U.S. Small Business Administration

SBIC Investment Structure and Criteria

The SBIC Program is funded from both private and public sources to support small businesses. There are specific roles and regulations surrounding how these funds may and may not be used.

Roles

Private Investors:

- "Limited Partners" in the SBIC
- Negotiate the fund structure and management fees with the SBIC manager
- Invest the matching funds needed for the fund to access SBA-guaranteed leverage

SBA:

- Assess fund manager qualifications and licenses funds as SBICs
- Generally provides up to $2 of government-guaranteed debt for every $1 of private capital, up to a maximum of $150 million
- Regulates and monitors SBICs for compliance and performance

SBIC Fund Managers:

- Manages all aspects of the fund, including LP relations and compliance with SBA regulations
- Establishes investment strategy
- Identifies small business investment opportunities
- Monitors and exits investments

Investment Opportunity

Benefits of Leverage:

- Flexible Terms
- Rapid Deployment of Funds
- Increased Financial Scale
- Potential for Enhanced Returns

Organizational Benefits:

- Flexible Fund Structure
- Exemption from SEC Registration

Friendly to Bank Investors:

- Exemption from the Volcker Rule
- Community Reinvestment Act (CRA)

Investment Criteria

SBICs **must** invest only in Small Businesses

SBICs **may** invest in businesses located anywhere in the U.S. or its territories

SBICs **may** control a small business for up to seven years, or longer with SBA approval

SBICs **may** invest using loans, equity securities or debt securities with equity features such as warrants

SBICs **may not** invest in businesses with over 49% of their employees or assets located outside the U.S. or its territories

SBICs **may not** invest in project finance, real estate, farmland, financial intermediaries or passive businesses

SBICs **may not** invest more than 10% of the total fund in a single portfolio company