



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

**DATE:** September 28, 2017  
**TO:** Small Business Investment Company (SBIC) Program Participants, Applicants, and Interested Parties  
**SUBJECT:** Termination of 2011/2012 SBIC Initiatives: Impact Investment Fund Policy and Early Stage SBIC Program

1. **Introduction.** In 2011 and 2012, SBA created the Early Stage SBIC and Impact Investment Fund initiatives as part of the [Start-Up America Initiative](#). SBA established the Early Stage SBIC program through the Early Stage SBIC final rule dated April 27, 2012 ([77 FR 25042](#)); it was a five year initiative that terminated on September 30, 2016. SBA formed the Impact Investment Fund (“Impact Policy”) through a policy letter dated April 7, 2011, which was subsequently updated on September 26, 2012 and September 25, 2014. As more fully described below, this policy letter (i) provides notice of the termination of the Impact Policy and (ii) clarifies SBA’s intent with regard to currently licensed Impact and Early Stage SBICs, current Impact SBIC applicants, and existing and potential SBIC applicants focusing on an impact or early stage investment strategy.
2. **Impact Policy.**
  - a. ***Policy Cancellation.*** Beginning November 1, 2017, SBA will no longer accept management assessment questionnaires (“MAQs”) for applicants seeking to be licensed under the Impact Policy. An applicant with a green light letter from SBA authorizing the applicant to submit an application for licensing as an Impact SBIC may apply for licensing consistent with the requirements set forth in such green light letter.
  - b. ***Reason for Cancellation.*** The purpose of the Impact Policy was to collaborate with institutional investors to identify and capitalize experienced private equity fund managers focused on impact investing. Licensed Impact SBICs were expected to provide at least 50% of their financings in “impact investments” as defined by the policy. One of the benefits the Impact Policy sought to confer on Impact SBIC applicants was expedited licensing. In SBA’s experience under the Impact Policy, licensing times were rarely driven by queue priority, but by factors such as the applicant’s adherence to [SBA’s Model Limited Partnership Agreement \(LPA\)](#), adherence to other SBA [licensing guidance](#), whether the applicant raised sufficient private capital to execute its business plan prior to submitting its formal licensing application, and responsiveness to SBA’s questions and comments during the licensing process. In six years under the Impact Policy, few qualified funds applied to be licensed as Impact SBICs and SBA licensed only nine Impact SBICs. SBA believes that many of these SBICs would have applied to the SBIC program regardless of the existence of the Impact Policy. SBA is cancelling the Impact Policy because the results produced were not commensurate with the time and resources expended by SBA to maintain it. For the same reason, SBA will not be finalizing the Impact SBIC rule proposed on February 3, 2016 ([81 FR 5666](#)). Although SBA is cancelling the Impact Policy, SBA remains committed to licensing qualified applicants intending to finance small businesses located in underserved areas or applicants that otherwise employ an investment strategy focusing on social, environmental, and/or economic impact.
  - c. ***Effect of Changes:***
    - **Currently Licensed Impact SBICs:** Currently licensed Impact SBICs must continue to operate under the Impact Policy under which they were licensed (i.e., the Impact Policy issued in 2011, 2012 or 2014, as applicable). If an Impact SBIC was licensed with the intent of issuing SBA-guaranteed leverage, SBA will continue its practice with respect to Impact SBICs of approving leverage commitments and draws based on SBA regulations and credit policies applicable to all SBICs.

- **Current Impact SBIC Applicants:** An applicant seeking to be licensed as an Impact SBIC that has submitted a management assessment questionnaire prior to the date of this memo may choose to convert to a standard SBIC applicant by providing written notice of such change to SBA no later than 30 days after the date of this memo and provide an updated license application reflecting the change. Any Impact SBIC applicant that is approved for a license under the Impact Policy will continue to be subject to the requirements of that policy.
- **Impact Funds Considering an SBIC license application:** Applicants seeking to be licensed as an Impact SBIC must submit a MAQ for SBA's Phase I – Initial Review no later than October 31, 2017. Beginning on November 1, 2017, SBA will no longer accept MAQs for applicants seeking to be licensed under the Impact Policy, but encourages qualified fund managers with impact-focused investment strategies to apply to the standard SBIC program. Information on applying to the program may be found at [www.sba.gov/sbic/applying-be-sbic](http://www.sba.gov/sbic/applying-be-sbic).

### 3. **Early Stage SBIC Program.**

- Program Termination:** As stated in the final rule dated April 27, 2012 ([77 FR 25042](http://www.federalregister.gov/?date=2012-04-27)), SBA intended to license Early Stage SBICs and allocate a total of \$1 billion in leverage to Early Stage SBICs over a five-year period from Fiscal Year 2012 through FY 2016 (September 30, 2016). As of October 1, 2016, SBA stopped issuing Early Stage SBIC licenses and new leverage commitments to licensed Early Stage SBICs.
- Reason for Termination:** SBA allowed the program to end because SBA's guaranteed debentures, even as modified under the Early SBIC program, are not well-suited to an early stage investing strategy since many early stage investments do not provide ongoing cash flows needed to pay the current interest and annual charges associated with SBA guaranteed debentures. As a result, very few qualified funds applied to the Early Stage SBIC program and only five Early Stage SBICs were licensed. For the same reason, although SBA proposed a rule on September 19, 2016 to extend the Early Stage SBIC program ([81 FR 64075](http://www.federalregister.gov/?date=2016-09-19)), SBA will not be finalizing that rule.
- Effect of Changes:**
  - **Currently Licensed Early Stage SBICs:** SBA is no longer issuing leverage commitments to Early Stage SBICs. Early Stage SBICs may continue to draw on their existing leverage commitments subject to SBA regulations and credit policies.
  - **Venture Capital Funds with an Early Stage Focus:** Although the Early Stage SBIC program has ended, SBA encourages venture capital funds utilizing an early stage investment strategy to apply for licensing as non-leveraged SBICs (SBICs that do not issue SBA-guaranteed debentures). SBA has many non-leveraged SBICs pursuing early stage investment strategies.<sup>1</sup>

- Questions.** SBICs and SBIC applicants may contact their analysts with any questions regarding this policy letter. Potential applicants to the program or other interested parties may email [askSBIC@sba.gov](mailto:askSBIC@sba.gov) for further information.

Sincerely,  
A. Joseph Shepard  
Associate Administrator  
Office of Investment and Innovation  
U.S. Small Business Administration

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<sup>1</sup> Although venture capital funds pursuing an early stage investment strategy are not prohibited from applying to the program as a leveraged SBIC, SBIC guaranteed debentures are not well-suited to an early stage investing strategy since many early stage investments do not provide ongoing cash flows needed to pay the current interest and annual charges associated with SBA guaranteed debentures.