nvca-yearbook/.

firms.[6] As someone in the industry, I would argue this is a conservative number. Many firms are still taking meetings with founders but not publicly saying they have deployed their funds. There are hordes of "zombie firms" waiting in the sidelines for capital to flow again so they can pick up their checkbooks and restart investing.

We have met with two fund of funds this week who have openly stated they are taking meetings with 100-150 VC firms this year to maybe invest in one. This is capital warming the bench.

The combination of a frozen IPO market (years of reduced median offering sizes, increased numbers of "broken IPOs closing below initial sale price, and a reduced offering size)[7] means that traditional venture investors have had less capital to invest back into the ecosystem coming back through that exit path, couple that with the introduction of megafunds, and you have the capital constricted market we face for startups today.

In any financial ecosystem this brings two problems simultaneously: the availability of capital, and the quality of capital you are able to access. Bob Hope said "A bank is a place that will lend you money if you can prove you don't need it," fund investors in the U.S. are starting to adopt a similar approach. In this capital constricted environment you see endowments, foundations, and financial institutions recommitting to the same managers with funds over $250M.

As the VCs are facing this problem, startups are seeing the same effect, the wealth gap trends facing the American population are also facing our capital stack, Venture Capital is increasingly becoming the "haves" and "have nots".[8] Q1 saw the largest amount of capital deployed in a quarter in years, into a smaller concentration of companies, so money did move, but it moved to fewer startups.

In Q1 of 2025, $91 Billion of capital was raised in the U.S., with 71% of that capital going into AI and Machine Learning startups. $40 Billion of that went into OpenAI alone, with the runner up Anthropic taking another $4.5 Billion.[9] This is following Q4 of 2024 where Open AI raised 7.10% of all venture funding deployed.[10] The number of average deals declined by 25%, while deployed capital rose almost 20%, showing this concentration.

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[6] Williams, Martin Arnold and Bryce. "Private Credit Fundraising Surges to Record $16bn in First Quarter." *Financial Times*, April 7, 2025. https://www.ft.com/content/7a787423-9466-4e55-8c0e-8811cfe44dd3.
[7] Ernst & Young. "IPO Market Trends." *EY*, April 2025. https://www.ey.com/en_us/insights/ipo/ipo-market-trends.
[8] McLoughlin, Paul. "Venture Capital Is Increasingly Becoming an Industry of Haves and Have-Nots." *Private Equity News*, April 17, 2024. https://www.penews.com/articles/venture-capital-is-increasingly-becoming-an-industry-of-haves-and-have-nots-c4840a02.
[9] PitchBook and National Venture Capital Association. *Q1 2025 PitchBook-NVCA Venture Monitor*. April 15, 2025. https://nvca.org/document/q1-2025-pitchbook-nvca-venture-monitor/.PitchBook+6NVCA+6NVCA+6
[10] Metinko, Chris. "Eye On AI: Massive OpenAI Deal Masks AI's Slow Quarter." *Crunchbase News*, April 3, 2025. https://news.crunchbase.com/venture/ai-venture-funding-q1-2025-openai-anthropic/.Crunchbase News

If you follow this concentration back up the capital stack, a16z and Sequoia, both major investors in OpenAI and Anthropic[11] which took the bulk of this funding, share many endowments, foundations and asset managers as LPs. We have a growing area of concentration, and an exposure risk, by having a limited venture ecosystem. Both were also investors in WeWork and Theranos.

Private credit is growing because it solves some systemic issues of VC (return of capital, 10 year lockup), the businesses are not always ready for credit if they are comparing it as an option against VC. Private credit was designed for companies in the lower to middle market, with $5-10M in EBITDA, anyone coming in beneath that is looking at a more predatory term sheet. We have more private credit for cash flow businesses than we need, and firms are raising quickly on the model and struggling for deal flow.

Especially for growing startups it sends a very different signal to market if you take on debt over equity at a priced round. Credit goes to the top of the debt stack above investors, so if you're investing in a company and demanding that immediate return, you need to have the revenue to do it, and if your Venture Capitalist did not support the next round of funding it raises diligence questions.

The same quality of capital issues we see in venture are also true of private credit, if you need to finance an invoice or warehouse supply, you can end up paying the same rates as a credit card depending on your network.

A startup trying to raise today is facing fewer firms, a higher concentration of capital from larger firms, who are doubling down on internal deals more frequently. You can't launch a rocket without a launchpad, we need more launchpads in more areas of the country to launch companies.

In finance, when we have a problem, we call it an "opportunity". Our problem is a growing market has taken an extractive approach to startups and entrepreneurship. Any agricultural expert can tell you that is the fastest way to kill an ecosystem. The SBA has an opportunity here to change the conversation and make how we support entrepreneurship contributive. We do not depend on business alone to support our schools or our infrastructure, we are learning we cannot do the same with innovation if we want to protect it.

"Success is stumbling from failure to failure with no loss of enthusiasm."

- attributed to Winston Churchill[12]

"If you're not failing, you're not journeying into new territory."

- Amy Edmonson[13]

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[11] Linqto. "Anthropic Unicorn News: VC Firms Invest in Competing AI Startups." *Linqto*, April 8, 2025. https://www.linqto.com/unicorn-news/anthropic-unicorn-news-vc-firms-invest-in-competing-ai-startups/.

[12] Attributed to Winston Churchill though not found directly in his archive.

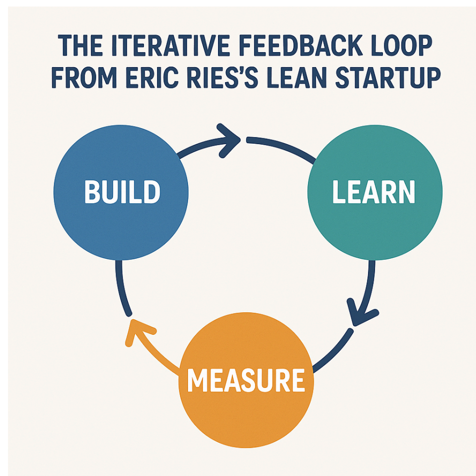
[13] Amy C. Edmondson, *Right Kind of Wrong: The Science of Failing Well* (New York: Atria Books, 2023)

The good news is, we are already failing, the data is clear. Our capital stack has blatant gaps and areas where the on-ramps and off-ramps are not connecting, there is increased concentration into the private markets, into venture, into megafunds, and consequently fewer companies, all of which are disproportionately managed by a solitary demographic.

In startups, this is a good thing. Failure is learning, and if you can fail fast, learn, and implement fast, you can succeed against the odds. It is okay that we are failing, we have learned, we need to implement much faster. Our institutions are rich in data, no one questions the SBA's connectivity to Main Street, but the feedback is clear: we need capital we can access, we just need a chance to prove that we are a reliable investment. The banks are not filling this gap, venture is a fit for rockets, but not launchpads, we need clear and consistent support from the government to fill this need.

A small business owner recently told me "Workforce development is the government's version of "Let them eat cake". Companies are hungry for capital.

There is an often referenced book among founders called *The Lean Startup* that offers a roadmap to building an organization in a lean and effective manner, so you can scale what works faster and not get mired in iterations that do not add value to your customers or the business. One of the things Lean Startup teaches is quick product development cycles in reaction to customer feedback. If you create an organization where you fail quickly, iterate fast, and react to what your market is telling you, you fail faster than the competition and succeed faster. It gives you a competitive edge when your competition may have more funding or a larger team.



In this book Eric Ries says "Success is not delivering a feature; success is learning how to solve the customer's problem."

The product of government is policy, law, and infrastructure, and the feedback has been clear, all stages of business need fair and consistent capital access, we need to iterate quickly.

Some of the proposed cuts to instrumental funding, like CDFIs, show that we are not iterating on the feedback business owners are screaming: we need consistent capital sources with a lower barrier to entry. Establishing a CDFI is not an easy or light process, ripping a layer out of the capital stack, that is returning capital, sends a clear message to small business owners that they are on their own. We know what the effect will be on Main Street, "For lease" signs in once full windows, and we will loose the foundational stability entrepreneurship needs. If anything, the

SBA has not pushed out enough to CDFIs, there are too many barriers to entry. Do you know a single small business owner who can name their local CDFI from memory?

SBIC faced similar challenges, we were a great example. SBA / SBIC Dollars are hard for smaller funds, we went through the SBIC license process, we never completed it because the cost was too high ($100-150,000 in legal), and when you are raising and deploying simultaneously, that may be your entire legal budget for two years or more. For a seed stage fund, that is an entire investment.

The SBA revised this into the Accrual SNBICs thanks to the insight of Bailey Devries, who was the Director overseeing venture at Greenspring, so that the interest would be paid with distributions on the sale of an asset, which made it much more doable when you are in that J-curve of financing, but did nothing to ease the upfront legal burden.

The application process was actually more arduous than going through diligence with a bank.

The program is clearly beneficial at it's core, the onboarding and legal was harder than recruiting LPs, so there is an opportunity for innovation to standardize documents and publish them.

Coastal Bank and Carta offer a case study in partnership to provide a Capital call line of credit for their customers (a standard VC tool where once you have invoiced investors, your bank provides a float so you can make the investment while money comes in). Coastal is a community bank offering 90-120 day term loans, and the product was so successful they stopped advertising it. In comparison to the competition, as self made entrepreneurs, we were asked by banks to offer our home as collateral, or told on our second fund "If you were Bain I could do this for you," for a standard VC product. Coastal offers standardized docs, and met emerging fund managers through a partnership with Carta, which gave them better diligence insight into what would be considered high risk from a traditional bank. They met the market quickly with a right-fit product, there is no reason SBA can't do the same.

After going through more than 30 hours of prep to be semi-approved for a 100-150k legal bill, the non-leveraged SBIC license honestly got tabled by our team to look at after we close this fund. Smaller funds have small teams and need to manage time efficiently, the potential future reward for keeping everyone informed was not tangible enough for us to commit more time to it. Part of our feedback was that at our fund 3, we still felt "early" for the team. On Fund 4 or 5 we will no longer need to take on the administrative, debt, or legal burden to access the program.

If the program stays as it is today, you will see a compounding over time, where the larger firms, or the direct spin offs of larger firms will be able to take this on, but smaller firms and newer firms will continue to miss the opportunity. The program does not have to be cut, it is meeting a need, it just needs a tweak to be able to meet the market where it is. If the SBA could standardize legal docs and streamline diligence, you could have a product this year supporting the ecosystem and returning capital for this and other programs. We don't need to cut everything that needs another iteration to thrive, and to help our nation thrive.

Cuts are needed, we all can agree some efficiency could be found in government as a whole, but if we do not listen to the business owners we serve, we are damaging our own cause.

We have to maintain a broad spectrum of capital options to meet entrepreneurs where they are at each stage of the capital stack, and that assortment will ensure quality of capital at each stage. The feedback loop of the capital flow is showing us in the deployment statistics of the past few years that LPs need reliable return of capital to continue additive investment into innovation that takes time, the funds need consistent and reliable quality LP capital, and the startups need the same coupled with expertise to scale. All of this is fueled by regulatory clarity and consistent capital coupled with workforce development.

Main Street is our feedback loop, and we have to listen to it to be able to implement policy for the benefit of all Americans.

Systems set up without taking some degree of failure into consideration are set up to fail.

Last year, we published our National Entrepreneurship Strategy[14], which came out of a bipartisan committee, and the recommendations for TechHUBs and deploying capital into non-coastal regions are being carried forward by this administration. There is bipartisan agreement that entrepreneurship is core to our society, it needs the same level of support as our other core beliefs, not less. Entrepreneurs are not asking for discretionary grants, they are asking for basic capital access provided with a modicum of reliability and consistency.

We are stuck in a cycle of trying to legislate a silver bullet solution, and supporting innovation takes a broader approach. I can tell you for a fact, it is too hard to build. The sacrifices we have made to build a business is why you see less firms being started today. I graduated undergraduate in 2004, and grad school in 2010, my entire adult career has been built in economic headwinds. For anyone my age or younger, the garage that they would start a business in is now an AirBnB to make ends meet. Moving to a more affordable region means less capital is available for your business.

As a nation over the past few years, we have decided that innovation is a core part of our competitiveness, this leaves the SBA with the difficult task of supporting Main Street, and launching rockets at the same time. But, good news, we can do that. It just takes a unified vision, a long term bipartisan commitment, and consistency, all things the SBA is known for historically delivered on.

[14] National Advisory Council on Innovation and Entrepreneurship (NACIE). *America's Entrepreneurial Engine: Competitiveness Through Entrepreneurship*. U.S. Economic Development Administration, February 2024.
https://www.eda.gov/sites/default/files/2024-02/NACIE_Competitiveness_Through_Entrepreneurship.pdf.

Venture Capital was designed as a playground for the wealthy to make more money. The families, endowments, foundations, and institutions that invest in venture have wealth, this is the riskiest sleeve of the risk bucket of private equity. We, as a nation, have decided it is part of the bedrock of competitiveness and innovation. We have to reconcile these two things and provide access to be successful in this assumption.

1.7% of VC dollars at all go to overlooked founders, and that number includes all of the women, people of color, veterans and minorities that went to Stanford, Harvard, and MIT, so essentially, if you are starting a business off the coasts and didn't go to an ivy league, that money is not there for you. Where we define a systemic issue at Mendoza Impact, is if you can be the absolute best at something and it is still not good enough, that's when the system is visibly working against the individual.

If you look at the fact that VC, a subset of PE, has now surpassed PE in amount of capital managed (PE had $.75 trillion and VC had 1.3 trillion in 2024[15]) , this is becoming, in real time, an entrenched systemic issue affecting all Americans. Again, the capital is there, we have enough capital, we just need to move it.

I do not think the answer is blatant deregulation, we have tried that, and historically it did not serve the entire nation. We require a combination of deciding at which point we necessitate reporting for accountability, and incentivizing the larger LPs to get the enormous amount of capital sitting on the sidelines moving with iterative products we can perfect across administrations.

It would be impossible to minimize the effect of a regulatory shift every four years on a small business. The lack of clear and consistent policy is damaging us, we went through diligence with programs that have been defunded, we have forged international relationships that have been put on hold, we have a startup still waiting for a Employee Retention Credit Refund, one that managed not to lay off a single employee during COVID, and now that may be cut as well after years of waiting. No matter what policy our government decides, business will find a way, but we do need to have a clear policy so our businesses can get through the week or the year, with staff, and execute on a plan beyond a couple of months.

The House has successfully legislated in this space before, the QSBS Tax credit, originally enacted in 1993, helped shore up the seed stage of VC, and with feedback from investors over years and cross administrations added protections for investing in the early stages.

The SBA is the great connector in our entrepreneurial landscape, it's why Growth, Tax and Capital Access are the same committee. We, the people, need you to build like it.

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[15] Slotsky, Caryn, Drew Carneal, and Wyatt Yasinski. "US PE/VC Benchmark Commentary: First Half 2024." *Cambridge Associates*, March 2025. https://www.cambridgeassociates.com/insight/us-pe-vc-benchmark-commentary-first-half-2024/.Cambridge Associates

Each administration tries to legislate the silver bullet solution for the quick win, and capital access is not a silver bullet problem, it takes all of the things. But we do have solutions. A unified effort from government, universities, foundations, business, and private citizens can create entrepreneurship everywhere for everyone.

We need to support both capital and workforce development, consistently, at every stage of the capital stack, throughout the country.

That is the American Dream.