COMBATTING TECH BRO CULTURE: UNDERSTANDING OBSTACLES TO INVESTMENTS IN DIVERSE-OWNED FINTECHS

VIRTUAL HEARING

BEFORE THE

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COMBATTING TECH BRO CULTURE: UNDERSTANDING OBSTACLES TO INVESTMENTS IN DIVERSE-OWNED FINTECHS

Thursday, June 30, 2022

U.S. HOUSE OF REPRESENTATIVES,
TASK FORCE ON FINANCIAL TECHNOLOGY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The task force met, pursuant to notice, at 12:03 p.m., via Cisco Webex, Hon. Stephen F. Lynch [chairman of the task force] presiding.

Members present: Representatives Lynch, Himes, Lawson, Williams of Georgia; Davidson, Emmer, and Steil.

Ex officio present: Representative Waters.

Chairman LYNCH. Good morning. The Task Force on Financial Technology will now come to order.

Without objection, the Chair is authorized to declare a recess of the task force at any time. Also, without objection, members of the full Financial Services Committee who are not members of the task force are authorized to participate in today's hearing.

Welcome. Today's hearing is entitled, "Combatting Tech Bro Culture: Understanding Obstacles to Investments in Diverse-Owned Fintechs."

I now recognize myself for 4 minutes to give an opening statement.

The explosion of fintech in the fintech space in the last decade has been made possible because of massive amounts of venture capital (VC) investments that have been made to startup companies. Fintech companies rely on capital to turn their innovative visions into reality. The largest players in this space, including Andreessen Horowitz, Sequoia Capital, and Y Combinator, are responsible for the growth of many of the large fintech players that we know today. Venture capital firms invest in hundreds of companies each year, hoping that just one of those investments will pay off.

In 2021, venture capital firms invested $35 billion in fintech startups, up from $18 billion in 2020. When we look at the founders of companies that received this investment funding, there is an obvious trend toward White males. While lack of diversity is a trend in almost every industry that venture capitalists invest in, it is particularly troubling in the fintech space, where a significant number of fintechs specifically target underserved communities, which we know are disproportionately made up of women and people of color.

The largest fintechs, including digital banks, payment processors, and cryptocurrency providers, actually market their products to women and people of color. Yet, when we look at the founders and the leadership teams, they clearly do not reflect the communities that they claim to serve. Only 2 percent of all venture capital funding goes to women founders, 1 percent goes to Black founders, and less than 2 percent goes to Latinx founders. These numbers may also be reflective of the lack of diversity generally in the venture capital firms themselves because research does indicate that investors are more likely to invest in founders that they relate to, who look like them.

While it may be easy to assume that there is simply a lack of founders who are women and people of color, our witnesses today will demonstrate that there is no shortage of diverse founders with thoughtful and innovative, substantive ideas. Additionally, women- and people-of-color-owned startups have repeatedly outperformed White-male-owned startups. Measurement and data have shown that companies with diverse founders earn 30 percent higher multiples on invested capital, and almost 70 percent of top performing U.S. funds included women in decision-making roles. Venture capital firms continue to gamble on poor investments such as cryptocurrency companies like Celsius, which recently froze all customer deposits, while on the other hand, women and founders of color with well-thought-out, substantive business plans remain in the waiting room.

Funds like Black Founders Matter and Rethink Impact are specifically working to address the diversity gaps, but it shouldn't solely be on these funds to pick up the slack. Large venture capital firms need to diversify their investments and their workforces to reflect this country which consumer fintech companies claim to serve. Additionally, investment into diverse fintech founders should not be limited to impact investing or performative diversity efforts when it simply makes financial sense to diversify.

In the past, when faced with pressure to diversify, industry advocates have argued for looser regulatory requirements, claiming accredited investor requirements are the barrier to diversity. Quite frankly, the entrance of retail investors is not the answer. And I welcome policy approaches, such as reporting requirements or an SEC scorecard, that would push venture capital to abandon the sort of old boys club culture, the exclusive culture to determine where and in whom they invest.

As we approach the prospect of a slowdown in economic growth right now, and venture capital funds seem to be drying up in some spaces, how will we ensure that women and founders of color are not further left out of the fintech space? I worry about that. I do thank each of our witnesses, whom I know from their experience and their work care deeply about this issue, for their willingness to share their perspectives.

I now recognize my friend, the ranking member of the task force, Mr. Davidson, for 5 minutes for his opening statement. Thank you.

Mr. DAVIDSON. Thank you, Chairman Lynch, and I would also like to welcome all of our witnesses today. We appreciate your time and your testimony.

The ability to raise capital is the cornerstone of any growing economy. America, home to less than 5 percent of the world's population, holds roughly 50 percent of the world's invested capital, but I am highly concerned that America is losing the edge that gives us nearly 25 percent of global GDP. It has given us the best markets for goods, services, capital, intellectual property, and more. America has dominated the agricultural and industrial revolutions, automobiles, aviation, aerospace, computing, the internet, and more. But now as we look at fintech, we see inaction by Congress and over-action by the SEC, in particular, driving capital formation offshore. In fact, 75 percent to 90 percent of the liquidity in this space is offshore.

So, we really need to look at, how do we get more of that capital here in the United States of America? Even though a lot of the founders are either Americans or operating companies from America, we are seeing that kind of drive off. This hearing is certainly timely. We must do all we can to ensure that that talent is paired with capital here in the United States, to avoid having it migrate elsewhere.

The fintech sector, broadly speaking, is attracting some of the most brilliant and talented people in this generation. In the last decade, we have seen this industry improve efficiency, decrease cost, increase financial access for underserved communities, and more. For that reason, venture capital firms are seeing it, and we know fintech was the leading sector for venture capital firms to invest in last year. However, despite being a popular investment, there remains a lack of diverse founders within the fintech industry.

The numbers speak for themselves, and it is important to note that there remains a lack of diversity in venture capital firms as well, not just in terms of race or ethnicity, but geographic diversity. A lot of it is concentrated on the coasts. And I don't think sitting here and criticizing the investors does much to enhance or improve capital formation within the economy, but I do think that we will have a great discussion today.

It is vital to ask ourselves why fintech founders must be dependent on venture capital firms. As we will discuss today, I think we can agree that this has had negative consequences. The fact that three-quarters of venture capital goes to founders in just three States—California, Massachusetts, and New York—likely contributes to the lack of diverse founders that receive funding due to this geographic concentration, and also kind of the existing networks. So, what are the downstream effects? We see that founders outside these traditional VC locales struggle to raise Series A capital, usually $3 million to $10 million, propelling them to more easily secure Series B funding from investors focused on growth and scale. This only compounds the lack of diversity in the long run.

Committee Republicans have introduced various bills that would enhance capital formation so that more minority- and women-owned startups can get off the ground. Some of these ideas include: first, the Improving Capital Allocation for Newcomers (ICAN) Act from Mr. Timmons. This bill codifies the recommendation from the SEC Small Business Capital Formation Advisory Committee and would increase the cap and number of investors to help funds invest in more entrepreneurs in their own communities, many of whom are women and minorities.

Second, the Developing and Encouraging our Aspiring Leaders (DEAL) Act by Mr. Hollingsworth would expand the scope of qualifying investments, allowing large VC funds to deploy more capital to smaller funds.

Third, the Small Entrepreneurs' Empowerment and Development (SEED) Act by Ranking Member McHenry would create a new micro offering exemption to allow broader access to capital for emerging entrepreneurs and small businesses.

And Congressman French Hill and I both have bills to deal with the accredited investor rule, which basically says that you can't make investments in these companies unless you have already made a lot of money.

People are barred, because we know that people with money do skew with less diversity as you see more accumulation of wealth. Giving retail investors more options would be one of many remedies we could supply. Importantly, I would like to note that one of the most important things we can do in this accredited investor space remains undone, and is unfortunately a partisan issue in Congress, where it is not in the founder community.

I look forward to hearing from our witnesses today, and I applaud those on the panel who have worked incredibly hard to build successful businesses. With that, I yield back.

Chairman LYNCH. The gentleman yields back.

At this time, I would like to recognize the Chair of the Full Financial Services Committee, the gentlewoman from California, Chairwoman Waters, who has been a longtime advocate and champion for both racial and gender equality during her time in Congress.

Chairwoman WATERS. Thank you so very much, Chairman Lynch. This is a very important hearing that we are having here today, and I thank you so much for your leadership.

Research shows that companies led by diverse senior leadership outperform those that are led primarily by White male leaders, and yet venture capital funding for new fintech companies goes overwhelmingly to those funded by White men. In fact, only 2 percent of venture capital funding went to women founders, only 1 percent to Black founders, and only 1.8 percent to Latinx founders. Venture capital can mean the difference between success and failure for new fintechs, and we can all benefit from promoting diversity in our future fintech industry leaders. And so, I look forward to hearing from our panel about the challenges that exist in promoting diversity in venture capital funding, and I yield back. Thank you very much.

Chairman LYNCH. Thank you, Madam Chairwoman.

Today, we welcome a panel of distinguished witnesses, and we are thankful for their presence: Sallie Krawcheck, the CEO and co-founder of Ellevest; Wemimo Abbey, the co-founder and co-CEO of Esusu; Marceau Michel, the founder of Black Founders Matter; Jenny Abramson, the founder and managing partner of Rethink

Impact; and Maryam Haque, the executive director of Venture Forward.

Witnesses are reminded that their oral testimony will be limited to 5 minutes. You should be able to see a timer that will indicate how much time you have left, and I would ask that you be mindful of the timer so that we can be respectful of the witnesses' and the Members' time.

And without objection, your written statements will be made a part of the record.

Ms. Krawcheck, you are now recognized for 5 minutes to give an oral presentation of your testimony. Thank you.

STATEMENT OF SALLIE KRAWCHECK, CEO AND CO-FOUNDER, ELLEVEST

Ms. KRAWCHECK. Thank you. Chairwoman Waters, Chairman Lynch, Ranking Member Davidson, and members of the task force, thank you for the opportunity to testify today. I am Sallie Krawcheck. Having spent my career on Wall Street as CFO of Citi, and CEO of Merrill Lynch and Smith Barney, I am today the CEO of Ellevest.

Ellevest is the investing and financial planning platform for women with a mission to get more money in the hands of women. We are a diverse company. In an industry in which leadership teams are 23 percent women, we are 84 percent, and in an industry in which the leadership teams are 11 percent people of color, we are 50 percent, with a similarly diverse board. We proudly count among our investors Rethink Impact, which is represented here today, Melinda Gates' Pivotal Ventures, Penny Pritzker's PSP Capital, Sarah Kunst's Cleo Capital, as well as women-run angel investing groups like Astia Angels.

Ellevest has just completed a $53 million Series B capital raise, making us the very rare women-run fintech to reach this milestone. You have gone over the numbers, but they are actually sort of worse than you say, because women raise just 1 percent of Series B dollars across industries and just 1 percent of fintech dollars across all stages. That math means you can count the number of women-run fintechs who got this far on your fingers, literally on your fingers.

The good news is there has been an influx of capital from women investors into early-stage funding, some specifically targeted to underrepresented founders. The bad news is this hasn't translated into later-stage funding in fintech, and this matters because fintech can be capital-intensive.

In my experience, it is because few women investors are enrolled today to write bigger checks, and also because, and this is actually pretty gutting, raising early-stage capital from women investors can sometimes make it harder for women CEOs to get the next round of funding. The research indicates this is pure bias, on the assumption that you weren't good enough to get funding from the guys. This despite the research you have indicated that women-run businesses provide as good or better results than all male teams on less capital. The implication is significant given that financial services is our economy's lifeblood.

First, though, I will just give you a thought experiment. Do you think it is a coincidence that with 98 percent of mutual fund assets managed by men and 86 percent of financial advisors being men, that women report they are not well-served by the industry, or that when I was running Merrill Lynch, men trusted their financial advisor more than their doctor, but women closed their accounts after their spouse's death? Low product market fit there.

Is it a coincidence, do you think, that Ellevest is the only wealth tech app with most of its downloads by women, at about 95 percent, versus in the 20 percents and 30 percents for the others? And, no, this isn't because women aren't good at math or they do not like to invest or they are risk-averse. There is zero evidence of that. It is simply a story we tell ourselves to explain why women aren't engaging.

The real issue is that few fintechs center on women's needs, and as a direct result, women entrepreneurs are starved of funding. As a result your, women constituents invest less of their money than men do, losing out on historic market returns and costing them hundreds of thousands, and for some women, millions of dollars over the course of their lives. And it is one reason why the gender wealth gap is at $0.32 to a White man, and $1.01 for Black women, and it has been widening.

It means some of your women constituents are caught in toxic relationships that they can't leave or dead-end jobs that they can't quit. They are not starting their dream businesses because they simply don't have the money. I don't think that any of us here want that for our daughters. It also means lost economic growth incalculable in size, the dollars not spent with small businesses in your hometown, the non-profit contributions not made, the political contributions not made.

Now, let's be clear: The solution is not for women entrepreneurs to work harder. If we raise 20 percent, 2 percent of venture dollars, that means 50 times more investor meetings, 50 times more earnings models sent out, and 50 times more time away from the business. At Ellevest, we got here by doubling and tripling down on women, raising some of our round from accredited women investors investing together through special purpose vehicles, often sponsored by existing women investors. They got access to a later-stage deal in a strongly-performing fintech they wouldn't otherwise have, and we furthered our mission, a win-win even more so because 70-percent-plus of our new investors are from underrepresented groups, probably unheard of at our stage. And we at Ellevest live to fight another day working to get more money in the hands of women.

Thank you.

[The prepared statement of Ms. Krawcheck can be found on page 42 of the appendix.]

Chairman LYNCH. Thank you. That was exactly 5 minutes.

Mr. Abbey, you are now recognized for 5 minutes to give an oral presentation of your testimony. Welcome.

STATEMENT OF WEMIMO ABBEY, CO-FOUNDER AND CO-CEO, ESUSU

Mr. ABBEY. Thank you so much. Chairwoman Waters, Chairman Lynch, Ranking Member Davidson, and members of the task force, thank you for this opportunity to appear before you today. I also want to express my deepest gratitude to the staff for your tireless efforts. My name is Wemimo Abbey. I am the co-founder and co-CEO of a Harlem-based fintech unicorn called Esusu Financial. Esusu was founded in 2018 and is one of the few Black-owned fintech startups in the world to be valued at a billion dollars, raising a total of $144 million in financing.

But my story started in the slums of Lagos, Nigeria. I lost my father at the age of 2, and my mother and my 2 sisters raised me. In 2009, I immigrated from 80-degree weather in Lagos, Nigeria, to negative 22 degrees in Minnesota. Seeking a way to pay for college, my mother and I were turned away from major banks because we did not have a credit score. My mother pawned my father's wedding ring, took out a 400-percent predatory loan, and borrowed money from church members to afford my first year of college. Inspired by these experiences, I co-founded Esusu on three core premises: where you come from, the color of your skin, and your financial identity should never determine where you end up in the wealthiest nation the world has ever seen.

You see, credit is fundamental to financial stability and upward mobility, but financial exclusion makes the American Dream unattainable for millions. Data released by the Consumer Financial Protection Bureau (CFPB) in 2015 confirmed that approximately 45 million Americans are credit invisible and unscorable. Every month, over 109 million Americans spend, on average, $1,100 in rent. That is over $1.44 trillion annually, which is often their largest monthly household expense. Over 90 percent of renters do not get credit for paying rent on time, leading to financial exclusion. Esusu helps bridge this gap by reporting on-time rental payments to the three credit bureaus, thereby helping renters across the nation establish and improve their credit scores, which will help them unlock quality financial products. When renters encounter financial hardship and can't afford to pay rent, we also pay them with zero-interest microloans to help keep them and their families in their homes.

Today, we are here to discuss the obstacles to investment in diverse-owned fintechs. According to Forbes, U.S. fintech billionaires are worth a combined $162 billion. More than a dozen fintech billionaires were created over the past year. None of these multi-billionaires are Black or people of color. In 2021, venture capital investments reached $35 billion. White-male-led startups receive over 70 percent of investments compared to 1 percent for Black founders in fintech. These staggering facts shine a light on the realities of investments in the fintech landscape, and it points to another reason why the racial wealth gap persists and is growing today.

I offer three thoughts on why obstacles persist in diverse-owned fintechs. First, investors tend to co-invest in people they know and with whom they are comfortable . For example, over 75 percent of Esusu investors are women or Black venture capitalists. They understand Esusu's mission and also generate outsized unrealized return from being with us since day one.

Second, due to the implicit or unconscious bias, many seasoned investors do not consider people of color to be successful entrepreneurs. Personally, my co-founder and I had to speak to 326 investors before we got one to bet on us.

Third, investors may struggle to relate to the problems that entrepreneurs of color, immigrants seek to solve. For instance, a well-paid venture capitalist may not have personal experience being credit invisible or underbanked, so a startup that seeks to address these problems is likely to be of less interest to them.

With that, I would recommend asking institutions under the purview of this committee to implement three solutions: first, create tax incentives to establish banks and main credit bureaus to work with and adopt technologies developed by minority-owned fintech startups; second, create tax incentives established by venture capitalists to place more investment bets in minority and immigrants' fintech startups; and third, instruct agencies tasked with regulating the financial services sector to engage proactively in minority-owned fintech startups so that founders can share their perspective on challenges.

In closing, I fundamentally believe investing in minority fintech companies can generate outsized returns and have a profound impact in the lives of many. Esusu is a perfect case study. A company founded by the sons of immigrants is now valued at a billion dollars, and is working tirelessly to keep families in their homes. Our story is only possible in America. There is an African saying, "If you want to go fast, you go alone, but if you want to go far, you fundamentally go together." True change will take both sides of the aisle working together to make this union more perfect. So, let's be caught trying. Thank you.

[The prepared statement of Mr. Abbey can be found on page 24 of the appendix.]

Chairman LYNCH. Thank you, Mr. Abbey. You have a remarkable story.

Mr. Michel, you are now recognized for 5 minutes to give an oral presentation of your testimony. Welcome.

STATEMENT OF MARCEAU MICHEL, FOUNDER, BLACK FOUNDERS MATTER

Mr. MICHEL. Thank you Chairman Lynch, Ranking Member Davidson, Chairwoman Waters, and Ranking Member McHenry. My name is Marceau Michel, and I am the founder of the Black Founders Matter fund. I am a passionate advocate for the underrepresented founders and fund managers, and it is my honor to share my thoughts and observations on this very timely matter.

Much like the legal end of slavery, racial integration and affirmative action, our society needs measurable and accountable methods to facilitate positive change. And even though we have seen the change, even though we have seen how those—excuse me, I am nervous, it is really nerve-wracking to talk in front of all of you—even though we have seen these put into place in our society, they haven't created parity for all of us. However, it has pushed social progress forward. We need measurable intentionality to be able to do that.

So, what I am asking that you consider is holding the venture investment industry accountable to finally integrate in a meaningful way. We haven't seen integration in this space. There have been many empty valves to improve the abysmal statistics that we see in diverse investment. However, there has been no significant movement where they have truly brought women and Black, Indigenous, and people of color (BIPOC) founders into their portfolios. This is unacceptable.

In this month, June of 2022, I decided to take action. I launched the 25 by 25 Pledge for venture funds to make a real and measurable commitment to change. This pledge entails investing 25 percent of their current fund in startups led by BIPOC women, and to hire within their fund 25 percent BIPOC women as well, because what we need in order to see significant change in this space is representation both in the portfolio, but also within the firms themselves. This was done with the clear objective for all funds to work toward. Without this measurable intentionality, we won't see any change.

The classist tech bro culture has weakened our economy and limited the solutions that diverse founders are creating. And the importance connected to that is really there are lived experiences that diverse founders have that they are able to bring to the companies that they create, and they are able to have their communities specifically in focus when creating such products and services.

I know in my experience running my own fund, I have learned the importance of why you have to be intentional. After making the first five investments from my fund, we realized that we had only made investments in Black men. And so, we made a specific effort to only see deals by Black women, and this led to some of the biggest deals that we were able to get into. We were able to invest in Olympic legend, Allyson Felix, and other incredible women, we have been able to invest alongside Serena Williams, and this all came from making a concerted effort to focus on female founders.

Our communities have very little choice in the financial institutions and companies that serve us. Fintechs that claim to serve and target our communities without any level of representation or connection to our communities really is a form of financial manipulation, and without any accountability, will continue to occur. We have repeatedly seen BIPOC founders be more capital-efficient and yield higher returns. This should increase interest in such ventures. However, working with set founders exists outside of the comfort zone for venture capital (VC) funds because VC funds benchmark based on what they already know, based on what already exists. So, when you bring in diverse founders who are approaching problem solving from an entirely different direction, it really doesn't benchmark for them.

Much like when cities and municipalities want to revitalize districts and neighborhoods, they provide incentives to attract investment. And I agree with the previous speaker about creating incentives in order to bring more investments specifically to founders of color and also to emerging fund managers that are working to solve this gap specifically. In recent years, we have seen there are more emerging funds that have the specific focus on the immense opportunity zone that has underrepresented founders. These funds need more capital, more investors, and incentives to bring them all together. So, are there ways to incentivize funds who are focusing on this gap? Is there funding that can be created for emerging funds that are investing in BIPOC women? I believe that it takes multiple approaches to tackle this disparity.

I know this committee of esteemed leaders has the ability to put forward policies that will transform not only what can happen now, but for generations to come. By creating metrics for VC funds to meet, funding for emerging funds that are focused on this space and incentivizing investment in these funds will push the needle forward. What makes our country remarkable is our ability to push forward and continue to grow. I yield back.

[The prepared statement of Mr. Michel can be found on page 46 of the appendix.]

Chairman LYNCH. Thank you, Mr. Michel.

Ms. Abramson you are now recognized for 5 minutes to give an oral presentation of your testimony. Welcome.

STATEMENT OF JENNY ABRAMSON, FOUNDER AND MANAGING PARTNER, RETHINK IMPACT

Ms. ABRAMSON. Thank you. Good afternoon, Chairwoman Waters, Chairman Lynch, and esteemed members of the Task Force on Financial Technology. As the founder and managing partner of Rethink Impact, the largest venture capital fund in the U.S. investing in female and non-binary CEOs, many of whom are in fintech, I am honored to be here with you today.

To give you brief context, before I became a venture capitalist in 2015, I was a tech CEO, and often the only woman in a given room or on a given stage. As a data nerd from Stanford, I researched the numbers and learned that only 2.3 percent of venture dollars went to female-founded teams that year. What shocked me about this was that my own mother ran the first venture capital fund investing in female leaders 25 years ago, and the percentage of dollars going to female founders has actually gone down since then. I decided the best way to change this pattern was to start a fund that could drives institutional-scale dollars to female tech CEOs. And my partner, Heidi Patel, and I were fortunate to get the backing of major banks like UBS Investment Bank, as well as foundations, university endowments, and prominent individuals.

With that context in mind, I will address three key areas of my testimony today. First, why is there a lack of investment in diverse fintech companies? Second, what is the missed financial and societal opportunity from this deficit? And third, how can we reverse these trends?

On the first, people often assume this lack of investment is a pipeline issue. This is not the case. We experience diversity of flow firsthand at Rethink Impact. Our firm reviews 600 to 1,000 startups each year, and we, like many funds, only need to invest in a handful. The real reason that diverse fintech CEOs don't get these dollars relates to the fact that women and diverse leaders control a very small percentage of the $330 billion venture capital dollars spent just last year. Broadly speaking, 86 percent of investment decision-makers are men. Given that venture capital is very much a pattern-matching business, investors often back companies and people who are most like themselves. COVID has only exacerbated this problem. Diverse founders already had a challenging time breaking into longstanding funding networks, but shutting down live events and in-person meetings made this worse.

During COVID, despite an increase in venture capital funding, investments in female-founded companies went to the lowest levels since 2016, and the current economic downturn is already being disproportionately felt by diverse founders. In quarter one of this year, VC funding dropped 26 percent across-the-board, but investment in female-founded companies dropped by 34 percent. What is the missed financial and societal opportunity from this deficit?

Estimates indicate venture capital opportunity costs from withholding investment to diverse founders may be as high as $4 trillion. Venture-backed teams of diverse founders, both in terms of gender and ethnicity, have better financial outcomes, including 30-percent higher multiples on invested capital when companies are acquired or go public. And when you couple that with the fact that women drive 70 to 80 percent of all consumer purchasing decisions, and that both women and men and people of color disproportionately experience the inequalities that many fintech businesses are tackling, not including these groups in leading fintechs is just a missed opportunity.

So, how can we reverse these trends? First, sharing the data in forums like these is key, given that many are unaware of this information.

Second, we must share individual success stories that bring this data to life. Four fintech examples in our portfolio include: Candidly, led by Laurel Taylor, which is tackling the $1.7 trillion student debt crisis through a financial wellness platform; Icon, led by Laurie Rowley, which is innovating on the outdated model of 401(k)s for working Americans; Morty, led by Nora Apsel, which is democratizing access to home mortgages; and Ellevest, led by Sallie Krawcheck, whom you heard from today.

Finally, we need to diversify who controls investment dollars. Female venture partners invest in twice as many female entrepreneurs as male ones. We must, therefore, find ways to enable a more diverse set of leaders to make investment decisions. Limited partners, the money behind funds, have the power to change this, since Cambridge Associates data shows that new and developing fund managers, who often are more diverse, rank as some of the best performers.

In conclusion, getting more dollars in the hands of diverse fintech owners is great for consumers, and for investors in our economy. I started this testimony by sharing my mom's experience 25 years ago, and while the numbers have not improved on many fronts, I would like to believe that, together, the people in this room can ensure that my own daughters are not sitting here in 25 years repeating this testimony. Thank you.

[The prepared statement of Ms. Abramson can be found on page 27 of the appendix.]

Chairman LYNCH. Thank you, Ms. Abramson.

Ms. Haque, you are now recognized for a 5-minute presentation of your oral testimony. Thank you.

STATEMENT OF MARYAM HAQUE, EXECUTIVE DIRECTOR, VENTURE FORWARD

Ms. HAQUE. Chairman Lynch, Chairwoman Waters, Ranking Member Davidson, and Ranking Member McHenry, thank you for the opportunity to testify today on the important topic of diversity, equity, and inclusion (DE&I) in the U.S. venture capital ecosystem. My name is Maryam Haque, and I am the founding executive director of Venture Forward, where we focus on diversifying, educating, and empowering the VC investor class to help the industry to reach its full potential.

I want to start by taking stock of where the industry is today with respect to DE&I. The VC industry historically has not been diverse, equitable, or inclusive, and this is evident from a growing body of data. To hit on a few stats, females constituted 16 percent of investment partners in 2020, up from 11 percent in 2016. However, there has been little progress in the equitable representation of Black professionals, who represented just 3 percent of investment partners, or Hispanic professionals, who represented just 4 percent. This data also highlights the importance of intersectionality and why Venture Forward approaches DE&I through this lens. While the percentage of investment partners who are women has steadily increased, the percentage of investment partners who are women of color has not. These statistics are collected in a biannual survey that Venture Forward has conducted since 2016 to track and measure the industry's DE&I progress. VC has also lacked geographic diversity. Three States—California, Massachusetts, and New York—account for 84 percent of where VC assets under management are based.

So, how did we get here? VC is a risky, long-term investment, and the likelihood of success is low. As you know, VC investors provide risk capital for high-growth, innovative startups. VC is actively engaged with the founder to grow their businesses, but these equity investments are essentially illiquid until a company reaches a liquidity event, like an IPO or acquisition, which can happen a decade after the first investment.

VC investors raise funds from limited partners such as pensions, foundations, or endowments, and the VC also has to commit a portion of their personal capital. For someone without financial security or personal wealth, like connections to wealth or to limited partners, the barrier to entry for someone starting their own fund can be high when the upside is risky, and it can take years to realize. Existing firms tend to be small, and there is low turnover. This means there are also few available opportunities for new entrants. Other challenges to DE&I progress include limited access to education on VC, and investors relying on existing networks or relationships.

What is Venture Forward doing about this? As we see from the data, women and people-of-color investors and founders based outside of a few geographies are underrepresented. Venture Forward's mission is to change that. We focus on the investor base because investors control where and how capital is deployed to founders.

The data shows that more diversity amongst check-writers leads to a more diverse set of founders raising capital.

To hit on a few of our initiatives and impact, we co-lead VC University, which has educated 2,200 aspiring investors. We have provided more than 360 VC University full scholarships to aspiring investors from underrepresented backgrounds to help democratize access to quality education on VC. We have matched more than 190 scholarship recipients with investors in a mentorship program, and we have facilitated more than 500 meetings for 175 underrepresented fund managers to meet with limited partners, inexperienced VCs through LP office hours.

Despite these stark stats, there are some reasons for optimism. The demographic composition of junior investment professionals reflects greater diversity, which suggests a more diverse pipeline for tomorrow's senior investment partners. There has also been a wider adoption of firm DE&I strategies, and we have collected this data through the survey I mentioned. This intentionality translates to improved diversity outcomes. Firms with dedicated DE&I strategies achieve greater gender and racial diversity amongst investment partners. Prioritizing DE&I has the potential to unlock more innovation, unlock opportunities for greater economic impact and unlock better financial performance and returns for the industry.

Thank you again for your time and attention on this important topic. As you can see from the data, there is still much more work to be done, and Venture Forward remains committed to its leadership role on this issue. I am happy to answer any questions you may have. Thank you.

[The prepared statement of Ms. Haque can be found on page 32 of the appendix.]

Chairman LYNCH. Thank you very much, Ms. Haque. And I want to thank all of the witnesses for your wonderful testimony.

There is a real dichotomy here that it is ironic that in an industry and in an area where we see so much, the velocity of change in fintech, it is unmatched. You see the enormous change, the innovation that is going on in that space, but that is on the technical side, right? You look at the social side, and we are at a veritable standstill, as both Ms. Haque and Mr. Michel have pointed out, with exceedingly small numbers of women and people of color actually working at high levels.

I have been on this committee now for over 20 years, and we had a grave problem in the mortgage and banking area, and one of our solutions, and it was only a partial solution, but it seemed to work in some regard is, with the banks, we adopted a protocol under the Community Reinvestment Act. And what we did in part was we gathered data on the banks, we looked at the investments they were making in minority areas, and then we graded them publicly and held them accountable so that their depositors and their investors would know how they were doing with progress in investing in areas that were previously redlined.

And that exposure did a lot, I think. It didn't fix everything, but it certainly moved the needle. It made banks more socially aware of their actions and their investments, and I think it caused the general public and, like I say, the investors and depositors to get on those banks and judge banks based on how they were graded in that regard. Is there a role for that? Would it help? And I am thinking specifically of legislation that we would proffer to the SEC to say, can we build a scorecard, a report card on these venture capital firms and grade them on how they are meeting that goal, those social goals that we would like to see those firms attain? How many people of color? How many LGBTQ founders? How many women are now the object of their support?

And I am also disappointed in some regards where there is so little information at the very beginning of some of these startups, where it is simply a White Paper. The substance is very thin on some of these ventures. And yet, those are getting funding, maybe because of relationships with fintech, while Black founders, people-of-color founders, women founders, and LGBTQ founders are sitting in the waiting room or going to 30 different meetings to try to get the same level of support. So, I am just wondering if we if we make that scorecard, is that something that might help? I know, Ms. Krawcheck, you have had some experience in this area. I wonder how you would feel about that?

Ms. KRAWCHECK. Yes, I think more information and more sunshine is always a positive thing, and people can choose what to do with the information once they receive it. But I do know, in part of this raise, I did try to go to original sources of capital such as endowments, foundations, et cetera. And they seem to truly believe in the power of diversity, but they tend to put their funds in managed vehicles. And if we were able to do this, we could then give then that information for some of whom it is still opaque that could help them direct their capital in the direction that they want to.

Chairman LYNCH. Thank you. Mr. Abbey, any thoughts?

Mr. ABBEY. Yes, sure. Chairman Lynch, I think you bring up a very important point from a disclosure standpoint. I think when it comes to measuring impact—on Wall Street, we measure how our stock markets perform on a quarterly basis. We look at what is going on in the Dow. We look at what is going on in the NASDAQ and the S&P 500. If we start implementing metrics, and holding these investors accountable, and saying diversity matters, but take it a step further and saying not only having diversity in your janitorial staff, but looking at your board members, looking at your executive team, that is when we start having change. And if they can report back to the SEC, I think we are going to have a profound impact, and we are going to be closing the gap from an investment perspective.

Ms. ABRAMSON. Mr. Chairman, may I add one quick point to that?

Chairman LYNCH. Sure. Please do.

Ms. ABRAMSON. I think data is a powerful thing, and I really like your idea of doing this at the fund level. I think one other idea to supplement that would be to do it at the limited partner level, the institutions that are investing in funds, and to do a scorecard, especially for large pensions and other significant institutions, to see where their dollars are going in terms of the diversity of the fund managers they are backing, given how much that diversity at the fund level impacts who gets the dollars at the fintech level.

Chairman LYNCH. Okay. Thank you very, very much. I now yield to the ranking member of the task force, my friend and colleague, the gentleman from Ohio, Mr. Davidson, for 5 minutes for his questions. Thank you.

Mr. DAVIDSON. Thank you, Mr. Chairman, and I appreciate the opening testimony from the witnesses. And I will say, Mr. Abbey, I am impressed with the business that you and your co-founders have built, and congratulations for identifying such an important niche to establishing a more robust credit reporting system. I think I would just be interested in your perspective in terms of how your own lived experience helped you identify the problem, and maybe solve it?

Mr. ABBEY. Thanks a lot, Ranking Member Davidson, and I'm really humbled by your kind words. When my mother and I came to America, we didn't have a credit score and had to go borrow money from a predatory lender. And that experience really inspired me and my co-founder, who had the same experience, to create a product that creates a win-win-win construct. The product we created at Esusu is one that doesn't point fingers. Landlords win, the residents win, and society at large wins because we are not solving homelessness backwards.

And what really perturbed me was when you pay your mortgage, that data is reflected in your credit profile, but when you pay rent, for the 109 million Americans, in an average, spending $1.44 trillion to their landlord, that data is not visible. And that is what essentially led us to build this billion-dollar business, making sure we can pave a permanent bridge to financial access and inclusion for those who have been predominantly left behind. I think we still have a long way to go, but like my grandmother always says, you have to build a doghouse before you build the White House.

Mr. DAVIDSON. Thanks for sharing your story, and congratulations on your success. And I just think, thank God, I am so thankful for the country that I got to experience, but I was born here. Thanks for coming here and making a difference, growing your business here and, frankly, helping solve a problem for a lot of people. And from a personal view, I am sure your own personal experiences helped you, but fundamentally, you just had a really big idea that solves a problem. And I am glad that you found the capital. Thanks for your persistence in doing it.

Ms. Haque, you have focused on helping people find capital in your own path. Would you describe how Venture Forward as well as the industry is taking the initiative to address some of the kind of broad issues, maybe from a broad perspective, but specifically, what are some of the initiatives that you have seen address the testimony today?

Ms. HAQUE. Ranking Member Davidson, thank you for the question. I want to hit on a few programs that we have found to help meet some of the needs of the industry, and the first one I want to mention is VC University, to which I briefly alluded. And what we recognized a few years back was a recognition that talent is not a pipeline problem or diversity and talent is not a pipeline problem. However, in the industry, because it has traditionally been small, it has run as an apprenticeship model. And if you don't know someone in the industry or live within a few miles of a few cities in this country, the recognition or the understanding of venture capital can be hard. And that initially is just a barrier that we felt that we could play a role in, to scale some of that education more broadly.

And so, VC University, in which we partnered with UC Berkeley, has now grown over the past 4 years to have more than 2,000 aspiring investors across the country come through this program. Many of them are underrepresented, and we offer them education to really understand the nuts and bolts because we don't want just purely the education or information on VC to be a barrier. But we recognize that just education is not enough, and so we have added in additional elements of making sure investors in today's industry are supporting these up-and-coming investors through a mentorship program, through a scholarship program that we offer to underrepresented and aspiring VCs across the country. We have seen a lot of diversity within these cohorts. For example, our most recent scholarship cohort was 90 percent people of color, 60 percent women, 60 percent based outside of California, Massachusetts, and New York, 20 percent identified as LGBTQ, and 7 percent were active military or veterans.

Mr. DAVIDSON. Yes, thanks for the background. I will say that I have seen quite a bit of diversity in the industry, and have personally been involved extensively in trying to push legislative clarity for the space. I am thankful for groups like the Women of Color in Blockchain. They have invited me numerous times to speak with them, and they, of course, are focused on women, but in particular, women of color. There are, of course, a lot of White males in the industry. It is male-dominated, but it is also encouraging to see the diverse folks who are involved in terms of heavily next probably Asian and certain areas of the Middle East. But I look forward to providing regulatory clarity for the entire United States because, again, a lot of the liquidity is moving out of our economy because Congress hasn't taken action, and the action at the SEC, in particular, has frightened a lot of capital law.

With that, I look forward to the rest of the testimony, and I yield back.

Chairman LYNCH. The gentleman yields back. The Chair now recognizes the Chair of the Full Committee, the gentlelady from California, Chairwoman Waters, for 5 minutes for her questions. Welcome.

Chairwoman WATERS. Thank you very much.

Mr. Michel, venture capital's investments in 2021 reached well over $35 billion, yet most of the investment has been directed towards White- and male-funded companies. But multiple studies have found that companies with diverse leadership, specifically with more than one gender, and/or one race, or ethnically represented are more innovative and make more money. The Harvard Business Review found that venture capital investing teams limited to any one gender or any one race do much worse. I assume that venture capital firms are heavily profit-driven, but it seems they are ignoring clear data on how to boost those profits. Why do you think this is the case, and what are the ways we can help businesses with high growth potential to have a fair shot in receiving venture capital funds?

Mr. MICHEL. Thank you, Chairwoman Waters, for such a considerate question. I believe that it is because of the outdated model connected to how venture capital evaluates companies. I brought this up in my testimony, but there is this thing of benchmarking, which really is about sameness. It is really about, how does something match up with something that I already know, something I am already comfortable with, something that already makes sense to me, right? In an industry that has been built predominantly on White male culture, it is really about benchmarking how does this female founder, how does this Black female founder benchmark with someone that I know, benchmark with someone that I went to school with, benchmark with someone who is already in my social network?

These are biases that implicitly end up locking out people of color, and locking out women, because they don't benchmark in the same way. They don't have the same lived experiences. And so, funds like mine have emerged to close gaps like these to ensure that there is funding that is very specifically going to certain communities. And people have asked, is that too exclusive, but really, it is really about the fact that there is an immense need for more funds and more organizations in general that are focusing on closing this gap. Not only do we need to hold venture capital accountable, and I really agree with what Chairman Lynch said about having a scorecard for ventures so that it is really transparent how well a fund is doing when it comes to how they are diversifying, and how they are when it comes to their staff from within and when it comes to their portfolio, but it is also important to create more funding structures to go to diverse fund managers, but who have authentic—

Chairwoman WATERS. If I may just interrupt you for a moment here, when you talk about benchmarking, if you have venture capital companies whose leadership has never met, or interacted with, or know very many Black people, and come with the belief that we are not good entrepreneurs, how do you deal with that kind of attitude and those kinds of feelings? You are talking about how important it is, and we are talking about how important it is to have people inside your firm who have to make these decisions. And if they don't have people who are making decisions that are inclusive, and are particularly interested in diversity because they don't know anything about the cultures, anything about interaction, they have never been in Black communities, they have never seen young Black businesses that work very hard to be successful, how do you overcome that?

Mr. MICHEL. I know my way of overcoming that was starting my own fund, because I was the founder who was experiencing this. I am a first-generation American. My parents immigrated here from Haiti, and I come from a culture of figuring out how to liberate myself. I was a founder who started my own company, and got an incredible amount of traction, but I was being given the runaround by venture capitalists. I was taking meetings, and those goalposts kept getting pushed out, and that is why I started Black Founders Matter, to call out the elephant in the room. I believe that it is important for funds to have representation within, because that is how you get authentic connection to the actual communities, because it is also hard as a Black founder to be able to trust.

Chairwoman WATERS. So you think that what Mr. Lynch is saying in terms of how we take a look at first to ask, how many people of color do you have in your firm in leadership—

Mr. MICHEL. Yes.

Chairwoman WATERS. —in addition to how many companies or startups have you funded? We are going to try and do everything that we can. We thank you for being here today and the others who are giving us some ideas about what we can do. We are going to work very hard to open up these opportunities. And thank you, Mr. Lynch, for allowing me time today to interact with you on this most important subject. Thank you.

Chairman LYNCH. Thank you so much, Madam Chairwoman. Thank you for spending time with us. I really appreciate your leadership.

The Chair now recognizes the distinguished gentleman from Wisconsin, Mr. Steil, for 5 minutes for his questions. Welcome.

Mr. STEIL. Thank you very much, Mr. Chairman. I appreciate you holding today's hearing.

Ms. Haque, we have talked a lot about different ways diversity is impacting us in the financial services sector. I think one area that we haven't touched on is geographic diversity. We continue to really see VC funds building up in San Francisco, New York, and Boston. I am here in Wisconsin. We are in a remote hearing. I am at home. And I recommend that everybody come to Wisconsin in the summer. It does not get better than summer in Wisconsin. I see some smiles, as some of you guys are probably dealing with the heat and an actual garbage fire in D.C. today, but I want to dive in on geographic diversity. Ms. Haque, if I read your resume correctly, you are from the great State of Mississippi. Is that accurate?

Ms. HAQUE. I am. Yes, I was there for the first 18 years of my life.

Mr. STEIL. Spectacular. Do you meet a lot of people in the broader VC space from Mississippi and similar States?

Ms. HAQUE. I would say in my 15 years in the venture capital industry, I have met one venture fund manager in the State of Mississippi. And I think that speaks to why I am very passionate about this topic, which is the fact that I didn't get exposed to venture capital until I moved to San Francisco 15 years ago. And I do think that is what our program, like VC University, is trying to address is to just make it more accessible to understand that venture capital is a viable career opportunity as an investor or as an entrepreneur, to just demystify that. One specific program related to this that we have seen a lot of interest and success with is VC University Live, where we have actually partnered with universities across the country—the University of Michigan, Tulane, SMU, and UNC-Chapel Hill—to hold these types of educational workshops, bring together the local ecosystem, shine a spotlight, and then just provide more education on really the nuts and bolts of VC and how it works.

I do think that what we have seen from a positive aspect of the pandemic has been a bit more dispersion of talent across the country. But I think it is really important to think about how are you opening up local capital that is not just the seed or the earlierstage capital, but really those later-stage, local capital that may be helpful for companies along their growth cycles.

Mr. STEIL. I appreciate that, Ms. Haque, because I totally agree. I think when we look at what happened with the Volcker Rule, the impact of that consolidating capital into some of our largest cities, particularly San Francisco, New York, and Boston, I think it is to the detriment of some of our smaller communities, whether or not that is in the State of Mississippi, where you spent the first 18 years of your life, or in the great State of Wisconsin. I think it is something that we have to explore. You commented nicely about the impact that you can have in relationships with schools.

I want to shift gears slightly in my remaining time to thinking about the way that early-stage investors are playing an active role in their portfolio companies, different than more late-stage, possibly passive investors in the way that these investors can really actively mentor in these early-stage investments. How do you see the importance of that early-stage mentorship in the entrepreneurial ecosystem?

Ms. HAQUE. At the really earliest stages, a founder pretty much could have just an idea, and so the investors are really working with founders from day one to help provide strategic and operational guidance. They are connecting entrepreneurs with customers, other potential investors, taking board seats, hiring employees, et cetera. And so, they are really helping and working actively with that fund manager to help build this business from the ground up, and the investor is going to see no upside from that investment until the company is successful.

And I do think that there is a lot of this active management that has been really core to the venture business model, and venture investors have multiple founders in their portfolio. So, it is not that they are just dedicating their time to one founder, but it could be dozens, and venture firms are typically small. The median size of a venture firm in this country is six employees, and so it is a matter of time management. But I think there is just a lot of alignment of interest for those investors to see the founders be successful.

Mr. STEIL. Absolutely. In my remaining time, I would flag that I think one of the things we should be looking at as a committee is ways to limit the regulatory burden in some of our early-stage companies. When we think about these emerging growth companies with amazing potential, often, great entrepreneurs are stepping up. It is really a point in time where we could look to be encouraging more entrepreneurs to be entering this space if we look at the regulatory burden that the Federal Government is often placing on many of these companies.

Cognizant of the time, Mr. Chairman, I will yield back.

Chairman LYNCH. Thank you, Mr. Steil. The Chair now recognizes the distinguished gentleman from Florida, Mr. Lawson, for 5 minutes for his questions. Welcome.

Mr. LAWSON. Good afternoon to everyone, and I would like to welcome all of the panel. This has been a great discussion. And my question is going to be sent out really for the whole panel because from what I have heard this morning, you all are very interested in where we stand.

The Federal security regulation restricts the type of investors that can gain access to private investment opportunity, including certainly venture capital investments. And accordingly, what it requires for an accredited investor is that the investor must have particularly high income, a whole wealth of at least a million dollars beyond the value of their primary residence. Only around 10 percent of the households in the U.S. will meet this threshold. How do we balance the need to protect prospective low-income investors from risky investment with the high bar to enter the CV space? And this is for the whole panel.

Mr. ABBEY. I am happy to go first. Thanks a lot for that question, Congressman Lawson. When we think about getting everyone involved, I do strongly believe there is a balance. We need to have the right disclosures to make sure folks know what they are getting themselves into. Venture capitalist investment is extremely risky, but also has high returns. So, making sure we have those edge language and we are incredibly clear about the kind of investments in the vehicle would be helpful. And getting folks involved, limiting things like accredited investors, creating more opportunities, and letting more people engage from an investment standpoint is encouraging. But we need to just be very, very balanced in our approach because we are one of the rare cases where we became a billion-dollar business. Most times when you invest in this vehicle, you can lose everything. We just want to have a balanced approach where we are educating potential investors, accredited or not accredited, about what they are getting themselves into.

Mr. MICHEL. I would like to add to that. I think this is also a question of scale, because if we are talking about the general population and their ability to be able to invest in ventures like this, it is quite risky. But it is about what level of exposure makes sense based on where someone is financially, right? We have seen a lot of efforts in recent years for crowdfunding, where communities are able to come together and put together—put in $500, put in $1,000, put in what is reasonable.

Usually, the general population is excluded because venture funds are so large and the barrier for entry is so high in terms of having to put in a check for $50,000, $100,000, up to millions of dollars. But having opportunities where people who don't have as much to be able to put into funds at that scale are able to still be able to participate in the returns, that can come from investing in venture capital. So, I think that there is an opportunity when it comes to being able to just scale what that amount is so that people aren't exposed and don't lose a lot of money, because you can lose money in this space.

Ms. ABRAMSON. Congressman?

Mr. LYNCH. Go ahead.

Ms. ABRAMSON. I will just quickly add that, yes, we can ask funds to lower their minimums that are required to be part of the funds, which is something we did at Rethink Impact to allow investors from 39 States, 67 percent being women, to invest. That was a big thing. And the second thing is there are companies like Ellevest—you heard from Sallie Krawcheck today—who give investors an opportunity to take part in this type of investment vehicle and in a broad type of vehicle that can be safer and be better aligned to their broader investment portfolio and to what they can actually do, but lowering the risk as well. I think the other piece is to not think exclusively about individual venture funds, but buckets of investment.

Ms. KRAWCHECK. And I will chime in. I think you may be trying to run, when we may be trying to crawl a little bit. When I think of women investors today, the majority of their money remains in cash, which was bad enough when it was earning zero percent, and now with inflation, means they are going backwards. And so, we are focused in the first instance on how do we make sure they are taking their money and investing it to earn the returns before they get into the higher-risk venture type of investing.

Mr. LAWSON. My time is running out. Those were some great answers. I am still concerned, as I yield back, about the million dollars beyond the value of their residence, because residence carries a lot of value today, and we can talk about that another time. I yield back, Mr. Chairman.

Chairman LYNCH. I thank the gentleman. At this point, I would like to just ask my friend and colleague, Mr. Davidson from Ohio, if he has any closing remarks as we conclude this hearing. Thank you.

Mr. DAVIDSON. Thanks, Mr. Chairman, and thanks to our witnesses, and I am just appreciative that, frankly, we have a diverse group of people here. You have all been successful. I think the strength of America is we have been able to attract people from around the world. I think we should celebrate the fact that in a normal year, we bring about a million new Americans into our country legally every year.

We certainly have many challenges, but I look forward to working with my colleagues to solve them, and I hope that we can do that in this space by providing some regulatory clarity. We are seeing real challenges for even keeping the capital and keeping the ideas inside the United States of America, because we haven't provided regulatory clarity for a large portion of this market. And I hope we can do that—crawl, walk, run, but let's start moving, and I just appreciate collaborating with you, Mr. Chairman. Thanks again for holding the hearing, and thanks for the witnesses, and I yield back.

Chairman LYNCH. I thank the gentleman. Thanks for your kind words. This is a very timely hearing. We see what is happening in the VC space. There has been a certain retrenchment because of the economy. So, it makes us doubly concerned that founders of color and women founders—we don't want to see the situation grow even worse for them in a tight economy. So, we are very, very appreciative of the perspectives that have been provided by the witnesses here today. I am very happy with the questions that were asked as well. They were very evocative and brought a lot of good thoughts here that I think might result in legislation at some point, and I would like to thank our witnesses for their testimony today.

The Chair notes that some Members may have additional questions for these witnesses, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

That concludes our hearing. Thank you all, and enjoy the day.

Mr. ABBEY. Thank you.

Ms. ABRAMSON. Thank you so much for having us.

Mr. MICHEL. Thank you. This was an honor.

Ms. HAQUE. Thank you.

Chairman LYNCH. Thank you.

[Whereupon, at 1:14 p.m., the hearing was adjourned.]

A P P E N D I X

June 30, 2022

Testimony of Wemimo Abbey, Co-Founder and Co-CEO Esusu
Before the Committee on Financial Services
Task Force on Financial Technology
U.S. House of Representatives
June 30, 2022

Madam Chair, Ranking Member, and members of the Committee thank you for this opportunity to appear before you today. I also want to express my gratitude to the staff for their tireless efforts.

My name is Wemimo Abbey. I am the Co-Founder and Co-CEO of a Harlem-based fintech unicorn called Esusu Financial. Esusu was founded in 2018 and is one of the few Black-owned fintech startups in the world to be valued at a billion dollars raising a total of $144 million.

I grew up in the slums of Lagos, Nigeria. I lost my father at the age of two. My mother and two sisters raised me. In 2009, I immigrated from 80-degree weather in Lagos, Nigeria, to negative 20 degrees in Minnesota. Seeking a way to pay for college, my mother and I were turned away from the major banks because we did not have a credit score. My mother pawned my father's ring, took out a 400% interest predatory loan, and borrowed money from church members to afford my first year of college. Inspired by our experiences, I co-founded Esusu on a core premise: **where you come from, the color of your skin, and your financial identity should not determine where you end up in life.**

Credit is fundamental to financial stability and upward mobility, but financial exclusion makes the American dream unattainable for millions. Data released by the Consumer Financial Protection Bureau in 2015 confirmed that approximately 45 million Americans are credit invisible and unscorable. Every month, over 109 million Americans spend on average $1,100 in rent (over $1.44 trillion annually) which is often their largest monthly household expense. Over 90% of renters do not get credit for paying rent on time, leading to financial exclusion. Esusu helps bridge this gap by reporting on-time rent payments to the three major credit bureaus, (Equifax, TransUnion, and Experian), helping renters across the nation establish and improve their credit scores to unlock quality financial products. When renters encounter financial hardship and can't afford to pay rent, we pair them with 0% interest rate microloans to help keep them in their homes.

Today, we are here to discuss obstacles to investments in diverse-owned Fintechs. According to Forbes, US fintech billionaires are worth a combined US$162 billion -- more than a dozen fintech billionaires were created over the past year. None of these minted billionaires are Black or people of color. In 2021, venture capital fintech investment reached $35 billion -- White male-led startups received over 70% of investment compared to 1% for Black founded fintech companies. These staggering facts shine a light on the realities of investment in the fintech landscape and point to another reason why the racial wealth gap persists and is growing.

I offer three thoughts on why investment obstacles persist in diverse-owned Fintechs:

1. First, investors tend to co-invest in people they know and are comfortable with. For example, over 75% of Esusu's investors are women or Black VCs. They understand Esusu's mission and also generate outsized unrealized returns by investing in Esusu.
2. Second, due to implicit or unconscious bias, many seasoned investors do not consider people of color to be successful entrepreneurs. Personally, my Co-Founder and I spoke to 326 investors before we got one to bet on us.
3. Third, investors may struggle to relate to the problems that entrepreneurs of color and immigrants seek to solve. For instance: a well-paid venture capitalist may not have any personal experience being credit invisible or underbanked, so startups that seek to address these problems are likely to be of less interest to them.

I would recommend asking institutions under the purview of this committee to implement three solutions:

1. First, create tax incentives for established banks and the main credit bureaus to work with or adopt technologies or services developed by minority-owned fintech startups.
2. Second, create tax incentives for established venture capitalists to place more investment bets on minority and immigrant fintech entrepreneurs.
3. Third, instruct federal agencies tasked with regulating the financial services sector to engage more proactively with minority-owned fintech startups so that founders can share their perspectives on compliance challenges and the ways in which the needs of marginalized communities are sometimes overlooked or misunderstood by regulators.

In closing, I fundamentally believe investing in minority fintech companies can generate outsize returns and have a profound impact on the lives of many. Esusu is a perfect case study. A company founded by sons of immigrants is now valued at $1 billion while working tirelessly to keep families in their homes. Our story is only possible in America. There's an African saying "if you want to go fast, you go alone, but if you want to go far, you go together. True change will take both sides of the aisle working together to make this Union more perfect.

Appendix:

Esusu raises $130 million Series B at a $1 billion valuation

Today we are proud to announce that Esusu has raised $130 million at a $1 billion valuation. This Series B financing provides Esusu with the capital to execute our mission of dismantling barriers to housing for working families, and work towards our vision of unleashing the power of data to bridge the racial wealth gap. This fundraise makes Esusu one of the few Black-owned startups to reach unicorn status both in the United States and globally. Learn more here.

RETHINK IMPACT

Testimony of Jenny Abramson
Founder & Managing Partner, Rethink Impact

Before the U.S. House Committee on Financial Services
Task Force on Financial Technology

Hearing entitled, "Combatting Tech Bro Culture: Understanding Obstacles to Investments in Diverse-Owned Fintechs"

Thursday, June 30, 2022

Biography:

Jenny Abramson is the Founder & Managing Partner of Rethink Impact, the largest VC Fund backing female and non-binary CEOs using tech to build $1B+ companies by tackling the world's greatest challenges in fintech, health care, education, and the environment. She sits on the boards of Ellevest, Wellthy, Winnie, EveryDay Labs, Candidly, Sempre Health and is a board observer for Eleanor Health and Neurotrack. Previously, Jenny served as CEO of LiveSafe, a tech security company focused on preventing school shootings and sexual assaults. She also held leadership roles at The Washington Post, Personal (a data tech company), The Boston Consulting Group, D.C. Public Schools, and Teach for America.

Jenny is a board member of the NFL Players, Inc., the Jacobs Foundation, and DC Prep. She is also an active member of All Raise, co-leading their data efforts. Finally, she is an Advisory Board member of the Catalio Nexus Fund (an early-stage health focused VC fund).

Jenny was named a Forbes' Impact 50 in 2020 (alongside Bill Gates and Melinda French Gates, Serena Williams and Steve & Jean Case), Entrepreneur Magazine's 100 Powerful Women and a DC Tech Titan. She has been covered in The New York Times, in The Washington Post, and on CNN, interviewed on Squawk Box, featured at the Code Conference, at the United Nations, at the G7, and on Capitol Hill. She received bachelor's and master's degrees with honors from Stanford University, an MBA with honors and the Dean's Award from Harvard Business School (where she also served on the Investment Committee for Shareholder Responsibility for Harvard University) and was a Fulbright Scholar at The London School of Economics.

Twitter: @abramsonjenny
LinkedIn: Jenny Abramson

RETHINK
IMPACT

Overview:

Rethink Impact is the largest, US-based venture capital firm investing in female and non-binary leaders using tech to solve the world's biggest problems. Rethink Impact believes that the next generation of extraordinary companies (in fintech, health, environmental sustainability, and education) will find success through their relentless pursuit of mission, for the benefit of all communities.

Sample Fintech Investments:

candidly Led by CEO Laurel Taylor, Candidly is tackling the $1.7T student debt crisis[1] through its financial wellness platform that helps people borrow, repay, and save more efficiently.

ICON Led by CEO Laurie Rowley, Icon is helping the 55 million working Americans who do not have access to 401(K) plans[2] through its low-cost, fully portable, workplace-based retirement solution.

morty Led by CEO Nora Apsel, Morty is democratizing mortgages by creating a digital way to match borrowers to the right type of mortgage at the best price.

EV Led by CEO Sallie Krawcheck, Ellevest is tackling the investment gap for women (who are 80% more likely to be impoverished in retirement[3]), helping them build wealth and save for the future by providing the products and support to do so.

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[1] Federal Student Aid, Educationdata.org
[2] EBRI
[3] NIIRS

Notable Press:

The New York Times

DealBook / Business & Policy

DEALBOOK NEWSLETTER

Exclusive — Venture Fund for Women Raises More Than Expected

Give this article

Justin Heiman/Getty Images

Forbes

PERSONAL FINANCE • EDITORS' PICK

Hidden Figures: Inside Jenny Abramson's Female First VC Fund

Ashlea Ebeling Former Staff

Follow

Jenny Abramson's pitch to female founders: I've been in your shoes. JAMEL TOPPIN FOR FORBES

Heidi Patel: "We're trying to build a new breed of VC firm." (Photo by Jamel Toppin for Forbes) JAMEL TOPPIN

Testimony Introduction and Overview:

Introduction:
Good afternoon, Chairman Lynch and the esteemed members of the Task Force on Financial Technology. I am honored to be with you today to discuss the obstacles to investments in diverse-owned fintech companies. I am the Founder and Managing Partner of Rethink Impact, the largest venture capital fund in the United States investing in female and non-binary CEOs. Our portfolio of companies uses technology to tackle the world's greatest challenges in a number of sectors including fintech (with a focus on financial inclusion). Therefore, today's topic is one I care deeply about and we focus on on a daily basis.

To give you brief context, before I was a venture capitalist in 2015, I was a tech CEO and often found that I was the only woman on a given stage or in a given room. As a data nerd from Stanford, I researched the numbers and learned that only 2.3% of venture capital dollars went to female founders in 2015 (PitchBook). What shocked me about this was that my own mother ran the first major venture capital fund investing in female leaders 25 years ago, and the percentage of dollars going to female founders actually went *down* in that period. I decided the best way to change this pattern was to start a venture capital fund that could drive institutional scale dollars to female tech CEOs.

With that context in mind, I will address three key areas in my testimony:
(1) Why is there a lack of investments in diverse-owned fintech companies?
(2) What is the missed financial and societal opportunity resulting from this deficit?
(3) How can we reverse these trends?

(1) Why is there a lack of investment in diverse-owned fintechs?

- The lack of diversity in who controls venture capital dollars impacts who receives that money. 86% of venture capital decision makers are men (AllRaise, 2021).
- Covid has exacerbated these trends.
- The current economic downturn is likely to further this imbalance.

(2) What is the missed financial and societal opportunity resulting from this deficit?

- Estimates indicate venture capital opportunity costs from withholding investment to diverse founders may be as high as $4 trillion (Quartz, 2020).
- Venture-backed teams of diverse founders (both in terms gender and ethnicity) create more innovation and have better financial outcomes, including 30% higher multiples on invested capital when companies are acquired or go public (Forbes, 2020).
- Given the fact that women drive 70-80% of all consumer purchasing decisions (Inc 2019), and that both women and people of color disproportionately experience the inequalities that many fintech businesses are tackling, not including these groups in the creation of products or services is a missed opportunity for innovation.

(3) How can we reverse these trends?

- Most people are unaware of how lopsided venture capital funding is in this country and of the financial opportunity that comes with investing in diversity. We must share the data, so people understand the economic benefits of this investment.
- It is critical to highlight the success of individual diverse fintech entrepreneurs as it makes the data more tangible for investors. Example companies:
    - Candidly (tackling student debt through its financial wellness platform)
    - Icon (innovating on the outdated model of 401Ks for middle-class workers)

  - Morty (democratizing access to mortgages digitally)
  - Ellevest (addressing the investment gap for women)
- Finally, we need to diversify who controls investment dollars as this impacts which entrepreneurs get funded.

Conclusion:
Getting more dollars in the hands of diverse fintech owners is not only critical to increasing financial inclusion in this country but it's a great thing for consumers, investors, and our economy more broadly. I started this testimony by sharing my Mom's experience of fighting for women 25 years ago, and while the numbers have not improved on many fronts, I would like to believe that together, the people in this room can ensure that my own daughters are not sitting here in 25 years repeating this testimony. Thank you.

Statement of Maryam Haque
Executive Director, Venture Forward
before the Committee on Financial Services Task Force on Financial Technology
"Combatting Tech Bro Culture: Understanding Obstacles to Investments in Diverse-Owned Fintechs"

June 30, 2022

Chair Lynch, Ranking Member Davidson, and Members of the Task Force, thank you for the opportunity to testify today on the important topic of diversity, equity, and inclusion (DEI) in the U.S startup ecosystem and share what the venture capital (VC) industry is doing to address this. My name is Maryam Haque, and I am the founding Executive Director of Venture Forward, a 501(c)(3) supporting organization to the National Venture Capital Association (NVCA) with a mission to diversify, educate, and empower the VC investor class to advance the industry and maximize impact and returns.

The fact is that women, people of color, other marginalized communities, and investors and founders based outside of historically-dominant startup hubs are underrepresented in VC. Venture Forward's mission is to change that. Our work empowers talented individuals to become VC investors by creating opportunities and opening doors that might otherwise have been closed to them. For VC investors and firms, we represent a "square one" resource to help them implement meaningful DEI practices. We are the only organization advancing diversity from an intersectional lens, supporting investors from a cross section of backgrounds and demographics.

Venture Forward provides education, resources, and connections to drive intersectional diversity within the VC community. Our work primarily focuses on the investor base because investors control where and how capital is deployed to founders, and data shows that more diversity among investment check-writers leads to a more diverse set of founders raising capital. Our work revolves around three key pillars:

- **Educate**: We educate aspiring VC investors and provide insight and resources to help them succeed in the field.
    - We democratize access to VC education through VC University, a certificate course co-led with NVCA and UC Berkeley, full scholarships, and dedicated mentorship.[1]
    - We offer highly curated half-day workshops (through the Limited Partner (LP) Office Hours program) where underrepresented and emerging managers receive guidance from experienced LPs about fundraising best practices.[2]

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[1] VC University, https://venturecapitaluniversity.com
[2] LP Office Hours, https://ventureforward.org/lpoh; Limited Partners (LPs) are the entities that invest in venture capital funds. Examples of common LPs include pensions, endowments, foundations, family offices, and individual investors.

  - We provide training, educational programs, and other resources to meet the needs of the community of aspiring investors.[3]

- **Empower**: We empower current investors to implement and administer meaningful DEI strategies and policies within their firms to create change in the industry. Alongside our parent organization NVCA, we are uniquely positioned to transform the industry from within.
  - Every two years, we conduct a Human Capital Survey of VC firm workforce demographics and talent management strategies to measure the industry's DEI progress.[4]
  - We host DEI workshops and events for industry leaders and experts to foster discussion of progress, opportunities, and challenges.[5]
  - We facilitate tangible engagement and support between VC firms and underrepresented emerging investors, via scholarships and curated mentorship opportunities.[6]

- **Engage**: We help current investors engage with aspiring investors by sharing job and mentorship opportunities, introductions, and frameworks for collaboration.
  - Through our VC University program, we offer experienced VCs the opportunity to help educate the next generation of investors.[7]
  - Our Mentorship Program matches scholarship recipients from historically underrepresented backgrounds with two mentors—an Experienced VC Mentor and a Peer Mentor.[8]
  - We guide VC partners in hosting office hours for emerging managers from historically underrepresented backgrounds to share fundraising guidance and best practices.

Impact highlights of Venture Forward's programs and initiatives include:[9]

- Collected workforce demographics and talent management data from more than 375 VC firms through the VC Human Capital Survey as we continue to measure the industry's DEI progress.
- Educated more than 2,270 aspiring and early-career VCs through VC University ONLINE and VC University LIVE.

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[3] For example, Brand Building workshops for underrepresented VC investors: Comms 101 https://ventureforward.org/event/comms-101-building-your-brand-as-a-vc-investor/2021-02-23 and Comms 201 https://ventureforward.org/event/comms-201-building-your-brand-as-a-vc-investor/2021-03-02

[4] *VC Human Capital Survey*, powered by NVCA, Venture Forward, and Deloitte https://www2.deloitte.com/us/en/pages/audit/articles/diversity-venture-capital-human-capital-survey.html

[5] For example, virtual workshop on "Leveraging Human Capital Survey Insights to Drive DEI in VC," April 2021, https://vchumancapitalsurvey2021.splashthat.com

[6] VC University Mentorship Program, http://bit.ly/VCU_Mentor_Info

[7] VC University Lunch & Learn webinars, https://ventureforward.org/vc-university/#lunchandlearn

[8] VC University Mentorship Program, *Mentoring Forward*, https://ventureforward.org/resources/mentoring-forward

[9] Venture Forward Impact & Testimonials, https://ventureforward.org/impact-and-testimonials

- Encouraged VC activity outside the traditional startup hubs by hosting VC University LIVE at the University of Michigan, Tulane University, SMU, and the University of North Carolina at Chapel Hill.
- Provided more than 360 VC University full scholarships to emerging investors from underrepresented backgrounds.
- Matched more than 190 VC University scholarship recipients with 2 mentors each – an Experienced VC mentor, and a Peer Mentor in a highly-rated Mentorship Program.
- Facilitated more than 500 one-on-one and roundtable meetings for 175 emerging and underrepresented VC fund managers to meet with LPs and experienced VCs to learn about fundraising best practices via LP Office Hours.

Venture Forward's work is guided by years of tracking, listening, and learning from the VC industry. NVCA publicly launched Venture Forward in June 2020 after incubating Venture Forward programs (including several of those highlighted above) under NVCA. Our work dates back to 2014 with the formation of a Diversity Task Force.[10] It continued with the release of the first VC Human Capital Survey in 2016, and with updated surveys in 2018 and 2020.[11] These biennial surveys have been critical to tracking and measuring the VC industry's DEI progress. We will be fielding the 2022 survey in the second half of the year. In 2017 and 2018, we worked with industry leaders to create and release resources and best practices to address harassment and discrimination.[12] We have also supported and led VC firm commitments through the White House Demo Day Pledge in 2015 and the #VCHumanCapital Pledge in 2020.[13]

How Venture Capital Works

The impact and success of venture capital over the past 50 years stems from its unique structure. There are approximately 2,890 active U.S. VC firms in existence today. These VC firms provide risk capital for high-growth, innovative startups to build and scale their companies. These are equity investments that are essentially illiquid and worthless stock until a company matures and succeeds, which can take 6 to 10 years for an acquisition, public listing, or other liquidity event. VC is a risky and long-term investment, and the likelihood of success is low.[14]

VC investors invest out of funds that are structured as limited partnerships, where the investors are LPs and the VC firm itself as the general partner (GP). The alignment of interest among the LP, GP, and startups are critical to the VC model. Value creation is not driven by financial

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[10] Press release, *NVCA Forms Diversity Task Force to Foster Greater Inclusion across the Innovation Ecosystem, December 8, 2014*, https://nvca.org/pressreleases/nvca-forms-diversity-task-force-foster-greater-inclusion-across-innovation-ecosystem

[11] *VC Human Capital Survey*, powered by NVCA, Venture Forward, and Deloitte https://www2.deloitte.com/us/en/pages/audit/articles/diversity-venture-capital-human-capital-survey.html

[12] Press release, *NVCA Unveils Resources to Help Address Sexual Harassment in Venture Ecosystem, February 22, 2018*, https://nvca.org/pressreleases/nvca-unveils-resources-help-address-sexual-harassment-venture-ecosystem

[13] Press release, *Leaders of the Venture Capital Industry Commit to Actions to Advance Inclusion in the Entrepreneurial Ecosystem, August 4, 2015*, https://nvca.org/pressreleases/leaders-of-the-venture-capital-industry-commit-to-actions-to-advance-inclusion-in-the-entrepreneurial-ecosystem; #VCHumanCapital Pledge signatories, https://nvca.org/nvca-and-venture-forward-vchumancapital-pledge

[14] *NVCA 2022 Yearbook*, https://nvca.org/research/nvca-yearbook

engineering, debt, or transaction fees. VC firms actively engage with a founder and company, providing strategic and operational guidance, connecting entrepreneurs with investors and customers, taking a board seat at the company, and hiring employees. The company's stock only yields value at the time of an acquisition or public listing (which can happen a decade after the initial VC investment). Founders benefit from appreciated stock and stock options, while the GPs and LPs share the capital gains. During the lifetime of the VC fund, the GP also receives a management fee from the LP (typically 2% of the fund size) for general fund operations and expenses.[15]

State of Diversity, Equity & Inclusion in Venture Capital

The VC industry has lacked diversity, equity, and inclusivity. But the good news is that the industry has seen some progress (albeit slow and uneven), and it is working to improve itself. According to our latest *VC Human Capital Survey* that collected data as of June 30, 2020, females constituted 16% of investment partners, up from 11% in 2016. There has been little progress though in the equitable representation of Black or Hispanic investment partners, which represented 3% and 4%, respectively, of investment partners in 2020.[16] However, the demographic composition of junior investment professionals reflects greater diversity, and the wider adoption of diversity-focused talent management and recruitment practices suggests some cause for optimism.

Another area for optimism comes from more firms explicitly assigning responsibility for promoting diversity and inclusion internally — 50% of firms had a staff person or team tasked with this responsibility (compared with 34% in 2018 and 16% in 2016). Simultaneously, diversity and inclusion strategies are becoming more widespread; 43% of firms had implemented a diversity strategy (against 32% in 2018 and 24% in 2016), while 41% had an inclusion strategy (versus 31% in 2018 and 17% in 2016).

This intentionality translates to improved diversity outcomes. Firms with dedicated DEI staff, strategies and programs achieve greater gender and racial diversity on investment teams and among investment partners.[17] The increased emphasis on DEI is also a broader ecosystem trend. More firms reported that LPs and portfolio companies had requested their DEI details over the past 12 months.[18]

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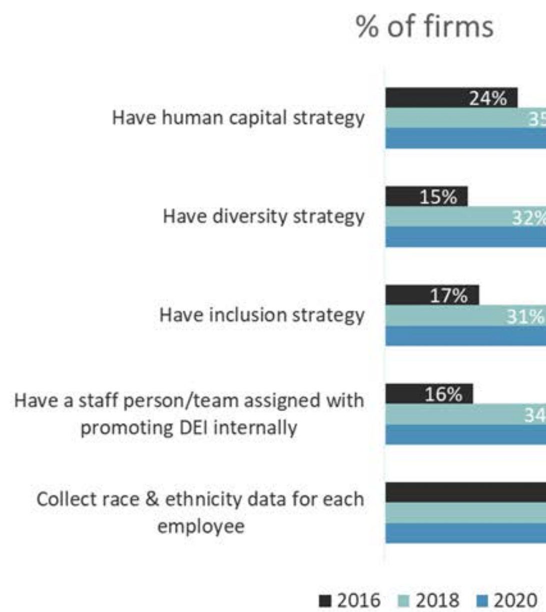
[15] See "VC 101" section of *NVCA 2022 Yearbook*, https://nvca.org/research/nvca-yearbook
[16] The survey questions on race and ethnicity had a different format in the 2016 survey and are not comparable to those in 2018 and 2020.
[17] Op-ed referencing *VC Human Capital Survey*, "Taking stock of the VC industry's progress on diversity, equity and inclusion," https://techcrunch.com/2021/04/27/taking-stock-of-the-vc-industrys-progress-on-diversity-equity-and-inclusion
[18] Id.

Source: 2020 VC Human Capital Survey

Source: 2020 VC Human Capital Survey
Note: Figures for 2016 are not shown because the survey questions on race and ethnicity had a different format in the 2016 survey and are not comparable to those in 2018 and 2020.



Source: 2020 VC Human Capital Survey

Our survey results also highlight the importance of intersectional approaches to DEI. For example, the data shows that progress within one demographic element can be more nuanced when considering people who represent multiple marginalized communities (e.g., the percentage of investment partners who are women has steadily increased, but the percentage of investment partners who are women of color has not).

The lack of diversity among founders largely mirrors that of investors. In 2020, companies with a female founder accounted for 25.2% of total VC deal count, while black-founded companies accounted for 2.6% of total VC deal count.[19] Latinx-founded startups comprised 1.7% of total VC dollars invested in 2020.[20]

Geographically, VC activity has also been concentrated in three states—California, Massachusetts, and New York—which accounted for where 84% of VC assets under

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[19] Q1 2022 PitchBook-NVCA *Venture Monitor*, https://nvca.org/research/pitchbook-nvca-venture-monitor; Crunchbase, VC Funding To Black-Founded Startups Slows Dramatically As Venture Investors Pull Back, https://news.crunchbase.com/diversity/vc-funding-black-founded-startups

[20] Crunchbase, *VC Funding To Early-Stage Latinx-Founded Startups In The US Has Stalled. Here's Why That Matters*, https://news.crunchbase.com/startups/latinx-startup-founders-vc-funding-something-ventured

management were based at the end of 2021; 54% of total VC deal count in 2021; and 73% of total VC dollars invested last year.[21]

Founders and funders who are women, people of color, represent other marginalized communities, and dispersed across the country have not had equal access to VC or equal opportunity to succeed and share in the success of VC.

DEI in VC: Challenges & Opportunities

The structure of VC, how it works, how decisions are made, and how firms approach DEI historically have brought challenges towards progress.

Structure of VC

- **Financial risk and security**: VC is a risky and long-term asset class, where most investments inevitably fail. For someone without financial security or personal wealth (or connections to wealth), the barrier to entry can be high when the upside is risky.
- **Long-term industry means longer success (or failure) cycle:** Success as a VC can take more than 10 years to measure, which makes the industry quite unique from other sectors of the economy. In addition to the risky nature of VC investing, it can take years for success to be determined and for an investor to see the potential investment upside, adding to the longevity of financial risk an investor can face.
- **Low turnover, small industry with few opportunities for new entrants (fund economics):** VC firms tend to remain small (median of 6 employees and 4% turnover among senior investment professionals) to maximize the financial benefit for the investors. The economics of a fund are such that GPs are mainly operating with the support of management fees until investments are realized. The limited number of VC firms, low turnover at existing firms, and the high barrier to entry to new fund managers also means there are few "available" opportunities for new entrants.[22]
- **VC firms are small and oftentimes lack resources/organizational priority on DEI:** Low headcounts and low turnover, coupled with the priority on investment professionals, VC firms have historically put little resources towards prioritizing DEI. However, the latest *VC Human Capital Survey* shows that this is changing, and more firms are prioritizing.
- **Limited partners are capital allocators:** LPs are the allocators of capital to VC firms, who operate primarily as fiduciaries to their stakeholders, essentially controlling where and how much capital is committed to VC firms. Recently, more LPs have started to prioritize DEI when evaluating fund managers or in the GP reporting process, but this remains far from the norm.[23]
- **Limited access to education and information on VC**: VC is rarely taught in a structured format or in a way that is widely accessible, and the historically small

[21] *NVCA 2022 Yearbook*, https://nvca.org/research/nvca-yearbook
[22] *VC Human Capital Survey*, powered by NVCA, Venture Forward, and Deloitte https://www2.deloitte.com/us/en/pages/audit/articles/diversity-venture-capital-human-capital-survey.html
[23] Id.

industry has largely operated through an apprenticeship model. [24] This has been an additional barrier to entry, which Venture Forward has made a priority to address through programs like VC University.

Decision-making process

- **Homophily:** Homophily has been prevalent as VC investors tend to gravitate towards people who are from the same demographic group.[25]
- **Unconscious bias**: Unconscious bias stems from stereotypes that can influence how investment and hiring or promotion decisions are made.[26]
- **Pattern matching:** This occurs when investors rely on common attributes or create a frame of reference of past hiring or funding decisions that led to success to inform future decisions.[27]
- **Network effect:** Historically, investors have tended to rely on their existing networks when sourcing talent.[28]
- **Subjectivity vs. objectivity:** Soft skills are frequently cited when VC investors assess talent. However, soft skills are often subjectively measured compared to other objective metrics, increasing the possibility of unconscious bias creeping into talent-related decisions.[29]

DEI approaches

- **Lack of emphasis on the E and I:** Initiatives that have focused on bringing more underrepresented investors into the industry have not fully considered how to support, retain, and promote that talent once they enter the industry. Equity is the outcome of diversity and inclusion, wherein all people have fair access, opportunity, resources, and power to thrive. Inclusion refers to the actions taken to understand, embrace, and leverage the unique strengths and facets of identity for all individuals so that all feel welcomed, valued, and supported. Both equity and inclusion go beyond representation (i.e., diversity).[30]
- **Lack of emphasis on intersectional approaches to DEI:** Some industry and firm initiatives that have focused on a specific demographic have not recognized that individual experiences can be based on multiple and intersecting identities that can

[24] VC is an Apprenticeship Business, https://www.youtube.com/watch?v=JWjTQyOmj1Q

[25] Homophily refers to the desire to associate with those similar to you. It can arise from similarities in demographic characteristics, such as ethnicity, age, and gender, and from acquired characteristics such as education, occupation, and religion. Source: Homophily in Entrepreneurial Team Formation, https://www.nber.org/system/files/working_papers/w23459/w23459.pdf; Examples: VC firms with female partners are 2x more likely to invest in companies with a female on the executive team, 3x more likely to invest in companies with female CEO. Black-funded venture firms have invested in Black-founded portfolio companies at a rate 4x higher than non-Black-founded VC firms. Investors belonging to the same racial group increases the propensity to work together by 39%. Investors having a degree from the same school increases their propensity to work together by 34%. Source: The Other Diversity Dividend, https://hbr.org/2018/07/the-other-diversity-dividend

[26] Paradigm IQ, Unconscious Bias FAQs, https://www.paradigmiq.com/2016/07/21/unconscious-bias-faqs

[27] Harvard Business Review, A VC's Guide to Investing in Black Founders, https://hbr.org/2020/06/a-vcs-guide-to-investing-in-black-founders

[28] *VC Human Capital Survey*, powered by NVCA, Venture Forward, and Deloitte https://www2.deloitte.com/us/en/pages/audit/articles/diversity-venture-capital-human-capital-survey.html

[29] Id.

[30] Id.

contribute to unique experiences and may expose individuals to double or even triple barriers. This has led and can lead to uneven diversity progress.[31]

The good news is that there is a growing recognition and acknowledgement among the industry of these historical barriers. More VC firms are acting with intentionality to address challenges brought on by structural issues and the decision-making process, and implementing DEI practices to drive meaningful change. Furthermore, Venture Forward, and other organizations like BLCK VC, LatinxVC, VC Familia, and All Raise, are providing valuable programs, resources, guidance, and connections to help VC firms expand their networks and support underrepresented and emerging investors.

Seeing the industry's impact statistics over the past 50 years is also important to shining a light on the potential opportunities that could be unlocked by an industry that further prioritizes DEI. Three areas where DEI progress in VC has the potential to have a bigger, positive impact:

- **Innovation**: VC is funding the innovation of tomorrow. Firms will have blind spots on innovation if they're only focusing on the same networks and demographics for talent and funding.
- **Expand & unlock opportunities**: The industry's success and impact to date has largely lacked DEI focus. An industry focused on DEI has the potential to surpass that and unlock its full potential.
- **Financial performance & returns**: Diverse teams (at both the company-level and firm-level) outperform non-diverse teams.

The Outsized Impact of VC-backed Companies

As someone who has been in the VC industry for 15 years and who has researched the profound positive impact VC-backed startups have had on our economy, jobs, innovation, and value creation, I frequently cite noteworthy statistics to quantify this impact. These are important to juxtapose in conversations about DEI because they show the potential to unlock even more positive impact if we have a more diverse, equitable, and inclusive ecosystem.

- Employment at VC-backed companies grew at a rate of 8 times compared to non-VC backed companies from 1990 to 2020.[32]
- VC-backed companies constitute 50% of all U.S. public companies founded after 1968 and that went public after 1978. These companies represent 77% of total market capitalization.[33]

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[31] BSR, Why Company Diversity, Equity, and Inclusion Programs Need Intersectional Approaches, https://www.bsr.org/en/our-insights/blog-view/company-diversity-equity-inclusion-programs-need-intersectional-approaches

[32] Employment Dynamics at VC-Backed Companies in the United States: 1990 to 2020, https://nvca.org/employment-dynamics

[33] Gornall, Will and Strebulaev, Ilya A., *The Economic Impact of Venture Capital: Evidence from Public Companies* (June 2021). Available at SSRN: https://ssrn.com/abstract=2681841 or http://dx.doi.org/10.2139/ssrn.2681841

- VC funds posted the highest pooled internal rate of return (IRR) for 7 vintage years between 2011 and 2019 compared to other private market asset classes.[34]
- 42% of drugs approved by the FDA between 2009 and 2018 originated with VC funding.[35]

Although the U.S. VC ecosystem is relatively young compared to other sectors of the economy, and may appear small, it has had an outsized impact in almost every facet of the lives of Americans.

Conclusion

The health of the U.S. startup industry and the opportunity for even greater success and impact are dependent on today's industry leaders advancing a more diverse, equitable, and inclusive ecosystem. I appreciate the Committee's attention to this important topic. As we can see from the data, there is more work to do, and Venture Forward remains committed to its leadership role on this issue.

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[34] PitchBook, *Global Fund Performance Report*,
https://files.pitchbook.com/website/files/pdf/2022_Global_Fund_Performance_Report_as_of_Q3_2021_with_preliminary_Q4_2021_data.pdf
[35] SVB, *Trends in Healthcare Investments and Exits 2019*,
https://www.svb.com/globalassets/library/managedassets/pdfs/healthcare-report-2019-midyear.pdf

House Financial Services Committee: "Combatting Tech Bro Culture: Understanding Obstacles to Investments in Diverse-Owned FinTechs"

Madam Chairwoman, Ranking Members, and Members of the Committee, thank you for the invitation to testify today on "Combatting Tech Bro Culture in Fintech."

I am Sallie Krawcheck. I am the CEO and co-founder of Ellevest. I have been the chief financial officer of Citi and the CEO of Merrill Lynch Wealth Management, of Smith Barney, and of Sanford Bernstein.

Ellevest is an investing and financial planning platform built for women. Our mission is to "get more money in the hands of women."

Our company is diverse: In an industry in which the leadership teams are 23% women, ours is 84% women. And while industry leadership teams are 11% people of color, we are 50%, with a board that is likewise 80% women and 50% people of color.

We proudly count among our investors Rethink Impact, which is a woman-led fund that invests in women leaders solving the world's largest problems, and Melinda French Gates' Pivotal Ventures, which invests with the goal of advancing social progress and building a more equitable country. We're also backed by Penny Pritzker's PSP Capital, Jessie Draper's Halogen Ventures, and Sarah Kunst's Cleo Capital, as well as women-run investing groups like Astia Angels and Broadway Angels.

Ellevest has just completed a $53M Series B capital raise, making us one of just a handful of fintech companies run by women-CEOs to raise a total of $100M+. We count this a particular victory, since women CEOs raise just a single-digit percentage of venture funding overall — just 1.8% of the total in 2022 to-date — and women have raised just 1% of fintech dollars over the last 10 years. That puts our chances of getting from initial idea to today at "pretty close to miniscule." And there were times that our raise process felt like that.

Where do things stand today for women raising fintech venture funding?

Well, there are a few things to note, representing good news and not-so-good news on this front:

The good news is that there has been an influx of capital from women investors to invest in early-stage venture capital, some amount of which is specifically for funding women and under-represented founders.

The tough news for us fintech founders is that the venture investments that women investors make — and that women CEOs raise — tends to be in more traditional women-focused consumer businesses. As in, not fintech.

And the even tougher news is that this has not translated into later-stage funding, where it's rough going for women — and particularly women in fintech — when it comes to raising Series B and later rounds.

(I'd like to emphasize that these later-stage numbers matter, because fintech can be capital intensive, more so than other businesses. In our case, we're investing people's money, so the low-capital-intensity, build-the-plane-while-you're-flying-it start-up approach doesn't work as well as it often does for other industries. You need to build your infrastructure, a product that works, a compliance system, information security systems...and we found, if you're engaging with women, we had to be building a brand and a community...all before your launch)

In my experience, there are fewer women writing the larger-sized checks. As of just a couple of years ago, the majority of venture capital firms lacked even a single woman partner.

And, adding insult to injury, raising early-stage capital from women funders can be a double-edged sword, because new research shows that women CEOs' ablility to get next-round funding is lower when they were funded by women in their prior round; this is true whether they are looking to raise from men or women investors this time around. This appears to be the result of simple bias and the implicit assumption that raising money from women meant that you weren't "good enough" to get funding from the more established players (read: men).

I would note that all of these statistics are true despite the research that women-run businesses provide as-good or better results than men-run founding teams, on less capital.

The implications of this?

They go well beyond the frustrations of founders who can't get funded, particularly because of the role that financial services, and fintech, plays as the lifeblood of our economy.

So, first I would ask if you think it is a coincidence that, in the investing industry, 98% of mutual fund assets are managed by men, 86% of financial advisors are men, 75% of senior leaders are men...and that women say they don't see themselves reflected by the industry, that they don't feel seen by the industry, that they rank it among the lowest of any industry they engage with? That, when I was running Merrill Lynch, the vast majority of women withdrew their money from the company in the year after their spouse's death?

I would ask if it's a coincidence that, with 99% of fintech venture funding going to male founders, Ellevest is the only wealthtech app for which the majority of app downloads have been by women, running at more than 90%, versus percentages in the 20s and 30s for others?

And while some of you may be thinking, "Well, the real reason for all of this is because women aren't as good at math as men," I can tell you that's not true. Or that "women aren't as good at investing as men;" that's absolutely not true. Or that "women are risk-averse when it comes to investing"; we see no evidence of that at Ellevest — it's simply the thing the industry tells itself to try to explain why they have so few women clients.

Instead I would argue that all those financial services and fintech companies have not centered their offerings on women's needs. And that, in itself, is a direct result of women not getting funding.

And so women, as individuals, invest less of their wealth than men do, giving up returns that the markets have provided over time. This is one big reason for the gender wealth gap, which sits at 32 cents to a white man's dollar (and 1 penny for Black women).

Think, too, of the businesses not founded, and so the needs that are not met; the investments that have not been made that would have built a more secure future for women and their families; the economic growth we could have seen had that wealth been created.

Think of the toxic relationships so many women are stuck in, the dead-end jobs they can't leave, the small businesses they can't start…because they simply don't have the money to.

Is this something that any of us want for our daughters?

And because I know I must add this in order to get some people's attention — in addition to women, who else is this bad for? Men. Men whose businesses won't prosper because of the sales to women that weren't made. And who still tend to carry the burden of being responsible for the money in their family, which leads to real stress.

What is the answer?

It's not for women entrepreneurs to try harder; we're already trying harder. Because even for those who are successful in raising funds, the price we pay is steep: If women raise, say, 2% of venture dollars, that means 50x as many meetings as men have, 50x as many earnings models sent out, 50x as many questions answered, 50x as many demoralizing no's, 50x as much time away from the business (when the odds are already stacked against a start-up's success).

When I was raising for Ellevest, I knew we faced an uphill battle. So my first thought was to go to sources of capital (like pensions and endowments) who had been vocal in their desire to invest in women and to get more women into financial services. I got some introductions to their venture capital firms, which led to some polite meetings, but they all died with the venture firms' investment committees. (Cue: "Hey, I tried. Gotta let our managers manage, though. Can't meddle.")

Ultimately, for us, a big part of the solution was to double- and triple-down on our bet on women, raising our round from accredited women investors who came together to invest in Ellevest in groups through special purpose vehicles. These were often sponsored by existing women investors in Ellevest. It gave them the opportunity to access a deal at a later stage than they otherwise could have, and it helped us further live our mission. The result is that more than 70% of our new investors in this round were underrepresented investors.

And we live to fight another day.

To: Chairman Stephen F Lynch, Ranking Member Warren Davidson and Chairwoman Maxine Waters

My name is Marceau Michel. I am the founder of the Black Founders Matter and a passionate advocate for underrepresented founders and fund managers. It is an honor to share my thoughts and observations on this very timely matter.

Much like the legal end of slavery, racial integration and affirmative action our society needs to have measurable and accountable methods to facilitate positive change. To this day, even those efforts have not created parity in this country but have enabled social progress.

What I'm asking is that you consider how our society and lawmakers are holding the venture investment industry accountable to finally integrate in a meaningful way. There have been many empty vows to improve the abysmal statistics of diverse investment. However, there has been no significant movement or effort truly diversify by include women and BIPOC founders in their portfolios. This is unacceptable. So I took action.

In June 2022 I launched the 25 by 25 pledge for venture funds to make a real measurable commitment to change. This pledge entails investing 25% of their current fund in startups led by BIPOC women and 25% BIPOC women representation within the staff by 2025. This was created to give funds a clear objective to work towards. Without measurable intentionality we will not see any change or improvement. Funds need to be representative of the founders they are investing in. The existing tradition is for funds to be run and invested homogeneously. This is an obvious blind side to diverse investment. Thus to realize significant change in investment exposure, VC funds must have more BIPOC representation from within the firm.

Classist Tech Bro culture has weakened our economy and limited the solutions that diverse founders are creating. Discrimination based on socioeconomics and network is what's allowed this to prevail. Change must be mandated.

My experience investing in Black Founders has only proven this to be true. After making my first 5 investments in ventures led by Black men, I made a specific choice to only look at deals led by Black women. This effort led to investing in superstars like Olympian Allyson Felix and other incredible companies founded by black women. The Black Founders Matter has invested in and alongside some of the most influential women in this country, however it took a concerted effort to do it.

Our communities have had very little choice in the financial institutions and companies that serve us. Fintechs that claim to serve and target our communities without any level of representation or connection to said communities is a form financial manipulation. Without any accountability this will continue.

Lack of internal representation leads to an inability to even find viable diverse investments. I want to dispel the misconception that there is a lack of Fintechs led by diverse founders. Often these founders do not benchmark well against the existing mold that has been shaped by the dominant white male culture in VC.

Dismissing the lived experiences and perspectives of diverse founders is a detrimental mistake. It's these lived experiences that inform the products we create with the specific needs of our communities in focus. This leads to better outcomes and services for all.

We've repeatedly seen women and BIPOC founders prove more capital efficient and yield higher returns. This should lead to an increase in interest in such ventures. However, investing in and working with said founders exist outside the comfort zone for most VC funds.

If legislation can't be put into place to integrate Fintech financing, how can the emerging diverse founders in this space be empowered?

When cities and municipalities want to revitalize districts and neighborhoods they provide incentives to attract investment. These "opportunity zones" serve as a catalyst for economic growth and land appreciation. What if a similar approach were taken to entrepreneurs.

In recent years there have been more emerging funds that have specific focuses on the immense opportunity zone that is unrepresented founders. These funds need more capital and investors need more incentive to invest with them. Are there ways to incentivize investing in funds that are focus on closing this gap? Is there funding that can be created for emerging funds that are investing in women and BIPOC founders?

I believe it takes multiple approaches to tackle this disparity. I know this committee of esteemed leaders has the ability to put forward policies that will transform what can happen now and for generations to come. By creating metrics for existing VC funds to meet, funding for emerging funds that are focused on this space and incentivizing investment these funds will push the needle forward. What makes this country remarkable is our ability to grow and push forward.

Statement by Affirm Inc.

Virtual Hearing - Combatting Tech Bro Culture: Understanding Obstacles to Investments in Diverse-Owned Fintechs
June 30, 2022

Before the U.S. House Committee on Financial Services
Task Force on Financial Technology

Chair Lynch, Ranking Member Emmer, and members of the Task Force on Financial Technology:

Affirm Inc. appreciates the opportunity to submit a comment to the Committee on the June 30th hearing titled *Combatting Tech Bro Culture: Understanding Obstacles to Investments in Diverse-Owned Fintechs*. Affirm strongly supports investing in policies, products, and personnel that drive diversity, equity, and inclusion. The challenges facing the country in addressing and remediating systemic and widespread inequities are endemic in the financial services industry. Affirm is committed to being a part of the solution. An important measure of success in our mission to provide honest financial products that improve people's lives, is how effective we are, as a company, in driving financial inclusion and equity at all levels of our organization. We are encouraged by the comments and questions raised in the hearing. One of the defining points raised by Chairwoman Waters was recognizing that a big part of the solution is having DEI represented in all parts of an organization, and to "have people inside your firm to help make these [management] decisions. [...] and be particularly interested in diversity [...]".[1]

We submit this comment to outline our approach to Diversity, Equity, and Inclusion (DEI) initiatives, so that it may serve as a template and model for creating a company culture that ensures employees feel valued, while also being challenged and empowered to drive change that will move the financial services industry forward. This comment also serves to outline our progress in implementing our mission. Our approach to DEI is straightforward and effective, and while we will always learn and grow, we are proud of what we have built at Affirm, and this comment also serves as providing the receipts to our progress in implementing our mission.

Ultimately, we strive to: (1) build a business around a product that is honest, transparent and a driver of consumer health, especially for underrepresented communities. In order to do this, we (2) have built and continue to foster a company culture that values and expects individual commitments to DEI initiatives and inclusive

[1] Remarks by Chairwoman Waters: Virtual Hearing - Combatting Tech Bro Culture: Understanding Obstacles to Investments in Diverse-Owned Fintechs (starting at @ 56:30)
https://financialservices.house.gov/events/eventsingle.aspx?EventID=409522#Webcast

products. We have also (3) created broad and multi-faceted tools and resources through our employee foundation, Affirm Cares, to harness our employees' commitment to DEI and empower them to be change agents. By investing in these priorities, we are fundamentally moving the industry forward, especially as our employees grow, thrive, and take on bigger roles (during and after their time at Affirm), because they will be equipped with the resources and experience to drive critical change.

(1) Building a business around a product that is honest, transparent and a driver of consumer health, especially for underrepresented communities.

Affirm is a payment network that empowers consumers to spend and save responsibly, while helping merchants of all sizes better serve their customers and drive growth. For consumers, Affirm is a transparent and flexible alternative to credit cards and other buy now pay later solutions. We empower consumers to pay-over-time with no late or hidden fees, while treating every transaction as an explicit borrowing event. In doing so, we provide a wide breadth of consumers with control, flexibility, affordability, and increased purchasing power.

Every time a consumer wants to use Affirm to buy something, they must be approved, and we only approve consumers we believe can responsibly afford to pay us back. Our underwriting models assess a consumer's ability to repay, considering data beyond just traditional credit scores, including transaction history and credit usage, before making a real-time credit decision. This approach enables Affirm to responsibly expand access to a wide segment of consumers, including those whose traditional credit scores may not fully represent their creditworthiness as a borrower. Once approved, a consumer will see their biweekly and/or monthly payment options available through Affirm, with time frames ranging from six weeks to 60 months. Consumers who choose Affirm always see their total cost upfront. They never owe a penny more than what they agree to at checkout, even if they're late or miss a payment.

Affirm offers interest-free and simple-interest bearing loans. By underwriting every loan individually, we are able to responsibly lend to as many consumers as possible. Affirm's biweekly "pay-in-4" option is always interest-free and always 0% APR. Affirm's monthly payment option can be interest-free or can be interest-bearing with simple interest generally ranging from 10 to 30% APR –below the 36% national military lending cap rate that has been supported by consumer advocacy groups and bipartisan members of Congress. Affirm's interest-free loans are truly 0% APR and have no deferred, hidden, or surprise interest or fees, ever. In the case of Affirm's interest-bearing loans, any interest charged is clearly stated upfront, in plain numbers, and never increases or compounds.

Our responsible approach to expanding credit access is a large part of our mission to offer honest financial products that promote opportunity for millions of Americans, especially low and moderate income ("LMI") borrowers that would otherwise be left vulnerable to predatory lenders and high-interest-rate products. By underwriting every application in real time, we are able to ensure we are extending affordable credit to LMI customers, who accounted for 1/3 of Affirm's 2021 total sale volume.

It is worth noting that, Affirm products are subject to rigorous and comprehensive regulatory oversight. As part of our mission to provide honest and transparent financial products, we have gone above and beyond what regulations require and will always do best by the consumer. For example, Affirm consumers to whom credit is extended receive Truth in Lending disclosures for all our products, even when it is not required. This ensures that consumers receive consistent and transparent disclosures. Further, Affirm is subject to regulatory supervision and oversight, both directly and indirectly, by way of partnerships with our originating bank partners and under federal and state laws.[2] This includes licensing in states that require licensing of our interest-free bi-weekly "pay-in-4" product with no late fees, as well as servicing and collection licenses required of us and our vendors.

(2) Creating and fostering a company culture that values and expects individual commitments to DEI initiatives

At Affirm, we believe that diversity, equity, and inclusion are vital. We embed DEI into all processes, programs, and structures at Affirm—from how we conduct business to how we hire, develop, advance, and retain talent:

Affirm Leadership:

- 75% of Affirm's board of directors are from underrepresented groups
    - 3 female directors,
    - 2 male directors identify as Asian or Black
    - 1 director identifies as LGBTQIA+
- 50% of Affirm's executive leadership team are women
- More than 2,100 of Affirm's merchant partners are certified as Women-, Veteran-, or Minority-Owned businesses. We also have an ongoing internal initiative to ensure we have the most current self-reported demographic data for our merchant partners.

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[2] The laws to which we are or may be subject to include but are not limited to: Truth-in-Lending Act and Regulation Z; Section 5 of the Federal Trade Commission Act; Section 1031 of the Dodd-Frank Act; Equal Credit Opportunity Act and Regulation B; Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, and Regulation V; Fair Debt Collection Practices Act and Regulation F; The Telephone Consumer Protection Act; Gramm-Leach-Bliley Act and Regulation P; California Consumer Privacy Act and other data protection laws and regulations, such as EU General Data Protection Regulation; Holder Rule and equivalent state laws; Electronic Fund Transfer Act and Regulation E; Electronic Signatures in Global and National Commerce Act Military Lending Act; Servicemembers Civil Relief Act; The Coronavirus Aid, Relief, and Economic Security Act

Internal Staff, Community Groups, and Committees

- Affirm established a Diversity & Inclusion Steering Committee (DISC) that serves as an internal committee composed of senior leaders from across the company to provide oversight, support, and guidance to departments and teams across the company on business initiatives that impact DEI.
- Affirm has a robust DEI team that is dedicated to full-time DEI work. Their focus areas include internal DEI policies and programs, external hiring partnerships, recruiting from Under Represented Groups (URGs), and increasing and supporting our merchant partners from URGs.
- Affirm engages with local nonprofit organizations to build connections and offer support. We've hosted Code Nation and Code 2040 in our offices and worked with Career Karma on their Reskill America initiative.
- Affirm has a comprehensive training program, which includes courses on unconscious bias, diversity hiring strategy, psychological safety, and inclusive leadership.
- Affirm publishes a publicly available annual DEI report to promote transparency and report progress towards goals, and a quarterly newsletter to keep all Affirmers aware of DEI opportunities and updates. This report is an in-depth look at our goals, accomplishments, and future. [Report]
- Affirm utilizes ongoing third-party tools to assess parity in compensation-related processes.
- Affirm established, and provides resources for, Community Groups (CGs), Employee Resource Groups (ERGs), and DEI working groups throughout the company.

Employee and Community Resource Groups

Our ERGs are made up of people from underrepresented groups and their allies. ERGs work with company leadership to advance our commitment to hiring and retaining a diverse workforce and help facilitate a culture where all Affirmers feel they belong.

AHA @	LGBTQ+ @	BLACK @
AHA (Asian Heritage Alliance)	LGBTQ+@	B.L.A.C.K.@
Amigxs @	Women @	Veterans @
Amigxs	Women@	Veterans@

Community Groups (CGs) help build belonging, community, and inclusion at Affirm. Our CGs come together over common identity, shared characteristics, and shared life experiences.

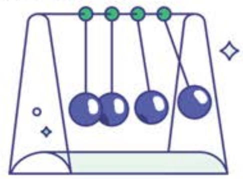
- CLAC (Chinese Language and Culture)
- Immigrants@
- Jewish Community@
- Mental Wellness@
- South Asians@
- Parents@
- GEM (Gender Empowerment in Engineering)
- SWANA@ (South West Asia and North Africa)

(3) Creating broad and multi-faceted tools and resources to empower our employees to be change agents

A central institutional structure that empowers our employees to make an impact is the *Affirm Cares Employee Foundation* ("CARES"). CARES is an employee volunteer-led 501(c)3 non-profit established by Affirm in 2019. CARES aims to make a positive impact in the communities in which we work and live by sharing our expertise and funding across three impact pillars: financial literacy and inclusion, technology training and education, and vibrant communities. CARES was established to formalize the already ongoing community and volunteer investment hours employees were making in their communities since 2015. Since its inception in late 2019, the Affirm Cares Employee Foundation has raised and awarded grants of over half a million dollars to local community non-profits.

Pillar #1: Financial literacy & inclusion: Provide fair and responsible credit for communities and businesses, credit education support, and nonprofit investments focused on equitable economic growth.

Pillar #2: Technology education & training: Support access to technology for K–12 coding academies and bootcamps, as well as providing workforce development and support for small urban and rural businesses.



Pillar #3: Vibrant communities: Partner with organizations focused on housing insecurity, homelessness, civic engagement, neighborhood preservation and revitalization, small business development, and community enrichment.

In 2021, CARES invested and collaborated with vanguard organizations tackling some of the most pressing social impact issues facing the country. Charitable donations typically ranged from $1,000 to $10,000.

In 2020 CARES invested in front line organizations working in Health and Racial Justice

Previous Grant Recipients

In conclusion, we submit this comment in the hopes that our approach to Diversity, Equity, and Inclusion (DEI) initiatives can inform industry priorities and solutions. Furthermore, we aim to demonstrate, with our documented successes, that well defined and intentionally implemented DEI initiatives can combat and eliminate the toxicity of bias and systemic inequity that is rooted in so many facets of the financial technology industry, and society at large. Affirm welcomes the opportunity to work with the Committee and to build progressive solutions that move the industry forward by integrating DEI into every facet of investments, products, and policies. Thank you very much for your consideration of our comment.

Sincerely,

Katherine Adkins
Chief Legal Officer
July 5, 2022