

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

August 23, 2018

The Honorable Sonny Perdue
Secretary
United States Department of Agriculture
1400 Independence Ave, SW
Washington, DC 20250

Dear Secretary Perdue:

Ensuring the prosperity of rural America is vital to our nation's long term economic vitality. Rural America accounts for 95 percent of the total land area in the United States and is home to 20 percent of the American population. Although many of our nation's largest cities are creating new businesses at an impressive rate, and economic growth is strong nationally, startup rates, capital access, and economic vitality lag in rural America. The House Small Business Committee is actively examining the challenges facing rural small business owners, especially as they pertain to access to capital.

Over the past few months, the Committee has held several hearings on issues affecting rural small business owners. Hearing topics included issues such as rural broadband deployment, telehealth, and regulatory challenges facing rural small businesses. In a follow up to these hearings, Chairman Dave Brat of the Subcommittee on Economic Growth, Tax, Capital Access, and Chairman Rod Blum of the Subcommittee on Agriculture, Energy, and Trade, held a joint hearing titled, "Investing in Rural America." The hearing highlighted success stories of organizations that promote capital access for small businesses in rural America.

Mr. Matthew McKenna, an Executive-in-Residence at the Global Social Enterprise Initiative of the McDonough School of Business at Georgetown University, outlined how the Rural Opportunity Initiative he oversees at Georgetown helps match rural businesses with growth potential to investors. The initiative has held events at Iowa State University, Mississippi State University, and others where new businesses in the region pitch their ideas to potential investors. Mr. McKenna also discussed the mismatch of the scale of financing between lenders and rural businesses. According to his testimony, rural entrepreneurs typically seek between \$500,000 and \$2 million in financing, but few organized sources exist for that level of funding.

Ms. Falon Donohue, CEO of VentureOhio in Columbus, Ohio, discussed how to increase capital access to states like Ohio, and recommended policy changes to increase venture capital to small businesses. For example, she recommended that the Volcker rule in the Dodd-Frank Act

be reassessed to have a more narrow definition to allow banks to participate in venture capital financing. While changes like modifying the Volcker Rule would benefit small businesses in rural areas, Ms. Donohue also discussed the recent growth of research and development in the Midwest. For example, venture capital investment in the state of Ohio has increased 46 percent since 2014. However, Ohio still receives less than one percent of all venture capital funding.

Ms. Amy Gales, Executive Vice President of the Regional Agribusiness Banking Group at CoBank in Greenwood Village, Colorado, testified about the multitude of financial products and initiatives CoBank offers to serve small businesses in rural America. CoBank's services include flexible loan products for cooperative farms, rural equity investments, and supporting youth farmers and entrepreneurs. Ms. Gales said that in addition to filling credit gaps for rural cooperatives and small businesses, CoBank has increased efforts to provide technical assistance for rural small businesses in the early development stage.

Mr. Ross Baird, President of Village Capital in Washington, DC, discussed how his company addresses financing small business market gaps. He noted that there is a credit gap for small businesses that are too risky for a loan and too "normal" for venture capital investment. He discussed how his company, Village Capital, is working toward providing financing for small businesses in this predicament through financial products like a dividend-based model. This model finances a business by collecting investor capital, and the business repays the loan by paying a certain percent of a company's revenue until the loan is paid.

As the Department of Agriculture continues its work on the Agriculture and Rural Prosperity Task Force, the Committee urges you to use the findings from these hearings to help address this issue. Improving access to capital in rural America would help to achieve several of the goals of the taskforce, such as quality of life improvement, rural workforce development, and technological innovation. Please use the Small Business Committee as a resource as you continue to work on this issue. This Committee has worked to ensure obstacles are removed so rural small businesses can start and grow, and we hope to work together to ensure rural America's economic vitality for decades to come.

Sincerely,



Rep. Steve Chabot
Chairman



Rep. Rod Blum
Chairman, Subcommittee on Agriculture,
Energy, and Trade



Rep. Dave Brat
Chairman, Subcommittee on Economic
Growth, Tax, and Capital Access