



# Introducing Fund-of-Fund SBICs The “Reinvestor SBIC”

Fund and Direct Investors in Underserved and Undercapitalized Markets

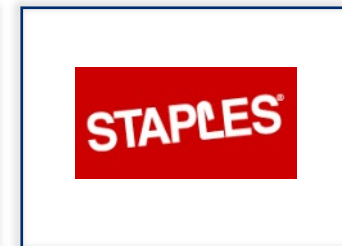
**Investing in American  
Entrepreneurs since 1958**

# Fueling American Investment Since 1958

The SBA's Small Business Investment Company (SBIC) program is a public-private investment partnership created in 1958 to address funding gaps for America's small businesses and startups.

SBA partners with private investment Funds, providing access to government-backed loans the Funds can use to invest as equity or debt in the small businesses and startups fueling America's innovation economy.

Since 1958, SBIC-licensed funds have invested more than \$130 billion in U.S. small businesses and startups, including some of America's most iconic companies...



# About the SBIC Program



## *Purpose*

To stimulate and supplement the flow of private equity capital and long-term loan funds.

To support the growth, expansion, and modernization of U.S. small businesses and startups.

## *What is an SBIC?*

Small Business Investment Companies (SBIC) invest private capital and SBA-guaranteed borrowed capital to make equity and/or long-term debt investments in U.S. small businesses and startups.

# Broad Impact Today\*

The SBIC Program is one of the largest pools of private funding globally

As of 2023, SBA regulates over

**318**

private investment funds  
licensed as SBICs

SBA has capacity to commit up to

**\$5 billion**

annually to private investment  
funds licensed as SBICs

The 318 SBICs have a combined

**\$42.7 billion**

in public and private assets under  
management

SBIC-licensed funds invested

**\$8.1 billion**

in American small businesses  
and startups in FY2023

# SBIC Program by the Numbers\*

**\$5 billion\***

The current dollar amount of commitments the SBA can provide each year to SBIC-licensed funds

**318**

The current number of SBIC-licensed investment funds in operation

**2,388**

The total lifetime number of funds the SBA has licensed as SBICs

**>\$130 billion**

The amount SBICs have invested in U.S. businesses since 1958

**194,000+**

The number of investments SBICs have made in U.S. businesses since 1958

**130,281**

The number of jobs SBIC investments created or sustained in FY23

**24**

The number of years the SBIC program has operated without taxpayer subsidies

**<5%**

The share of SBICs that have failed to pay back the SBA in full since 2001

# How it works

- ✓ **SBA** licenses, manages, and regulates eligible private investment funds that apply to become an SBIC
  - ✓ **Licensing** – performing operational, investment and legal due diligence on funds
  - ✓ **Managing** – monitors fund performance and investment health of underlying portfolio companies. Manages relationships with fund managers.
  - ✓ **Regulates** – performs bi-annual or annual reviews of compliance with SBIC program regulations
  - ✓ **Eligible Funds** – team, structure, investment strategy and proposed portfolio complies with SBIC program regulations
- ✓ The **Fund Manager raises limited partner (LP) capital** from pensions, banks, high net worth, and institutional investors to match SBA funding.
- ✓ The **Fund Manager is responsible for all investment decisions and fund operations**, including deal sourcing, due diligence, investment selection, investment monitoring and compliance.
- ✓ For every **\$1 the SBIC raises from LPs, SBA can commit up to \$2** in the form of a low-cost government-guaranteed loan to the fund with flexible terms aligned with both short- and long-term investment strategies.



# SBIC Investment Diversification and Growth Rule

Effective August 17, 2023

**SBA** has **reduced barriers** for new funds **to participate in the program**, especially small/micro funds and funds investing in:

- Underserved communities and geographies
- Capital intensive investments
- Technologies critical to national security and economic development

The new **Reinvestor SBIC License** increases program investment diversification and long-duration financing for small businesses, made possible by the Investment Diversification and Growth Final Rule, effective in August 2023.

# Flexible Licenses for a Range of Investment Strategies

Whatever the investment strategy, there is an SBIC license for your fund

Private Credit, Structure  
Equity or Mezzanine

Venture, Growth  
or Buyout

Benefits of an SBIC  
license, without SBA  
leverage

Fund-of-Funds

**Standard SBIC**

**Accrual SBIC**

**Non-Leveraged SBIC**

**Reinvestor SBIC**

- Uses Standard Debenture
- Eligible for up to 2 tiers of leverage
- \$175M for one fund or \$350M for family of funds

- Uses Accrual Debenture
- Eligible for up to 1.25 tiers of leverage
- \$175M cap for one fund, \$350M for family of funds

- No funding from SBA
- Benefits of an SBIC license (other than access to government-guaranteed loans), including the ability to accept commitments from banks

- Uses Accrual Debentures
- Must invest  $\geq 50\%$  of capital in private funds
- Eligible for up to 2x tiers of leverage
- \$175M cap for one fund, \$350M for family of funds



# Reinvestor SBICs

Reinvestor SBICs operate as a fund-of-funds investor and invest in **certain relenders or reinvestors\***

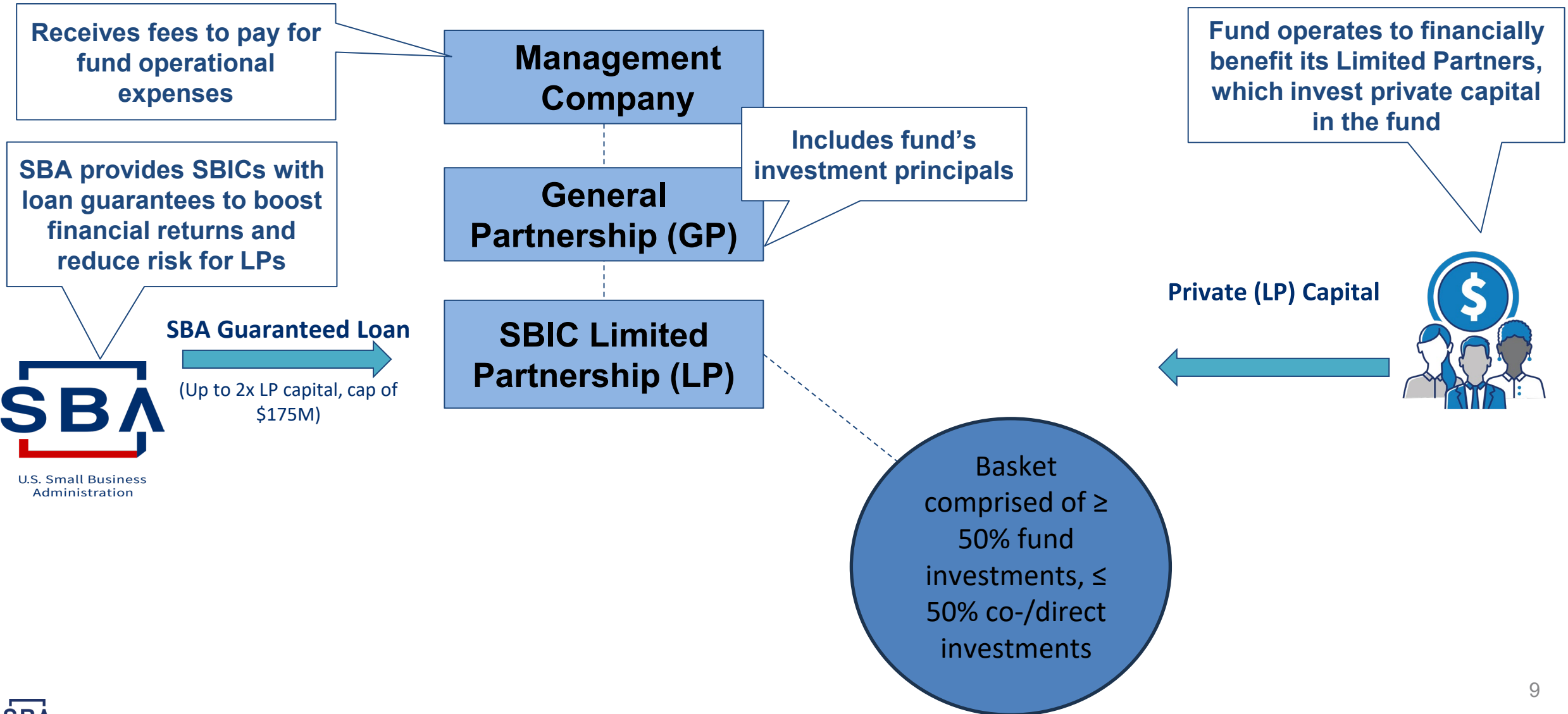
Reinvestor SBICs are allowed, pursuant to their approved LP agreement, to invest up to a specified amount directly in eligible small businesses that meet SBA criteria\*

Reinvestor SBICs are required to invest a **meaningful percentage of Equity Capital Investments** in underlying funds or relenders. Reinvestor SBICs must have a business plan focused on underserved or undercapitalized markets.

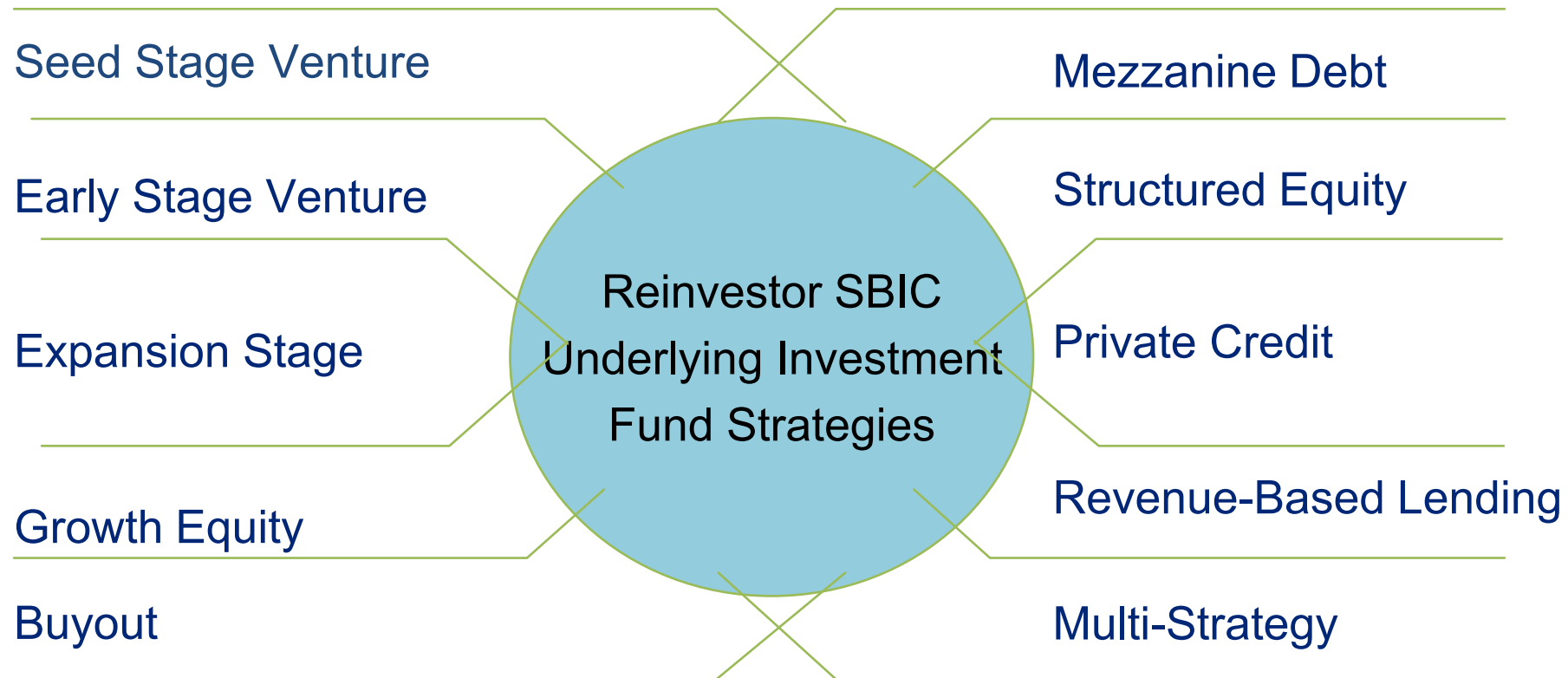
Relenders or reinvestors include Private Funds (Limited Partnerships), Community Development Financial Institutions (CDFIs) and Minority Deposit Institutions (MDIs). Reinvestor SBICs may also provide long-term debt or loan financing to CDFIs and MDIs

\* subject to specific requirements in 13 CFR 107.720 and size standards in 13 CFR 121

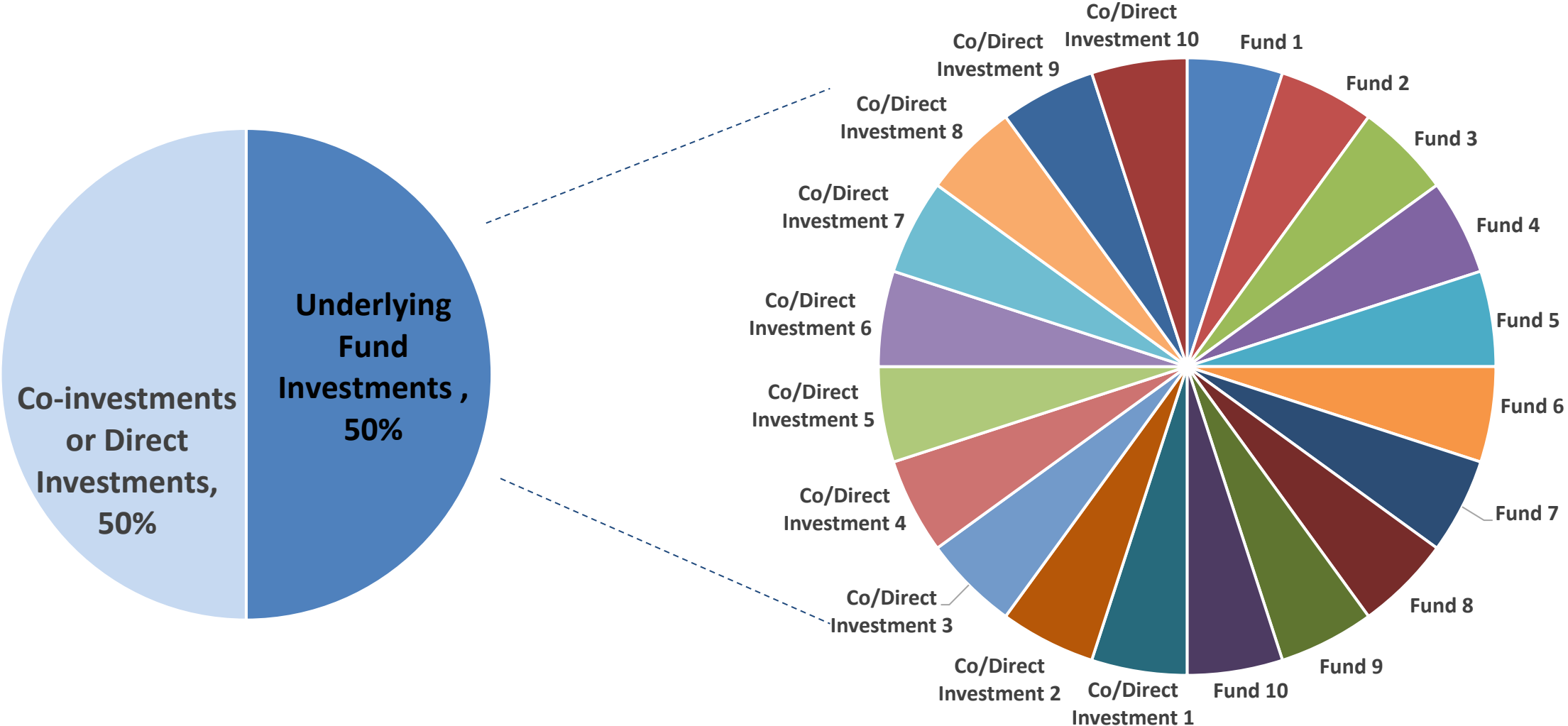
# Typical Structure of a Reinvestor SBIC



# Reinvestor SBICs Can Make LP Investments in a Broad Range of Underlying Funds



# Theoretical Reinvestor SBIC Asset Allocation



# More Profit Potential for Investors

SBA is not an LP in SBIC funds and does not participate in fund profits. SBA facilitates a loan. SBIC funds repay the principal of the SBA loan and accumulated interest.

**Example:** An SBIC-licensed fund with \$75 million in investor capital receives \$150 million in SBA debenture loan-guarantees, enabling it to invest \$225 million. End of day, the fund returns 2x the total invested capital gross of fees. In this scenario, the SBIC fund provides a 4x return gross of fees to investors versus a 2x for a non-SBIC fund.

<b>SBA Capital</b>	<b>\$150M</b>				
	+		<b>SBIC Fund</b>	$\frac{(225M \times 2)^1 - 150M}{75M}$	= <b>4x</b> Return to Investors
<b>Investor Capital</b>	<b>\$75M</b>			450M	
	=	<b>\$225M</b>	<b>Non-SBIC Fund</b>	$\frac{450M}{225M}$	= <b>2x</b> Return to Investors
<b>Total to Invest in Small Businesses</b>				225M	

<sup>1</sup> This simplified example excludes interest nominal fees paid to SBA Source: [2018 Report](#)

# SBIC Financing Requirements\*

## SBICs must invest in...

- At least 75% of total capital in U.S. “small” businesses
  - At least 25% of total capital in U.S. “smaller” enterprises
- ✓ 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 located outside the U.S. or its territories
  - ✗ SBICs **may not** invest in project finance, real estate, farmland, financial intermediaries or passive businesses

\* Subject to specific requirements in 13 CFR Part 107 and size standards in 13 CFR Part 121

# Funding Available from SBA for Reinvestor SBICs

## Total Intended Leverage Commitment

Principal Amount of Loan from SBA at Target Fund Size or Final Close



## Maximum Loan Amount\*

Up to 2x Private LP Capital Raised (Capped at \$175M)

# Approved Sources of Private (LP) Matching Capital

## ✓ Institutional Investors:

- ✓ U.S. Public Pensions (33% cap)
- ✓ State, subdivision of a State, or an agency of a State or its subdivision (33% cap)
- ✓ Corporate Pensions
- ✓ Endowments and Foundations
- ✓ Corporation, Partnership or Holding Company with net worth >\$10M
- ✓ Insurance General Accounts
- ✓ Fund-of-Funds

## ✓ Intermediaries:

- ✓ Banks
- ✓ RIAs
- ✓ 1940 Act Investment Company or Business Development Company

## ✓ Individual Investors:

- ✓ Family Offices
- ✓ UHNW/HNW Individuals net worth > \$2M and 10x value of SBIC commitments OR net worth > \$10M
- ✓ Accredited Investor backed by a bank letter of credit



## Approved Sources of Private (LP) Capital (Not Qualified for SBA Funding Match)

- ✓ Most Direct or Indirect Federal or Non-pension State Government Funds (i.e. Treasury SSBCI funds, Federal Agency grants) exceeding a 33% aggregate cap
- ✓ Individual investors not satisfying the net worth test or possessing a bank letter of credit

# SBIC Fees and Typical Interest Rate on SBIC Debentures

## SBIC Interest and Fees on SBA's Loan

- ✓ **1% Commitment Fee**—charged on approved SBA loan Commitments (not charged on the *Total Intended Leverage Commitment signaled at time of Licensing*). SBICs typically request approval of 25% of the *Total Intended Leverage Commitment in the first year*.
- ✓ **2% Loan Draw Fee**—charged once on the amount the SBIC draws/calls down on the loan. Charged at the time of draw.
- ✓ **Interest Rate of SBA's loan**—pegged against the 10-year treasury with an average spread of 76 bps. Current rate: 5.035%.

## Other Fees

- ✓ **Annual Charge**—for program participation. Annual charge is a nominal bps charge on the value of the outstanding loan (leverage) from SBA. Current charge: 35 bps
- ✓ **Initial Licensing Fee**—Ranges between \$5,000 - \$20,000 based on # of SBIC funds
- ✓ **Final Licensing Fee**—Ranges between \$10,000 - \$30,000 + 1.25 bps x Committed Capital
- ✓ **Regulatory Examination Fee**— Ranges between \$9,000 - \$44,000 based on SBA loan size and assets at cost



# Thank you for your Participation

## For more information on the SBA and SBIC Program

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