Providing Stimulus to the Small Business Community via the SBA's SBIC Program

Congress should increase the size limit of the amount under control by an SBIC family of funds to at least $150 million for a single fund or $225 million for a family of funds. These provisions already passed the House 2008. A limit of $300 million for single SBIC and $500 million for a family of funds would be optimal

SBA/Congress should increase the overline limit immediately. This provision already passed the House in 2008. SBA could and should, pending the passage of new legislative, use SBA's existing authority to review overline requests in a timely manner. Congress could legislatively increase to 10% of the sum of private capital and total leverage projected* or increase the limit to 30% of private capital. These changes would allow immediate access to capital to solid companies that are adjusting to the difficult market and thereby save good small businesses, directly save jobs, and expand the market each SBIC would serve by increasing maximum investment size.

The SBA should live up to the leverage commitments it made to the existing licensed funds for early stage investing (participating securities) that were cut off. Up to $500 million in leverage should be made available to existing PS funds that are in regulatory compliance. This would produce immediate and meaningful capital into the small business economy†

Congress should raise the limit (not remove) that states can invest in SBICs and receive leverage. State funds have a cap on the leverage that can be accessed from their investment. Raising (not removing) the state cap would increase the amount of capital that could be invested and multiplied with leverage‡

Congress should provide $500 million to community and regional banks and Business Development Companies (BDCs) to invest in existing or new Debenture SBICs (or start their own SBICs). The money would be made available by a formula yet to be limited to a "use it or lose it" restriction.§

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* Projection was already approved by SBA in original business plan

† There was about $850 million in leverage commitments that expired September 30, 2008. Some of the funds would draw the money for original investments and others would draw the money for follow-on investments in existing successful portfolio companies -many of which, have severe capital needs due to the credit crisis. It should be noted that the PS investments have a multiplier impact in addition to the initial direct impact. Each dollar of equity generally supports about three dollars of senior debt. Thus, the PS investments would enable portfolio companies to qualify for larger senior lines of credit. This is a very important multiplier for a company trying to weather the current economic storm.

‡ Economic development funds could be leveraged for maximum impact. States could seek better returns and gain a social/economic benefit by feeding capital to small businesses in a market driven system.

§ A participating community bank or BDC could get an increase in its capital base, but only if the money was invested in SBICs. Again, the impact would be immediate, especially if the legislation directed SBA to allow 3:1 leverage as the statute contemplates.

Congress should provide a new package of $500,000 million of debenture leverage available to Debenture SBICs in good standing on a use it or lose it basis. This leverage could be used for investments that do at least one of the following: 1. Create or maintain threatened jobs, 2. Benefit energy efficiency or the environment, 3. Provide or service infrastructure, 4. Support or service manufacturing, or 5. Invest in states with significant unemployment.. Amounts borrowed should be excluded from an SBIC's maximum leverage obtainable from the SBA up to 33% of the SBIC's private capital.

Congress should implement a temporary government guaranty program for a fixed period of time to promote investment in small businesses, particularly early stage. This would have a potentially dramatic affect on SBIC to invest now. For example, the SBA could provide a government guaranty of 50% of investments made by SBICs through the end of 2009.** The private funds would be at risk, but the risk would be reduced enough to get capital working again in the small business community.

Congress and SBA should allow SBICs owned by Business Development Companies (BDCs) operating under the Investment Company Act of 1940 to access the maximum leverage available for a family of SBICs without getting a second license††

Congress should make the energy debenture to all licensed SBICs. There was a technical legislative error in the underlying statute that limited the energy debenture to only newly licensed SBICs. Currently licensed SBICs should be given the chance to invest in energy saving companies.

All licensed SBICs should be given the choice to use a the existing debenture structure or to use the structure recently approved for the energy debenture for any investment

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** In other words, if an SBIC made a $6 million investment in a small business and used $4 million of leverage to fund the investment, that SBIC's losses on the investment (should they ever occur) would be limited to $3 million in total. This would be a way of reducing the risk to an SBIC of any investment it makes but would not remove the alignment of interest necessary to make the program work because losses would still be partially borne by an SBIC's private investors.

†† BDCs do not have a specific fund life like most SBICs and can freely add to its commitment over time.

Additional items that would be appropriate for inclusion in the reauthorization

Streamline and expedite SBIC licensing

a. Faster licensing would make the SBIC program a very attractive program to existing smaller funds that have not participated in the program.

b. More licensed SBIC funds mean more private capital is being multiplied through leverage for the small business community

c. New licenses for licensed SBICs in good standing should be deemed automatically approved if:
   i. The licensed SBIC is in good standing with SBA
   ii. The management team of the SBIC is the same
   iii. All capital certificates are in place
   iv. The partnership agreement is the same as previously approved agreement or uses SBA model language
   v. Background and credit checks are cleared.

d. First time licensees should be able to be approved for a new license within six months
   i. SBIC applicants should be able to pay for expedited background checks (removing a significant procedural bottleneck)
   ii. Taxpayer protections must be maintained, but in a timely manner

e. Agency meetings should be required to be held monthly basis
   i. The lack of regular meetings has unnecessararily delayed licenses and other actions for many months