



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

DATE: April 7, 2011

TO: Prospective Impact Investment Small Business Investment Company (“SBIC”)
Applicants and Private Limited Partners

SUBJECT: Start-Up America Impact Investment SBIC Initiative

1. **New Policy Initiative.** As part of President Obama’s Start-Up America Initiative, the Small Business Administration (“SBA”) seeks to increase the SBIC program’s economic impact by 1) proactively collaborating with institutional investors to identify and capitalize experienced private equity fund managers to make “impact investments” into small business concerns and 2) providing expedited licensing and capital to fund managers who qualify to organize and operate an “Impact Investment SBIC.”

2. **SBA Impact Investment Fund Commitment Allocation.** SBA intends to commit \$1 billion to Impact Investment SBICs, which will be small business investment companies that are later stage/mezzanine private equity funds that invest growth capital in impact investments (see definition in paragraph 3). Impact Investment SBICs may be eligible for SBA-guaranteed debenture leverage of up to three times their private capital, subject to a maximum debenture ceiling per Impact Investment SBIC to be set by SBA (as of the date of this memo, \$80 million) and the following restrictions:
 - a. SBA will license qualified applicants as Impact Investment SBICs through fiscal year 2016.
 - b. SBA will begin issuing debenture leverage commitment to Impact Investment SBICs in fiscal year 2012. SBA will issue no more than \$150 million in debenture leverage commitments to Impact Investment SBICs during fiscal year 2012. Each fiscal year thereafter, SBA will issue no more than \$200 million in debenture leverage commitments to Impact Investment SBICs, on a first come first served basis, until SBA has issued an aggregate amount of \$1 billion in debenture leverage commitments to Impact Investment SBICs.
 - c. SBA will commit no more than one tier of debenture leverage to any Impact Investment SBIC in a single fiscal year. One year following SBA’s issuance of a commitment for a tier of debenture leverage, the Impact Investment SBIC may apply for an additional tier of debenture leverage, subject to the debenture ceiling per Impact Investment SBIC described above.
 - d. Impact Investment SBICs are not eligible for debenture leverage commitments other than as described in this memo.
 - e. SBA approvals of debenture leverage commitments for Impact Investment SBICs are subject to standard SBA credit policies and availability of debenture leverage under the

\$200 million per fiscal year ceiling for Impact Investment SBICs (\$150 million for fiscal year 2012).

- f. Leverage draws under SBA's commitment of leverage to an Impact Investment SBIC will be conditioned upon compliance with the Impact Investment Fund Requirements set forth in paragraph 3 below.
 - g. Impact Investment SBIC applicants who are considering seeking a third tier of leverage should review SBIC regulations (13 CFR 107.1150) on this subject.
3. **Impact Investment Fund Requirements.** An Impact Investment SBIC must deploy at least 50% of the total dollar amount of its investments into Impact Investments. Impact Investments are investments in Small Business Concerns ("SBCs") which target areas of critical national priority including underserved markets and communities facing barriers to access to credit and capital. Impact Investment SBCs must meet one or both of the following criteria:
- a. ***Place-based:*** SBCs located in, or with at least 35% of its full-time employees at the time of initial investment residing in, low or moderate income ("LMI") areas as defined in 13 CFR 107.50, or economically distressed areas ("EDAs"), as defined by Section 301¹ of the Public Works and Economic Development Act of 1965, as amended, 42 U.S.C. 3161.
 - b. ***Sector-based:*** SBCs in industry sectors that the Administration has identified as national priorities. Currently only clean energy² and education have been identified as priority sectors. Additional sectors will be added over time in partnership with other mission-driven agencies.³
4. **How the Impact Initiative Works.** SBA will proactively work with interested institutional investors to attract best-in-class fund managers to effectively create a three-way collaboration with SBA, private institutional investors, and qualified fund managers, as depicted in the following chart :

¹ Section 301(a)(1) of PWEDA (42 U.S.C. 3161) provides that an area is economically distressed if it has a per capita income of 80 percent or less of the national average. Section 301(a)(2) (42 U.S.C. 3161) provides that an area is economically distressed if it has an unemployment rate that is, for the most recent 24-month period for which data are available, at least 1 percent greater than the national average unemployment rate. The Federal Highway Administration maintains a mapping tool that identifies economically distressed counties based on unemployment rate and per capita income located at http://hepgis.fhwa.dot.gov/hepgis_v2/GeneralInfo/Map.aspx.

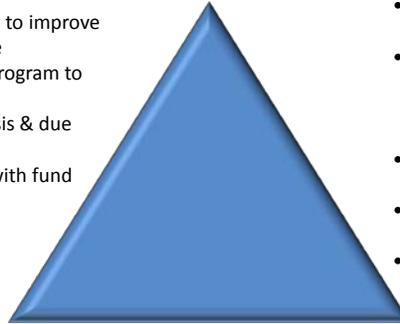
² Included in this definition are any energy-saving qualified investments as defined in the Energy Independence and Security Act of 2007 (Public Law 110-140) and implementing regulations.

³ SBA may add more sectors in the future as they are identified. SBA is working with both the Department of Energy and Department of Education to identify opportunities in these areas.

Impact Investment Fund “Collaboration”

Impact Investment LP

- Inform SBA on ways to improve program & initiative
- Recommend SBIC program to qualified managers
- Perform own analysis & due diligence
- Negotiate directly with fund managers
- Invest Capital



SBA

- Educate investors & fund managers on SBIC program
- Distribute voluntary list of Impact Investment Fund SBICs and applicants to qualified private investors
- Implement expedited licensing track
- Perform own analysis & due diligence
- Provide leverage (up to 3 times private capital, but not to exceed a dollar amount set by SBA)

Impact Investment SBIC Manager

- Form fund with Impact Investment focus
- Apply for SBIC program
- Manage fund and make investments in accordance with proposed Impact Investment strategy

These roles and responsibilities are detailed below.

a. **Impact Investment LP:** Private investors interested in achieving both financial and social-impact returns are critical to this initiative. Impact Investment LPs are institutional investors that seek both a financial and social-impact return and wish to participate in this program. Institutional investors:

- Keep SBA informed on ways to improve the SBIC program, especially in regard to this initiative.
- Recommend the SBIC program to qualified fund managers in which they have invested or are considering an investment and would qualify as an Impact Investment SBIC.
- Consider investing in existing SBICs, funds currently in the SBA application process, and/or prospective applicants focused on impact investing.
- Perform their own due diligence and make their investment decisions in accordance with their own established investment evaluation criteria, time parameters and other factors they determine.
- Negotiate directly with the fund managers regarding the types of impact investments the fund will be expected to make.
- Establish their own guidelines/requirements with respect to such issues as LP reporting, which will be reflected in the limited partnership agreement.

Interested institutional investors may contact SBA at SBICIILP@sba.gov to be part of this initiative. SBA has designated an Impact Investment LP point of contact that will receive the email and contact you.

b. **SBA:** SBA is committed to the Impact Investment SBIC Initiative. Impact Investment SBIC LPs and SBIC managers can expect SBA to:

- Educate interested institutional investors and potential fund managers on the SBIC program and how the SBA licenses and monitors its SBICs.
- Maintain a list of institutional investors that are interested in participating in this initiative to share information on the program and this initiative.
- Distribute names of existing SBICs and applicants that both qualify as an Impact Investment Fund and have consented to participate in this initiative. Only applicants that have successfully passed SBA's initial licensing review (Phase I) will be included in this list. The list will include a brief description of each fund's focus and contact information. SBA cannot recommend any fund, but interested investors may contact SBICs and applicants should they be interested in learning more about that fund for a possible investment.
- Establish and implement an expedited licensing track to provide prompt consideration to Impact Investment SBIC applicants, as described in paragraph 5 of this memo.
- Provide up to three tiers of leverage against the Impact Investment LP's binding commitment plus any other qualified private capital raised by the SBIC, subject to such dollar limitations as SBA may determine (currently \$80 million per Impact Investment SBIC).
- Perform regulatory oversight of the SBICs in accordance with SBA's established rules, policies, and procedures.
- Require identification of Impact Investments by Impact Investment SBICs on Form 1031.
- Regularly communicate with its partners on this initiative and consider changes for improvement as needed.

c. **Impact Investment SBIC Manager:** Experienced fund managers provide the foundation for this initiative by forming and managing the Impact Investment SBICs and ultimately making the critical investments in SBCs. Impact Investment SBIC applicants must submit the same documents, follow the same process, and meet the same high standards as any applicant to the SBIC program. (See the SBIC Application Process at <http://www.sba.gov/content/sbic-application-process> for more information.) However, Impact Investment SBIC applicants will benefit from the Impact Investment SBIC Expedited Licensing Track and the opportunity to be part of the voluntary list provided to potential private institutional investors interested in Impact Investing.

To qualify as an Impact Investment SBIC applicant, the applicant must demonstrate the management team's ability and strategy to deploy at least 50% of the total dollar amount of its investments into Impact Investments.

Applicants licensed as Impact Investment SBICs are expected to adhere to the business plan they proposed during the licensing process, particularly with respect to their Impact Investment strategy. Impact Investment SBICs must identify their Impact Investments within the comments section of SBA's Form 1031 and how they qualify. An Impact Investment SBIC that does not

adhere to the business plan, as proposed during the licensing process, may not be eligible for subsequent debenture leverage commitments from SBA.

5. **Impact Investment Fund Expedited Licensing Track.** Recognizing the critical need for Impact Investments to the U.S. economy, SBA is committed to licensing qualified Impact Investment SBIC applicants quickly. SBA will utilize the following three-phased license review process:
 - a. ***Phase I – Initial Review.*** During this phase, SBA reviews the business plan and the management qualifications. Applicants should identify that they wish to be considered for an Impact Investment Fund designation at the beginning of Phase I. If so, they should clearly identify how they meet the Impact Investment SBIC criteria (from paragraph 3 of this policy memo) in Section 2 of SBA Form 2181, Management Assessment Questionnaire (“MAQ”). If SBA confirms the qualification, SBA will place the applicant on the Impact Investment SBIC Expedited Licensing Track. This track involves the same qualification factors and analysis as for the regular SBIC program (see “Management Team Qualifications & Minimum Requirements” at <http://www.sba.gov/content/sbic-application-process> with SBA’s commitment that Phase I review of applicants on this track will be completed within 60 days of submission of a complete MAQ.
 - b. ***Phase II – Capital Raise.*** If SBA issues a green light letter to an applicant designated as an Impact Investment Fund, it will be asked whether it consents to being on the Impact Investment Applicant/SBIC list distributed to participating Impact Investment LPs. If the applicant consents, SBA will notify all participating Impact Investment LPs that the applicant has been given a green light, along with a brief description of the fund’s focus and its contact information. If an Impact Investment Fund Applicant determines for any reason during the licensing process that it prefers to be considered for licensing as a standard SBIC (not an Impact Investment SBIC), it will be returned to Phase I and will restart the process under regular processing.
 - c. ***Phase III – Licensing.*** An applicant who submits its application to become an Impact Investment SBIC will receive expedited consideration of its license application. In order to process the application as quickly as possible, SBA suggests that applicants adhere closely to SBA’s model limited partnership agreement and the additional guidance in [Technote 15](#) and Attachment 2 in [Technote 14](#). SBA’s goal is to complete its review of qualified Impact Investment SBIC license applications within 90 days.
6. **Initiative Policy Review.** SBA will review this initiative on an annual (or more frequent) basis and, if needed, issue new guidance. If you would like to provide SBA with feedback regarding this initiative, please contact SBA at sbic@sba.gov. SBA will post representative comments and responses online for public viewing, so please make sure that no private, proprietary or confidential information is included in any comment.

Respectfully,

Sean J. Greene
Associate Administrator for Investment