U.S. Small Business Administration

Evolution of the SBIC Program

Since 1958, the U.S. Small Business Administration's (SBA) Small Business Investment Company (SBIC) program has partnered with private investment funds to increase access to capital for U.S. small businesses. Recent changes have expanded the program's scope, allowing the SBA to partner with a wider range of fund types and reach more startups and small businesses.

How does the SBIC program work?

What is an SBIC?

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.

SBA licenses and regulates eligible private investment funds that apply to become an SBIC.

SBIC fund managers raise private capital from pensions, banks, individual investors (together, Limited Partners or LPs), and are responsible for all investment decisions and fund operations, including deal sourcing, due diligence, investment selection, investment monitoring, and compliance.

For every $1 the SBIC raises from LPs, SBA commits up to $2 of debt with flexible terms aligned with short- and long-term investment strategies.

Innovative and conscientious financing processes allow fund managers to draw SBA-guaranteed borrowed capital (i.e. loans) at a frequency that aligns with cash flows and just-in-time frameworks to maximize investments into American small businesses and startups.

Benefits of becoming an SBIC

Enhanced Internal Rate of Return (IRR)
Data shows SBA leverage can boost the IRR a fund delivers to its investors.

Rapid fund deployment
By leveraging up to two-thirds of their fund with SBA debt, SBIC fund managers can spend less time fundraising and more time investing.

Flexible strategy
SBICs can invest in a wide range of industries, enabling fund managers to diversify their portfolio, adapt to market trends, and capitalize on emerging opportunities.

Flexible terms
SBA offers several debt instruments with varying terms and conditions, designed to align with short- and long-term investment strategies.

Regulatory benefits
SBICs do not need to register with the SEC and are exempt from the Volcker Rule, which allows them to receive investments from banks.

Tax advantages
Investors in an SBIC can enjoy tax benefits via Community Reinvestment Act credit.

Today

The SBIC program includes more than 300 discrete private funds that invest in a broad base of strategies, including venture, buyout, mezzanine, credit, growth, and more. Collectively, these SBICs have more than $42 billion in public and private assets under management. In 2023, SBICs invested more than $8 billion in at least 1,200 companies while creating and sustaining over **130,000 U.S. jobs.**

SBIC program has operated at **zero subsidy** to U.S. taxpayers for **more than 20 years.**

SBIC program is attracting interest from **a new generation** of private fund managers.

SBA has the capacity to deploy up to **$6 billion annually to SBIC-licensed funds.**

Diversifying and Expanding Private Investment in Equity-Oriented Strategies and Critical Industries:
SBIC Investment Diversification and Growth Rule

In 2023, SBA updated the SBIC program to significantly reduce barriers to program participation for new funds, small/micro funds, funds investing in underserved communities and geographies, capital intensive investments, and technologies critical to national security and economic development.

The SBIC program has expanded

The SBIC program began with two SBIC license types:

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

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

A new debt instrument, the Accrual Debenture, has created new SBIC licenses:

NEW
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

NEW
Reinvestor SBIC (Fund-of-Funds)
- Uses Accrual Debenture
- Must invest ≥ 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

By way of expansion, the SBIC program has also added an SBIC Interagency Partner Initiative:

NEW
SBIC Critical Technologies (SBICCT) Initiative
- Can use Standard or Accrual Debenture
- Eligible for up to 2 tiers of leverage
- $175M cap for one fund or $350M for family of funds

Terms Explained:

A **debenture** is the financial instrument SBA provides to a licensed SBIC to access SBA-guaranteed capital.

The **Non-Leveraged SBIC license** is designed for funds that will not be seeking SBA debenture leverage.

The **Standard Debenture SBIC license** requires semi-annual interest payments and is appropriate for investment strategies with a current-pay component (examples include: mezzanine, private credit, multi-strategy credit, venture debt, etc.).

The **Accrual Debenture** is an investment instrument designed to align with the cash flows of long-duration, equity-oriented strategies. In this way, the Accrual SBIC and Reinvestor SBIC licenses do not require semi-annual interest payments. Instead, interest accrues over a 10-year term and is not due until a distribution event.

Through this expansion and long-term investment focus, the SBIC program has become accessible to a broader audience, including:

- Top-tier venture capital and growth equity investors
- Emerging managers and first-time funds
- Fund-of-Funds
- Mature, established investors
- Critical technology focused investors
- Impact investors

Interested in scheduling an optional pre-screen conversation to discuss SBIC program eligibility?

- ☐ Are you an existing or emerging fund manager?
- ☐ Have you reviewed *SBA's SOP 10 10 0* for additional background on program and process?
- ☐ Have you completed the *Short Form 2181 MAQ Pre-Screen document*?

If you answered "Yes" to each, you may be ready to schedule your optional pre-screen conversation today!

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