



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

DATE: July 26, 2011

TO: All Small Business Investment Companies (“SBICs”)

SUBJECT: “Refinancing” and Maximum SBA Leverage Policy Clarification

1. **Background.** Recently some SBICs have asked the Small Business Administration (“SBA”) to approve new leverage commitments for the purpose of “refinancing” their outstanding debenture leverage. This letter clarifies SBA’s position on “refinancing” and maximum leverage.
2. **“Refinancing Leverage”.** A licensee is not permitted to use the proceeds of any of its debentures for the purpose of prepaying before maturity any of its outstanding debentures. As set forth in 13 CFR §107.1230(d)(4), a licensee may use debenture proceeds only to fund one or more small businesses or to provide liquidity for the licensee’s operations. SBA does not consider the use of debenture proceeds for prepayment of outstanding debentures to be “liquidity for a licensee’s operations”.
3. **Maximum Leverage.** The leverage approved for a licensee at the time of licensing constitutes the maximum cumulative SBA leverage that the licensee is eligible to obtain, unless (i) SBA subsequently approves additional leverage for the licensee, or (ii) the licensee has been licensed as an “evergreen licensee”, as defined below. In other words, SBICs that are not licensed as “evergreen” cannot re-leverage once they have prepaid or repaid their maximum cumulative leverage. The maximum leverage limits for licensees are set forth in 13 CFR §107.1150.
4. **Evergreen Licensees.** An “evergreen licensee” refers to a licensee that (i) has no time restriction limiting the life of the licensee and (ii) intends to employ a continuous investment strategy. SBA has not licensed “evergreen licensees” in the past 10 years.

For existing evergreen licensees, SBA will consider cumulative leverage commitments in excess of that approved at licensing on a case-by-case basis, provided that

- a) the amount of leverage requested does not exceed the maximum leverage permitted under 13 CFR §107.1150;
 - b) the leverage request is consistent with the licensee’s business plan approved at the time of licensing; and
 - c) the evergreen licensee meets SBA’s credit standards for leverage commitments.
5. **Periodic Review.** SBA will review this policy on a periodic basis and, if needed, issue new guidance. If you have any questions regarding this policy, please contact your analyst.

Respectfully,

Sean J. Greene
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