



Small Business Investment Company (SBIC) Program

*Fueling American Investment
and Entrepreneurship since 1958*

Fueling American Investment Since 1958

The SBA's Small Business Investment Company (SBIC) program is a public-private investment partnership created in 1958 to address funding gaps for America's small businesses and startups.

SBA partners with private investment funds, providing access to government-backed loans that funds can use to invest as equity or debt in the small businesses and startups fueling America's innovation economy.

Since 1958, SBIC-licensed funds have invested more than \$160 billion in U.S. small businesses and startups, including some of America's most iconic companies:

- Apple
- Intel
- FedEx
- Costco
- Tesla
- Whole Foods
- Staples
- Amgen

Public-Private Investment Partnership to Accelerate American Entrepreneurship

As a licensed SBIC, private funds gain access to...

Flexible capital with potential return enhancement for investors.

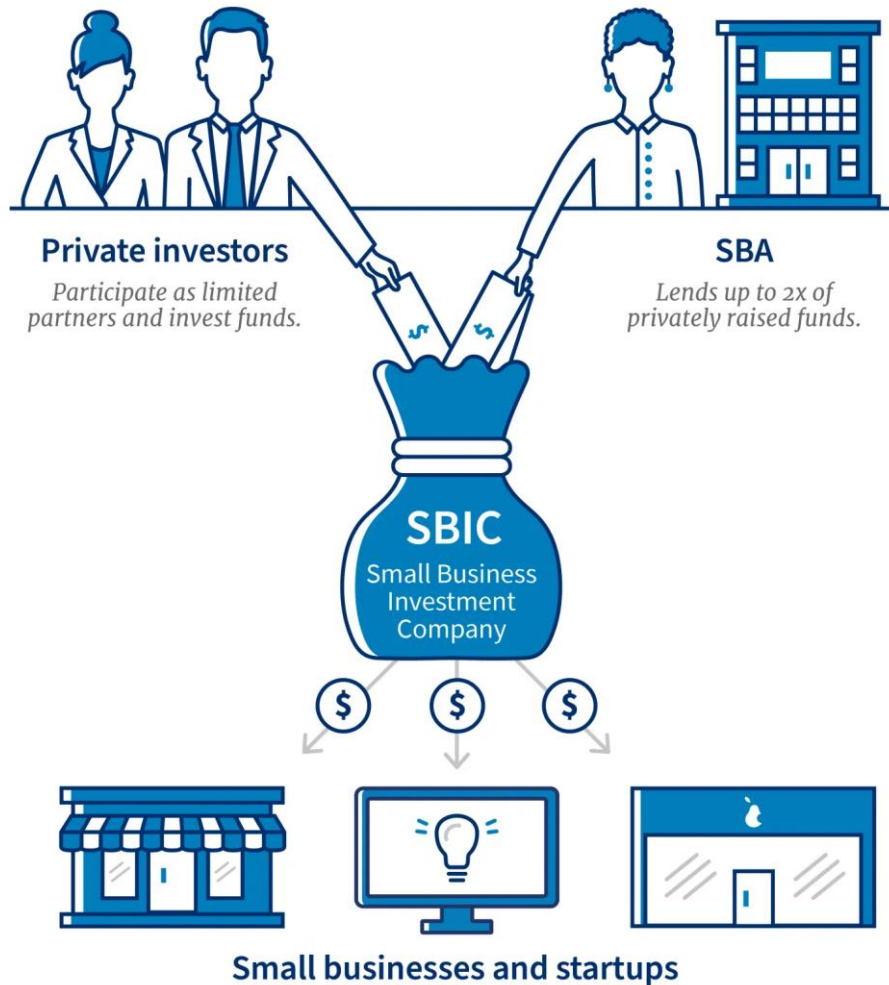


Low-cost, government-guaranteed loans.



The ability to invest in great American small businesses and their next big innovation.

About the SBIC Program



Purpose

To stimulate and supplement the flow of private equity capital and long-term loan funds.

To support the growth, expansion, and modernization of U.S. small businesses and startups.

What is an SBIC?

Small Business Investment Companies (SBICs) invest private capital and SBA-guaranteed borrowed capital to make equity and/or long-term debt investments in U.S. small businesses and startups.

SBIC Program by the Numbers

\$6 billion

Current dollar amount of commitments the SBA can provide each year to SBIC-licensed funds

318

Current number of SBIC-licensed investment funds in operation

2,388

Total lifetime number of funds the SBA has licensed as SBICs

>\$160 billion

Amount SBICs have invested in U.S. businesses since 1958

194,000+

Number of investments SBICs have made in U.S. businesses since 1958

130,281

Number of jobs SBIC investments created or sustained in FY23

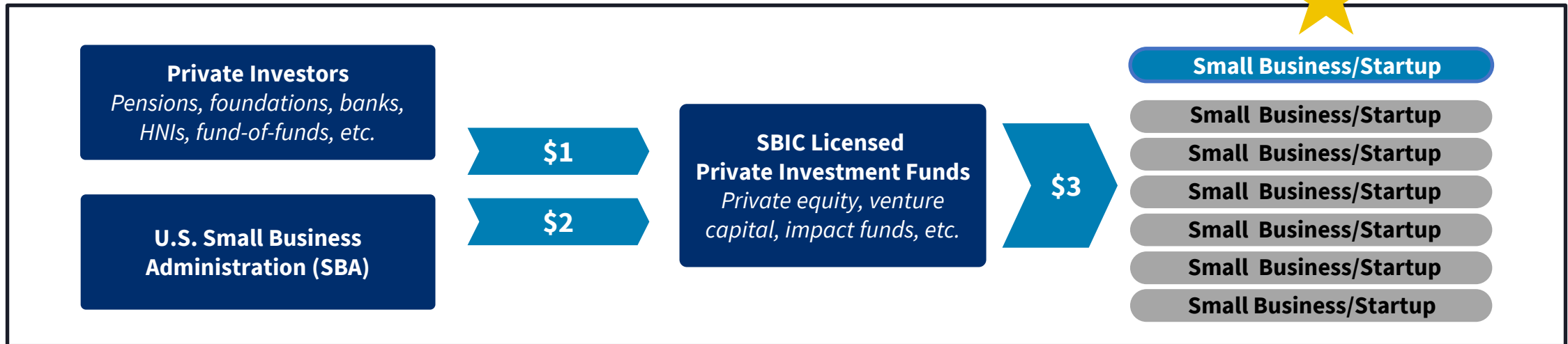
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Number of years the SBIC program has operated without taxpayer subsidies

<5%

Share of SBICs that have failed to pay back the SBA in full since 2001

How the SBIC Program Works



Role of Private Investors

The Fund Manager raises **limited partner (LP) capital**; LPs invest the matching capital for the SBIC fund to access SBA guaranteed leverage; LPs are also eligible for tax credits.

Role of SBA

The **SBA** licenses, manages, and regulates eligible private investment funds that apply to become an SBIC.

Role of SBIC Fund Managers

The **Fund Manager** is responsible for all investment decisions and fund operations, including deal sourcing, due diligence, investment selection, investment monitoring, and compliance.

Broad Impact Today

The SBIC Program is one of the largest pools of private funding globally.

As of 2023, SBA regulates over

318

private investment funds
licensed as SBICs.

SBA has capacity to commit up to

\$6 billion

annually to private investment
funds licensed as SBICs.

The 318 SBICs have a combined

\$42.7 billion

in public and private assets
under management.

SBIC-licensed funds invested

\$8.1 billion

in American small businesses
and startups in FY2023.

SBIC Investment Diversification and Growth Rule

Effective August 17, 2023

SBA has **reduced barriers** for new funds **to participate in the program**, especially small/micro funds and funds investing in:

- Underserved communities and geographies.
- Capital intensive investments.
- Technologies critical to national security and economic development.

The introduction of the **Accrual Debenture** instrument increases program investment diversification and long-duration financing for small businesses, made possible by the Investment Diversification and Growth Final Rule, effective as of August 2023.

Reducing Barriers through the SBIC Investment Diversification and Growth Rule

Reaching More Communities

- Partner with a larger and more diversified base of investors, across many dimensions, to reach more small businesses.

Diversification across:

- Geographies
- Constituencies
- Financing types
- Industries

Impacting Critical Industries

- A new generation of managers are investing in:
 - Climate Change Mitigation
 - Biotech
 - Capital Intensive Innovation
 - Advanced Manufacturing
 - Supply Chain Technologies
 - Infrastructure
 - National Security
 - Place-Based Funds

Reducing Program Risk

- Increase manager diversification
- Increase investment strategy diversification
- Both elements protect the program against concentration risk and support long-term sustainability and positive results

Flexible Licenses for a Range of Investment Strategies

Patient capital investment products available to small businesses:

Private Credit, Structured
Equity, or Mezzanine

Standard SBIC

- Uses Standard Debenture
- Eligible for up to 2 tiers of leverage
- \$175M for one fund or \$350M for family of funds

Venture, Growth,
or Buyout

Accrual SBIC

- Uses Accrual Debenture
- Eligible for up to 1.25 tiers of leverage
- \$175M cap for one fund or \$350M for family of funds

Benefits of an SBIC license,
without SBA leverage

Non-Leveraged SBIC

- No funding from SBA
- Benefits of an SBIC license (other than access to government-guaranteed loans); includes an ability to accept commitments from banks

Fund-of-Funds

Reinvestor SBIC

- Uses Accrual Debenture
- Must invest $\geq 50\%$ of capital in private funds
- Eligible for up to 2 tiers of leverage
- \$175M cap for one fund or \$350M for family of funds

Doing Well by Doing Good for America

The SBIC program creates opportunities for asset allocators and asset owners to support the U.S. economy's growth and security while increasing wealth and equity.

Program Features

- **Enhanced IRR:** Since SBA does not participate in fund profits, SBA loan guarantees can increase profits for investors.
- **Rapid fund deployment:** By scaling fund size with a capital match from SBA, SBIC fund managers can minimize the time spent fundraising and spend more time investing.
- **Regulatory benefits:** SBA's financial oversight mitigates risk of fraud for limited partners.
- **Volcker Rule exemption:** SBICs can access a broader set of investors by accepting investments from banks and bank holding companies.
- **Flexible terms:** SBA offers two primary loan-guarantee products to meet the cash-flow patterns of businesses targeted for investment by SBICs, with long-duration or shorter-duration investment strategies.
- **Flexible strategy:** SBICs can invest in a wide range of industries, at different investment stages, and use a variety of securities—from SAFE notes, to preferred or common equity, to royalty agreements, to loans, to debt with warrants—to adapt to market trends and capitalize on emerging opportunities.

SBIC-Related Regulatory Amendments to CRA

Updates to the Community Reinvestment Act (CRA) confirm for banks that their SBIC investments qualify for CRA tax credits.

A lack of clarity has historically made it difficult for some banks to confirm whether their SBIC investment met the definition of a “qualified investment” under the CRA, which is designed to encourage banks to expand access to credit, investment, and banking services in low- and moderate-income (LMI) communities. The [CRA Final Rule](#) provides clarity for banks via the following changes:

- Tailors CRA evaluations and data collection to bank size and type.
- Defines “Economic Development” as a community development category that includes “loans, investments, and services undertaken in conjunction or in syndication with government programs...” (e.g., the SBIC program) “...that meet a size and purpose test.”
- Those loans and/or investments are presumed to qualify for CRA as a “community development investment” under the Community Development Financing Test.

Source: <https://bit.ly/sbic-cra>

More Profit Potential for Investors

Since 1998, SBIC-licensed funds that benchmark in the top half of private equity have delivered a 5-to-10-point boost in the IRR delivered to investors.

Example: An SBIC-licensed fund with \$75 million in investor capital receives \$150 million in SBA debenture loan-guarantees, enabling it to invest \$225 million in American small businesses and startups. End of day, the fund returns 2x the total invested capital. In this scenario, the SBIC fund provides a 4x return to investors versus a 2x for a non-SBIC fund.

SBA Capital	\$150M				
	+		SBIC Fund	$\frac{(225M \times 2)^1 - 150M}{75M}$	= 4x Return to Investors
Investor Capital	\$75M				
				450M	
			Non-SBIC Fund	$\frac{450M}{225M}$	= 2x Return to Investors
Small Businesses	= \$225M				

¹ This simplified example excludes interest nominal fees paid to SBA
Source: [SBIC SOP 10 10.0](#)

What SBIC Funds Can(not) Invest In

SBICs can make their own investment decisions without interference from SBA, but must adhere to the following investment criteria:

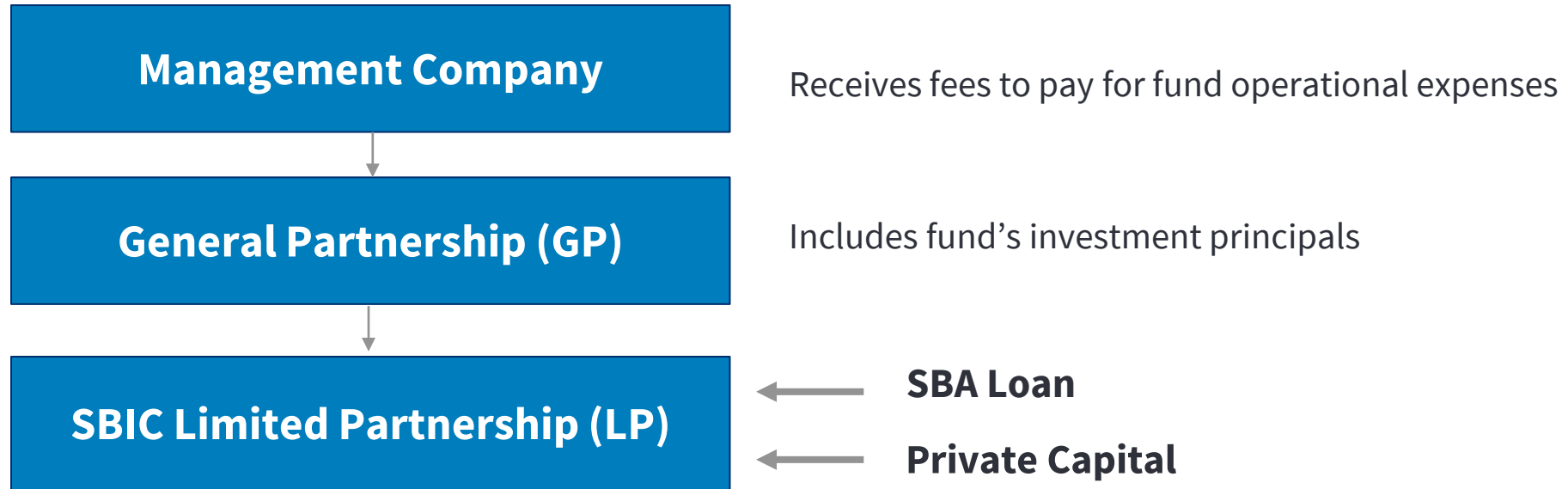
SBICs Must...

- Invest in “small” businesses, defined as those with tangible net worth of less than \$24 million and average net income after Federal income taxes for the preceding two years of less than \$8 million, OR are considered “small” by the size standard for the industry in which it’s primarily engaged.
- Ensure at least 25% of its financings are in “smaller” enterprises, defined as those with a net worth of less than \$6 million, and average net income after Federal income taxes for the preceding two years of less than \$2 million; OR are considered “smaller” by the size standard for the industry in which it’s primarily engaged.

SBICs May Not...

- Invest in businesses with more than 49% of their employees located outside the U.S. or its territories.
- Invest more than 10% of the total fund in a single business.
- Invest, with certain exceptions, in any of the following:
 - Passive businesses
 - Real estate businesses
 - Project financing
 - Farmland purchases
 - Businesses contrary to public interest
 - Associated suppliers

Typical Structure of an SBIC-Licensed Fund



SBA Loan

SBA licenses the LP and provides SBICs with a loan guarantee to boost financial returns and reduce risk for LPs.

(Up to 2x LP capital, cap of \$175M)



Private Capital

Fund operates to financially benefit its Limited Partners, which invest private capital in the fund.

SBIC Lifecycle

Licensing and operational steps for new funds



Blue hexagon: Essential steps in the application process

Dark blue hexagon: Key go/no go points in the process

Checkmark: SBA votes

Green hexagon: Approval to move forward

Light blue hexagon: Essential steps undertaken by the licensed SBIC

SBIC Lifecycle, Text Explanation

Licensing and Operational Steps for New Funds

1. Pre-Screen MAQ Application Submitted
2. Optional Pre-Screen Call
3. Prospect Decides to Apply
4. Key Point in the Process: Move to Apply
5. MAQ and Initial Fee Submitted
6. SBA Due Diligence
7. SBA Investment Committee Meeting
8. Key Point in the Process: SBA Vote to Interview
9. Fund Interview
10. SBA Investment Committee Vote
11. SBA Agency Licensing Committee Vote
12. SBA Administrator Vote
13. Green Light Approval: Approval to Move Forward
14. Applicant Raises Capital
15. Applicant Verifies No Material Adverse Changes
16. Applicant Submits Licensing Application and Fee
17. SBA Administrator Issues Final Licensing Decision: Vote
18. Applicant Holds First Fund Closing
19. Key Point in the Process: SBIC License Issued*
20. Essential Step for Licensed SBIC: 12 Months to Raise Additional Capital
21. Essential Step for Licensed SBIC: SBIC Investment Period (Approximately 5 Years)
22. Essential Step for Licensed SBIC: SBIC Harvest Period (Approximately 5 Years)
23. Essential Step for Licensed SBIC: Wind Down
24. Surrender License

*First close and License issuance to occur together. The Green Light letter is a certification that the management team will be issued an SBIC license and the intended financial commitment from SBA at fund closing, provided that terms and conditions are met.

Ready to Become an SBIC?

Visit www.sba.gov/partners/sbics/apply-be-sbic to:

- Explore the benefits of an SBIC license
- Learn how to prepare an application
- Discover what the most successful SBICs have in common
- And more...

Apply to become an SBIC

Send an SBIC-related inquiry