



U. S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INVESTMENT & INNOVATION (OII)
WASHINGTON, DC 20416

Accrual Debentures

The Small Business Investment Company Investment Diversification and Growth rule, dated 7/18/2023, gave rise to two new Small Business Investment Company (SBIC) license types – Accrual SBIC and Reinvestor SBIC – both of which will utilize a new government-guaranteed loan instrument called the Accrual Debenture, which is designed to align with the cash flows of long-term, equity-oriented funds.

The Accrual Debenture is a Debenture issued at a face value that accrues interest over its ten-year term. SBICs must repay the accrued unpaid interest and principal at maturity. Additionally, interest, SBA Annual Charge, and principal payments are required when making non-tax distributions to the SBIC’s private investors.

The Federal Home Loan Bank of Chicago (FHLBC) is the lender for the Accrual Debentures, and SBA will guarantee all principal and accrued unpaid interest with respect to such Accrual Debentures. When the aggregate amount of Accrual Debenture issuances reaches sufficient volume for pooling and securitization, SBA intends to pool the Accrual Debentures as part of a separate pooling from the standard Debentures.

The Accrual Debenture is only available to applicants approved by SBA as Accrual and Reinvestor SBICs.

Commitment Reservation and Leverage Draws

During the licensing process, SBA will conditionally approve an SBIC applicant’s Total Intended Leverage Commitment (TILC) amount at the time SBA issues the Green Light letter. This TILC amount will be finalized one year after licensure by the Patient Capital Investment (PCI) Division of OII.

For an Accrual SBIC, the final TILC dollar amount is for Accrual Debenture Leverage principal only and must be an amount less than or equal to:

1. 125% of Regulatory Capital; and
2. The statutory maximum Leverage limit at the time of license issuance.

For a Reinvestor SBIC, the final TILC dollar amount is for Accrual Debenture Leverage principal only and must be an amount less than or equal to:

1. 200% of Regulatory Capital; and
2. The statutory maximum Leverage limit at the time of license issuance.

For both Reinvestor SBICs and Accrual SBICs, SBA can determine a TILC dollar amount which may be lower than maximum percentage of Regulatory Capital or the statutory maximum Leverage limit based upon several factors considered during the licensing due diligence process. One such factor is a forecast of accrued interest scenarios based on prevailing interest rates at the time of the licensing process.

Licensees may request Leverage from SBA in the form of a purchase or guarantee of their Debentures. The Leverage application process has three parts.

1. SBA's approval of the TILC.
2. The Licensee's submission and SBA's approval of a Commitment Request. SBICs may apply up to two times per year where the cumulative aggregate amount does not exceed the TILC approved by SBA.
[Instructions for Commitment Requests | U.S. Small Business Administration \(sba.gov\)](#)
 - a. The Licensee must pay a 1% commitment fee and countersign a commitment letter prior to applying to draw leverage.
3. The Licensee's submission and SBA's approval of a leverage Draw Application.
[Draw application instructions | U.S. Small Business Administration \(sba.gov\)](#)
 - a. Draw Application instructions are the same as the Standard Debentures. Accrual draws will be limited to 1.25x of Leverageable Capital, and Reinvestor SBIC draws will be limited to 2.0x of Leverageable Capital.

SBA reserves the right to deny approval of draw applications or reduce approved draw amounts if SBA determines that the Licensee is in danger of exceeding its Individual Maximum, as defined in 13 C.F.R. § 107.1150(a), or the Licensee, along with other SBICs under Common Control, are in danger of exceeding the maximum amount specified in 13 C.F.R. § 107.1150(b).

Accrual Debenture Terms

Interest

- **Fixed Rate.** FHLBC determines a fixed interest rate to be charged on the Debenture on the date that the Debenture settles. If an SBIC submits an appropriately executed Approval Notice to SBA's custodial bank, the Bank of New York Mellon (BNY), by 2PM ET on a business day, the settlement date is the next business day.
- **Quarterly Compounding & Accrual.** Interest compounds and accrues at each quarterly Payment Date of 2/1, 5/1, 8/1, and 11/1. Interest will be charged on the original face principal amount through the Lockout Period (see "Prepayment Fee" below), then on the outstanding principal balance thereafter.

- **Due at Maturity.** Accrued and unpaid interest is payable at maturity unless the Licensee makes a non-tax distribution to private investors under 13 C.F.R. § 107.585 (see “Distribution and Repayment Rules” for more details).
- **Permissible Payments.** SBICs may make full or partial payments of accrued interest on any Payment Date without penalty. However, payment must also be made on the accrued SBA Annual Charge of the same Debenture.

SBA Annual Charge

- **Quarterly Accrual.** The SBA Annual Charge (“Annual Charge”) accrues on the quarterly Payment Dates of 2/1, 5/1, 8/1, and 11/1 and is charged on the original face principal amount of each Accrual Debenture through the Lockout Period (see “Prepayment Fee” below), then on the outstanding principal balance thereafter.
- **Based on Commitment.** The Annual Charge rate is the Annual Charge of the commitment against which the draw was made and Debenture issued.
- **Due at Maturity.** Accrued and unpaid Annual Charge is payable at maturity unless the Licensee makes a non-tax distribution to private investors under 13 C.F.R. § 107.585 (see “Distribution and Repayment Rules” for more details).
- **Permissible Payments.** SBICs may make full or partial payments of accrued Annual Charge on any Payment Date without penalty. However, payment must also be made on the accrued interest of the same Debenture.

SBA Leverage Fees

- **1% Upfront Commitment Fee:** non-refundable fee payable on the Leverage commitment amount issued from a formal commitment request. The 1% Commitment Fee is not charged on the TILC. It is charged on approved commitments made against the TILC.
- **2% Draw Fee:** fee withheld from the proceeds of an Accrual Debenture Leverage draw. The 2% fee is calculated on the face principal amount of the Debenture.

Lockout Period

- **Prepayment Fee.** SBICs may not prepay any principal on an Accrual Debenture during a Lockout Period without payment of a Prepayment Fee (see section below).
- **Permissible payments.** Partial payments of accrued interest and Annual Charge are permitted without penalty during Lockout. Such payments will reduce the Prepayment Fee should the SBIC prepay the principal during Lockout.
- **Lockout Period:** defined as the period commencing on the settlement date of the Accrual Debenture and ending on (but excluding) the date that is two years from the first Payment Date following settlement date.
 - For example, an Accrual Debenture with a settlement date of 8/7/2024 will have a Lockout Period that ends on 11/1/2026.

Prepayment Fee

- **Prepayment Fee Calculation.** The Prepayment Fee during any point during the Lockout Period equals the unpaid interest calculated on the original face principal amount accrued and compounded to the end of the Lockout Period plus the associated unpaid Annual Charge.
- **Requirements for prepayment during Lockout.** A Prepayment Fee on an Accrual Debenture must be paid before the principal can be prepaid. Principal can only be prepaid in whole during the Lockout Period. SBA will not accept partial payments of principal during a Debenture's Lockout Period.

Maturity

- **10 Year Maturity.** All Accrual Debentures have a 10-year maturity. The maturity date is 10 years from the first Payment Date following the settlement date.
- **All Amounts Due at Maturity.** Outstanding principal, accrued and unpaid interest, and accrued and unpaid Annual Charge must be repaid in full at Debenture maturity.

Distribution and Repayment Rules

Distributions by Accrual and Reinvestor SBICs must comply with 13 C.F.R. § 107.585 (Link: [eCFR :: 13 CFR 107.585-- Distributions and reductions in Regulatory Capital.](#))

1. SBICs must notify SBA in writing of any planned payments and non-tax distributions no less than 15 business days prior to the Payment Date on which the proposed payment/distribution will be applied/made.
 - a. SBICs must request and receive SBA's prior written approval for any planned distributions solely to cover tax liabilities.
2. SBA will apply payments on Accrual Debenture balances on a first-in first-out (FIFO) basis. If the SBIC issues multiple Accrual Debentures on the same day, the order of payment will be in sequential order of the Debentures' ID Control Numbers.
3. SBA permits SBICs to make interest and Annual Charge payments to SBA without making distributions to private investors.
4. Payments will first be applied to pay the aggregate accrued and unpaid Annual Charge and accrued and unpaid interest for all Debentures issued by the SBIC. Payments will be applied against the unpaid Annual Charge and interest balances of the oldest Debenture balances, then the next sequentially issued Debenture until all Annual Charge and interest balances for all outstanding Debentures issued by the SBIC are zero. If a payment is insufficient to repay both the unpaid Annual Charge and interest balance of a Debenture in its entirety, the payment will be allocated *pari passu* between the Annual Charge and interest.

5. All accrued and unpaid Annual Charge and interest balances of all outstanding Accrual Debentures must be paid before any principal payments can be made.
6. To prepay an Accrual Debenture during its Lockout Period, the SBIC must pay the Prepayment Fee (in addition to the aggregate unpaid Annual Charge and interest for all outstanding Debentures issued by the SBIC) with respect to such Debenture.
7. Once an SBIC has paid all accrued Annual Charge, accrued interest, and any applicable Prepayment Fee, the SBIC may make a pro-rata distribution to SBA and the private investors, where:
 - a. $SBA's\ Share = Total\ Distributions \times [Total\ Intended\ Leverage\ Commitment / (Total\ Intended\ Leverage\ Commitment + Total\ Private\ Capital\ Commitments)]$
 - i. SBA's Share is applied towards the SBIC's outstanding principal on a FIFO basis.
 - ii. Total Distributions means the total amount of distributions the SBIC intends to make after paying all accrued interest and Annual Charges. If the SBIC made a prior tax distribution, the SBIC must add the amount of that tax distribution to the Total Distributions figure of the first non-tax distribution after the tax distribution.

The share distributed to the private investors must comply with the requirements in 13 C.F.R. § 107.585(c)(4).

Required Payments at Individual Maximum Limit

There may be edge scenarios where an SBIC reaches the Individual Maximum (pursuant to 13 C.F.R. § 107.1150(a)) prior to the maturity date of its outstanding Accrual Debentures through the accrual of unpaid interest over time. Should that occur, the SBIC will be required to make interest payments at each quarterly Payment Date to reduce the dollar amount of outstanding Leverage and unpaid interest to an amount equal to or below the SBIC's Individual Maximum. Similarly, if an Accrual or Reinvestor Licensee along with other Licensees under Common Control have aggregate outstanding Leverage and unpaid accrued interest exceeding the amount permitted under 13 C.F.R. § 107.1150(b), interest payments must be made, at each quarterly Payment Date, in an amount sufficient to keep the sum of such aggregate outstanding Leverage and unpaid accrued interest below such amount.