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TD Bank, N.A.
2005 Market Street, 2nd Floor
Philadelphia, PA 19103

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Chair Davids (D-KS) Ranking Member Meuser (R-PA) Members of Committee – my name is Carl Kopfinger. I am a Senior Vice President with TD Bank, and I am based in Philadelphia, Pa. TD Bank, America's Most Convenient Bank, is one of the 10 largest banks in the U.S., providing more than 9.6 million customers with a full range of retail, small business and commercial banking products and services at more than 1,100 convenient locations throughout the Northeast, Mid-Atlantic, Metro D.C., the Carolinas and Florida. In addition, TD Bank and its subsidiaries offer customized private banking and wealth management services through TD Wealth®, and vehicle financing and dealer commercial services through TD Auto Finance. TD Bank is headquartered in Cherry Hill, N.J.

I am responsible for the Bank's investments in Small Business Investment Companies (SBICs) within our regional footprint. We are currently managing more than 75 SBIC investments, including both levered and unlevered venture capital, senior credit, mezzanine, and lower middle market buyout funds. The Small Business Administration's (SBA) SBIC program is an important component of TD's efforts to support small businesses and job creation.

Our role in the small business investment ecosystem system is to serve as a Limited Partner (LP) in SBIC funds, meaning that we invest the bank's capital into SBIC funds, which, in turn, benefit small businesses in the United States that are in need of long-term capital. LPs are the backbone of the SBIC program, which is a market-driven collaboration of public and private funding. The SBIC program works as an amplifier of private investments into small businesses. If LPs do not invest their private capital into SBIC funds, then U.S. small businesses would not receive needed growth capital through the SBIC program. The key to the success of the SBIC program is that an SBIC fund manager must first raise private LP capital commitments, followed by submitting a material assessment questionnaire (MAQ application) to the SBA. If approved, the fund manager is licensed to operate as an SBIC. The MAQ application also provides for the SBIC fund to apply for leverage from the SBA in the form of SBA debentures, which is a low-cost method to increase the size of the SBIC fund and magnify the capital impact for U.S. small businesses. The rationale behind the SBIC program is a linking of the need from U.S. small businesses for growth capital and a real investment opportunity for the private LPs. The SBA's leverage magnifies the capital impact. As a result, more capital is being provided for expansion of U.S. small businesses, creating more jobs and economic expansion – a real win-win situation. At TD, we are proud of the role we play in this successful program.

Emerging from the massive economic disruptions caused by the global Coronavirus pandemic, U.S. small businesses continue to need capital to recover and grow. As tasked by Congress, the SBIC Program is delivering capital to small business. At the end of FY 2021 there were over $34 billion in assets in the program – all of which capitalized American small businesses. The amount of private capital from LPs, like TD Bank, hit an all-time record, validating the private market's support for small businesses and the SBIC program. The SBA licensed 32 funds in 2021, 12 of which were first-time funds. And the SBA reached the $4 billion annual leverage cap for the first time ever, representing a 90% increase year-over-year. Furthermore, SBIC funds financed more than $7 billion in investments into U.S. small businesses– another record. Despite being an extraordinarily challenging year, zero SBIC Debenture funds and Non-Leveraged SBIC funds entered the “office of liquidations”, the equivalent of a bank’s “workout” group. The program is working.

TD is particularly proud of the impact of our SBIC fund investments. Over 99% of the small businesses in our SBIC portfolio, financed by our SBIC fund clients, survived the global pandemic despite it being a brutal year for small businesses. Our SBIC fund clients invested capital into 110 low- and moderate-income areas (LMI), including 27 new LMI investments since the beginning of the pandemic. Additionally, 30 of our LMI investments are in below poverty LMI census tracts. Therefore, access to patient capital and supportive SBIC fund managers was a powerful lifeline for the recovery of these U.S. small businesses while saving many communities from further economic damage.

The existing SBIC program, for both Debenture funds and Non-Levered funds, is an important positive economic tool. But even good programs can be improved.

TD's investment allocation to all SBICs continues to be dependent upon current market and regulatory conditions. I don’t see TD's allocation changing in the near term so long as SBIC funds remain a permissible investment under banking laws and regulations.

Venture and SBICs

For more than two decades, including through economic downturns, TD Bank remains committed to the SBIC program and continues to actively invest. Presently, 19 of the 75 active SBIC funds in our current investment portfolio are venture capital SBIC funds. At our peak, we managed approximately 40 SBIC venture funds, which are the foundation of small business formation and job creation in the United States. The venture funds we have supported and continue to support are generally less than $125 million in fund size. These fund managers invest patient equity capital in both technology-enabled businesses and life science companies nationally. The investments span seed/early stage through growth equity/later stage business concerns. Most SBIC funds are not venture funds but rather are lower middle market mezzanine funds because the leverage provided by the SBA is limited to small businesses that are already cash flow positive and generally later stage. Most SBICs that are venture-oriented are “non-levered” which makes early investing a challenge.

The following theme presents an opportunity for the SBA to improve its licensing and back-office processes to attract venture funds to the SBIC program.

One of our early-stage venture funds, based in NYC, has invested in four infrastructure companies addressing current needs as well as three niche healthcare companies addressing the needs of an aging population. Additionally, their fintech investments have focused on the needs of Americans who have less than $1,000 in their bank accounts or have amassed too much household debt. This is the type of venture fund that should be retained in the SBIC program.

This NYC-based fund manager experienced interruptions in the SBIC licensing process due to delays by the SBA's field audit operation department, which could not schedule the SBA's routine annual exam for 4-6 months. In fact, despite taking no SBA leverage, this applicant could not advance in the licensing process until the audit was scheduled, completed, and a no findings letter issued. The fund had reached the end of its investment period in the prior fund and thus was not able to make any additional capital investments in small businesses in NY state until the new fund was licensed by the SBA. The most expedient solution for the fund manager was to leave the SBIC program, operate as a non-SBIC fund and close on the private LP capital raised from their investor base.

Unfortunately, the Volcker Rule prohibits TD Bank from investing in all non-SBIC funds. Another one of our SBIC fund clients, an early-stage healthcare venture fund in Boston had a similar experience and also decided to leave the SBIC program after previously managing three unlevered SBIC funds.

In hindsight, it is likely that neither the NYC or Boston based venture funds would have left the SBIC program if the SBA was able to arrange for a speedy field audit and expedite the subsequent licensing process. The corollary is that unpredictable regulatory delays, high compliance costs and program fees are impactful for funds participating in the SBIC program, especially small unlevered venture funds. The country would benefit from having more small venture funds in all regions of the country.

Over the last decade or more, TD Bank has seen an increase in awareness, interest and investment consideration by banks, university endowments, charitable foundations, and SBIC fund-of-funds investors attracted to the strength of SBIC program and the fund managers participants. While the two fund managers I previously discussed were unlevered venture funds, existing SBIC program investors understand the power of SBA leverage with mezzanine funds because of the benefit of low-cost SBA leverage on investment returns. Similarly, I believe the SBIC program would benefit from a venture-specific equity program and produce a substantial economic impact if the venture equity program is properly aligned with private LP investor equity, like a TD Bank. Said differently, it is my hope and expectation if the venture equity SBIC program (VSBIC) is implemented that the SBA's capital will be pari passu with the private Limited Partner's capital and not senior to the equity of the private LPs in the capital stack. If the SBA VSBIC terms are appropriately structured, I believe the current base of private investors in SBIC funds would support the VSBIC program, specifically the formation of smaller venture funds across the country. Similarly, the VSBIC program should flourish if the money is deployed by responsible venture fund managers whose investment focus is directed towards disadvantaged individuals and companies in underserved markets, veterans, small manufacturers, and critical infrastructure businesses.

In conclusion, TD Bank makes SBIC investments for both Community Reinvestment Act credits as well as for the economic returns. We focus on strong investment managers who have a dependable track record of delivering solid performance results, returning capital to its Limited Partners, treating entrepreneurs with respect, and growing U.S. small businesses that we can all be proud of. We have seen firsthand the job creation, job retention, and revenue growth that our fund partners have achieved with their portfolio companies. This revenue growth has a rippling effect on tax revenues generated in the states and local communities in which these companies operate.

Thank you again for your time and allowing me to present an LP's perspective on the important role the SBIC program plays and the VSBIC program could play in funding small businesses and generating jobs, tax revenue, and investment returns.

Respectfully submitted,

Carl Kopfinger
Senior Vice President
TD Bank, N.A.