

Office of Investment and Innovation

SBIC Overview

Three “C’s” and a “D”

U.S. Small Business Administration | Program Area Framework



Capital

- 7(a) Loans
- 504 Loans
- Other Credit
- **Small Business Investment Companies**
- **Small Business Innovation Research**
- **Small Business Technology Transfer**
- **Growth Accelerator Fund Competition**

Contracting

- Small Business Contracting
- Socio-economic programs
- Size standards

Counseling

- SBA Field Network
- Small Business Development Centers
- Women’s Business Centers
- Veterans Business Centers
- SCORE
- Clusters
- STEP

Disaster

- Economic Injury Disaster Loans
- Business Physical Disaster Loans
- Home Physical Disaster Loans

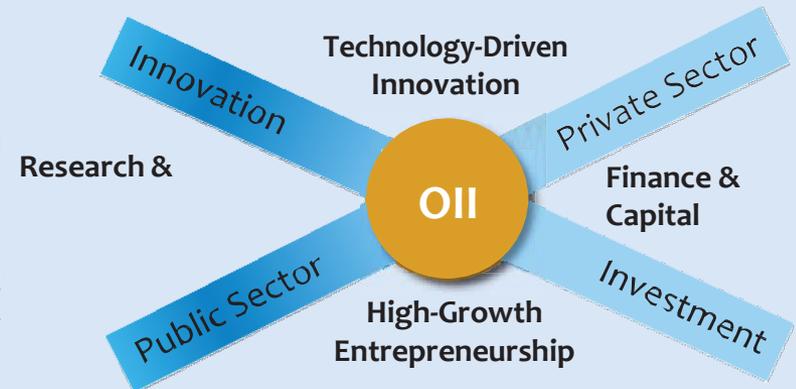
WITH THE SMALL BUSINESS ACT OF 1953, CONGRESS CREATED THE AGENCY, WHOSE FUNCTION IS TO "AID, COUNSEL, ASSIST AND PROTECT, INsofar AS IS POSSIBLE, THE INTERESTS OF SMALL BUSINESS CONCERNS."



Elevator Pitch

SBA's Office of Investment and Innovation (OII) leads programs that provide the high-growth small business community with access to two things: financial capital and R&D funds to develop commercially viable innovations.

Our work is underpinned by public-private partnerships that operate on or along a very dynamic and economically important intersection.



Small Business Investment Company (SBIC) Program delivers access to financial capital

\$4 billion authorization per year | \$25 billion of assets under management | 303 active SBICs

Small Business Innovation Research (SBIR) and Small Technology Transfer Research (STTR) programs support the R&D + financing of cutting-edge technologies

\$42 billion since inception | ~\$2.5 billion annual set aside | >150,000 awards granted | ~10 patents per day

Innovation Programs - Supporting the American high growth entrepreneurial ecosystem

1500 Startup, \$600m, 5000 job Growth Accelerator Fund Program | Start-Up America | Crowdfunding

Broad Impact Across Our Economy

Some Quick Facts

SBIC

Since inception in 1958...

- ...SBICs have deployed over \$72B (2/3rd is private capital) in American small companies
- ...SBICs have made over 166,000 investments
- ...more than 2,100 funds have been licensed as SBICs



What is the SBIC Program

The SBIC Program is a private equity fund of funds operation sponsored by SBA

- Launched in 1958, SBICs have
 - deployed more than \$72 billion of capital since its inception
 - made more than 166,000 investments
 - licensed more than 2,100 funds
- SBIC program matches private capital in professionally managed funds
 - Match is in form of a debenture typical at a ratio of 2 to 1, sometimes 3 to 1
- SBIC program can invest up to \$150 million per SBIC fund
- SBIC has congressional authorization to invest up to \$4 billion annually into SBIC funds
- Family of funds legislation raising capital from \$225m to \$350m being reviewed @ Hill

SBIC in Brief

A Diversified Portfolio

The SBIC Program is diversified by strategy, location, industry and vintage year. This diversification helps ensure **the program continues to operate at zero subsidy.**

FY 2014 & 2015 Results

- 55 new SBIC licenses issued
- ~\$5 billion in new commitments
- >2,100 small companies capitalized
 - >\$11.5 billion financed, back to back record years
 - >21% of companies < 2 yrs. old
 - >26% of companies are in low-to-moderate income areas or are minority-owned or women-owned businesses

1st Time SBICs more than half

About 50 out of 300 funds have a woman and/or minority in its partner ranks.

53% of financings to companies with < \$5m in EBITDA

Portfolio as of 07/31/15

- \$25.200 billion in assets
 - \$12.873 billion in private capital
 - \$12.327 billion in SBA leverage
- 303 funds in the SBIC portfolio
 - 45 funds (~14%) bank-owned or do not use SBA leverage
- Varied Investment Strategies
 - Senior Lending
 - Mezzanine
 - Leveraged Buyout
 - Growth Capital
 - Turnaround
 - Venture Capital
- Impact & Early Stage Initiative
 - 12 Funds w/ ~\$1 billion AUM

Overall Stats – 2010-2014

- \$17.1 billion in SBIC financings of American small businesses
 - 56% Mezzanine Debt
 - 22% debt w/ equity features
 - 22% equity/buyout/venture
- Industries Capitalized
 - 28% manufacturing
 - 15% professional services
 - 13% information technology
 - 7% transportation
 - 7% health & other care
 - 26% all other
- Geographic Diversity
 - Investments made in 43 states
 - SBICs located across the U.S.

The SBIC Public-Private Partnership at Work

The SBIC Program leverages the full faith and credit of the U.S. government to increase the pool of investment capital available to small businesses.



Role of Private Investors:

- Participate as “Limited Partners” in the SBIC
- Negotiate the fund structure and management fees with the SBIC manager
- Invest the matching funds needed for the fund to access SBA-guaranteed leverage

Role of SBA:

- Assesses fund manager qualifications and licenses funds as SBICs
- Generally provides up to \$2 of government-guaranteed debt for every \$1 of private capital, up to a maximum of \$150 million
- Regulates and monitors SBICs for compliance and performance

Role of SBIC Fund Managers:

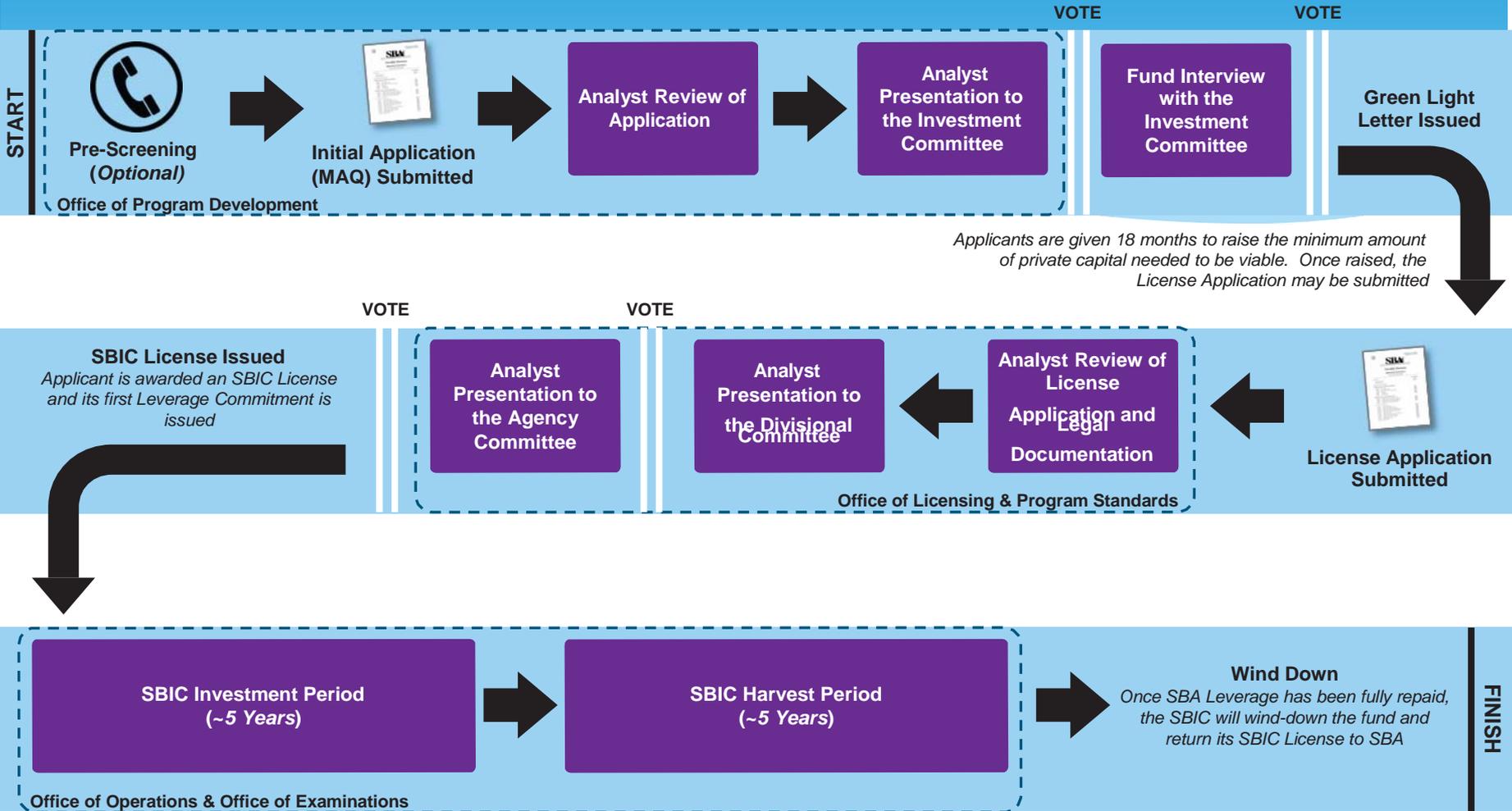
- Manages all aspects of the fund, including LP relations and compliance with SBA regulations
- Establishes investment strategy
- Identifies small business investment opportunities
- Monitors and exits investments

Small Business Investment Criteria

SBA has established a basic set of investment criteria to which all SBICs must adhere. These rules ensure the SBIC Program achieves its public policy goals without imposing undue restrictions on fund operations.

- ✓ SBICs **must** invest in “small” businesses, which are defined as those with less than \$19.5 million in tangible net worth AND average after-tax income for the preceding two years of less than \$6.5 million; OR, businesses qualifying as “small” under SBA’s N.A.I.C.S. Industry Code standards (generally based on annual sale or number of employees)
- ✓ SBICs **may** invest in businesses located anywhere in the U.S. or its territories
- ✓ SBICs **may** control a small business for up to seven years, or longer with SBA approval
- ✓ SBICs **may** invest using loans, equity securities or debt securities with equity features such as warrants
- ✗ SBICs **may not** invest in businesses with over 49% of their employees located outside the U.S. or its territories
- ✗ SBICs **may not** invest in project finance, real estate, farmland, financial intermediaries or passive businesses
- ✗ SBICs **may not** invest more than 10% of the total fund in a single portfolio company

SBICs from Start to Finish



The SBIC Investment Opportunity

Benefits of Leverage

- ▣ **Flexible Terms:** The duration of SBA's financing instruments can be easily matched up with short or long term investments.
- ▣ **Rapid Deployment of Funds:** The potential to capitalize as much as two-thirds of a fund with SBA leverage means managers spend less time fundraising and more time investing.
- ▣ **Increased Financial Scale:** SBA leverage allows funds to scale up their strategies and extend their financings to more businesses.
- ▣ **Potential for Enhanced Returns:** SBA-guaranteed capital is low cost and does not participate in profit.

Organizational Benefits

- ▣ **Flexible Fund Structure:** SBICs can utilize a variety of fund structures, including “drop-down” or “side-car” structures.
- ▣ **Exemption from SEC Registration:** SBICs are exempt from SEC registration, yet LPs benefit from SBA's careful monitoring of each fund's performance and regulatory compliance.

Friendly to Bank Investors

- ▣ **Exemption from the Volcker Rule:** Bank investments in SBICs are exempt from the 3% cap set forth by the “Volcker Rule” under the Dodd-Frank Wall Street Reform and Consumer Protection Act (PL-111-203)
- ▣ **Community Reinvestment Act (CRA):** Investments in SBICs are presumed qualified for CRA credit.

Driving Capital to Underserved Markets

In 2011, as part of President Obama's Start-Up America Initiative, SBA announced two initiatives designed to expand the reach of the SBIC Program to underserved communities and high growth startups.



Impact Investment Fund

Committing \$200 million annually to Impact SBICs dedicated to generating social, environmental or economic impact alongside financial return.

- Impact SBICs commit to invest at least 50% of their capital into “impact investments
- Impact SBICs may make SBA-Identified impact investments as well as Fund-Identified impact investments
- The Impact Investment Fund incorporates impact industry best practices
- Applications from Impact SBICs receive expedited processing

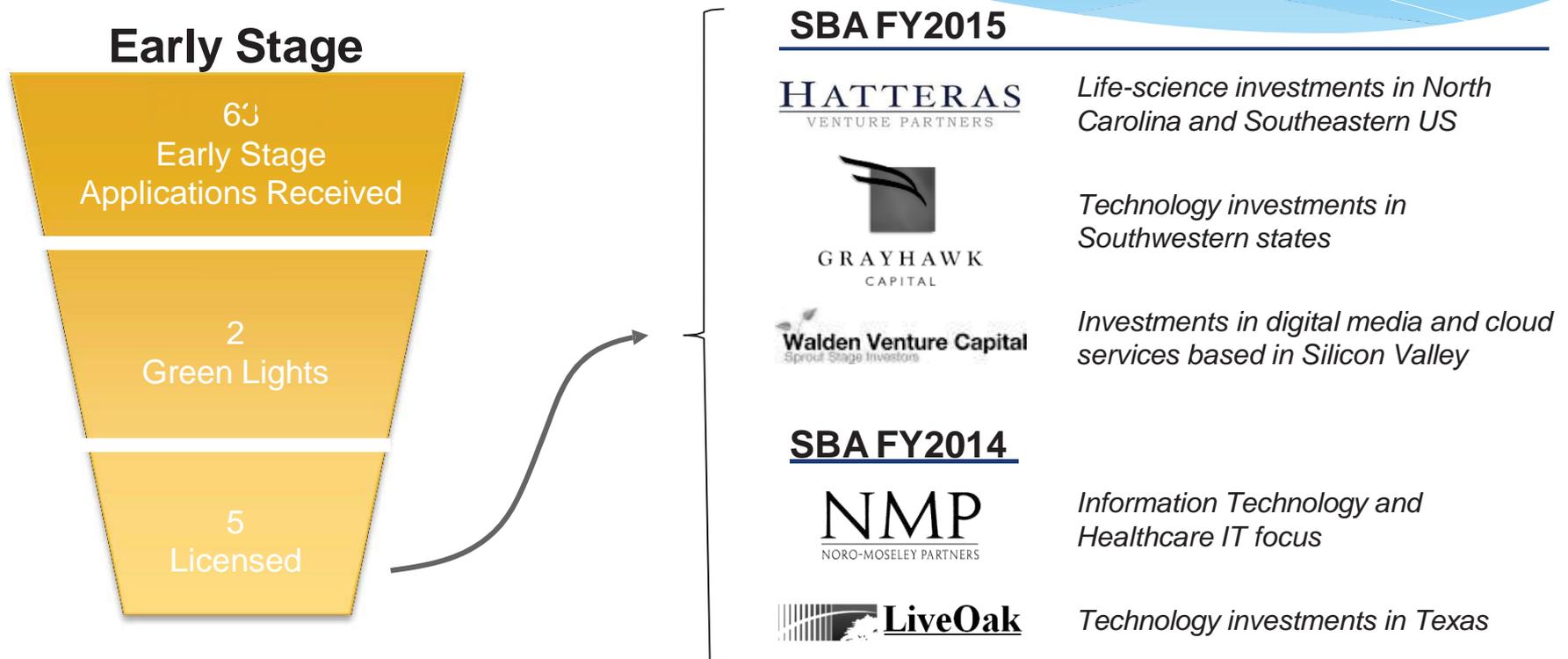
Early Stage Initiative

A \$1 billion initiative to help high-growth businesses obtain their first round of institutional financing.

- Investment funds that apply for an Early Stage SBIC License commit to invest at least 50% of their capital into SBA-defined “early stage” companies.
- The Early Stage application process occurs once a year through FY2016.
- Early Stage SBICs may make use of both an Early Stage Standard Debenture and an Early Stage Discounted debenture.

Progress to-date

The five funds SBA has licensed to date are geographically diverse and target different industries.



Definitions & Concepts

The Global Impact Investing Network

Impact investments are investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.

Components of Impact Investing

Intentionality

Impact investors deploy capital with the intention of generating impact.

Financial Return

Impact investors always expect a financial return, whether market rate or a simple recovery of principal.

Measurement

Impact investors commit to measure the social, environmental or economic impact of their investments.

Impact Fund Progress To-Date

Michigan Growth Capital Partners

Licensed
2011

Location
Detroit, MI & New York, NY

Investment Mandate
Companies with nexus in Michigan

SJF Ventures III

Licensed
2012

Location
Durham, NC

Investment Mandate
National growth capital strategy

Bridges US Sustainable Growth Fund

Licensed
2014

Location
New York, NY

Investment Mandate
National growth capital strategy

Renovus Capital Partners

Licensed/Opt-In
2011/2014

Location
New York, NY

Investment Mandate
Education Sector (Fund-Identified)

Morgan Stanley Impact SBIC

Licensed
2014

Location
New York, NY

Investment Mandate
Loans to LMI businesses

Bluehenge Secured Debt SBIC

Licensed
2015

Location
New York, NY & Dallas, TX

Investment Mandate
Regional debt strategy (LMI/Rural)

Impact Fund Licensed To-Date

SBCC II

Licensed
2015

Location
Stamford, CT

Investment Mandate
Mezzanine & Debt Strategy (LMI)

GCM Grosvenor California Impact

Licensed
2016

Location
LA, California

Investment Mandate
California growth capital strategy
(LMI/Rural)

Learn More

AMERICAN BANKERS ASSOCIATION

http://www.americanbanker.com/magazine/124_04/volcker-rule-brings-sbics-back-in-vogue-1066822-1.html

COMPTROLLER OF THE CURRENCY | ADMINISTRATOR OF NATIONAL BANKS | US DEPARTMENT OF TREASURY

<http://www.occ.gov/topics/community-affairs/publications/insights/insights-sbic.pdf>

US SMALL BUSINESS ADMINISTRATION

Overall: <http://www.sba.gov/category/lender-navigation/sba-loan-programs/sbic-program-0>

Impact: <https://www.sba.gov/content/impact-investment-fund-overview>

Library of Congress Study: <https://www.sba.gov/blogs/sba-partners-library-congress-analyze-sbics-economic-impact>

Office of the Comptroller of the Currency
Washington, DC 20518

Community Developments
COMMUNITY AFFAIRS DEPARTMENT

SEPTEMBER 2016

Insights

Small Business Investment Companies: Investment Option for Banks

Abstract
This *Community Developments Insights* report describes the U.S. Small Business Administration's (SBA) Small Business Investment Company (SBIC) program, its role in capital markets, and how financial institutions—including national banks and federal savings associations (collectively, banks)—can use the program to expand their small-business finance activities. This report also describes how the SBA licenses these companies, how they operate and are supervised, and the guidelines they should follow. Finally, this report outlines risks and regulatory considerations of bank investments in SBICs and explains how these investments may receive consideration under the Community Reinvestment Act (CRA).

The information in this report was obtained from a variety of sources, including bankers, non-supervised financial intermediaries, SBICs' general partners (GP), trade groups, the SBA's Office of Investment and Innovation (OII), and other parties involved with small business investment companies. Appendix E provides a resource directory for additional program information.

I. What Are SBICs?
SBICs are privately owned and managed investment funds that the SBA licenses and regulates. The SBIC license allows SBICs to employ private capital and SBA leverage (funds borrowed at low cost using SBA-guaranteed securities, called debentures), to make investments in qualifying small businesses and smaller enterprises as defined by SBA regulations.¹ Congress created the SBIC program in 1958 to stimulate growth in America's small business sector by supplementing the long-term debt and private equity capital available to small businesses. In fiscal year (FY) 2014, Congress increased the SBIC program's annual authorization amount from \$3 billion to \$4 billion, which is the authorized level as of FY 2015.

SBICs generally are formed as limited partnerships, with the SBIC manager acting as the GP. The limited partners (LPs), who supply the majority of the private funding, are typically institutional investors, including banks, and individual investors with high net worth.

By regulation, SBICs may invest only in small businesses and must allocate a minimum of 25 percent of their capital to smaller enterprises. A small business is a business, including an affiliate, that has a tangible net worth not in excess of \$19.5 million.

¹ 13 CFR 101.



The Small Business Investment Company Program (SBIC)

Annual Report
Fiscal Year 2014

















Helping Meet the Capital Needs of America's Small Business Since 1958



Impact Investment Fund Overview

The Impact Investment Fund was authorized in early 2011 as part of a series of efforts to encourage private investment in small businesses and the development of America's impact investing market. Under the Small Business Investment Company (SBIC) program, the Impact Fund may raise up to \$200 million in federal guarantees to invest in small businesses.

In 2014, SBA announced an expansion of the Impact Investment Fund and published a notice of its Impact Investment Fund Policy, which is available for download below.

Impact Investment Fund Policy

Goals of the Fund: Generating Impact and Developing an Industry
The primary goal of the Impact Fund is to invest in small businesses that meet both financial and social performance objectives and to generate measurable social, environmental or economic impact. However, the Impact Fund may also invest in small businesses that meet only financial objectives and are not required to generate social, environmental or economic impact.

The SBIC Program has a long history of providing needed capital to America's unmet needs and opportunities in small business sectors. Many of the country's first venture capital funds were SBICs and were the first source of equity investment for companies such as Google, Netflix and Cisco. Yet, the SBIC Program's impact potential for solving the country's biggest challenges to create jobs and business success stories. Focus on the smaller, infrastructure and unmet needs sectors, which are the most underserved by traditional sources of capital.

The Impact Fund SBIC is a unique opportunity to help the development of a new and growing sector of the economy, the impact investing market. Impact investors currently manage only a fraction of the funds that are raised for small businesses, largely because investment funds are not required to disclose their investments. The Impact Fund SBIC allows investors to disclose their investments and social, environmental or economic impact on their investments.

Overview of the Impact Investment Fund
Like other SBICs, the Impact Fund SBIC is a privately owned and managed investment fund. The Impact Fund SBIC will invest in small businesses that meet both financial and social performance objectives and to generate measurable social, environmental or economic impact. The Impact Fund SBIC will invest in small businesses that meet only financial objectives and are not required to generate social, environmental or economic impact on their investments.

SBICs and the Impact Fund
SBICs may invest in small businesses that meet both financial and social performance objectives and to generate measurable social, environmental or economic impact on their investments.

Key Initiatives
<ul style="list-style-type: none"> Daily Shape Initiative Impact Investment Fund Energy Savings Challenge
Latest Updates
<ul style="list-style-type: none"> SBIC Quarterly Reports Policy & Rulebook Changes SBIC News 2000 Report on SBICs September 2015 SBIC Program Annual Report 2014
Quick Links
<ul style="list-style-type: none"> Application Forms SBIC Policy Database SBICs Reports
Contact Information
<ul style="list-style-type: none"> 405 The Energy Center Plaza Washington, DC 20541 Phone: 202.251.4110 (Toll Free) us@sbic.gov

Contact Us

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