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# **Is the SBIC Program Right for You?**

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**SMALL BUSINESS INVESTMENT COMPANY  
PROGRAM  
INVESTMENT DIVISION**

**U. S. SMALL BUSINESS ADMINISTRATION**

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# WELCOME

The U.S. Small Business Administration welcomes your interest in the Small Business Investment Company (SBIC) program. Since 1959, this program has had a history of successfully assisting small businesses obtain long-term funding for growth. If you are interested in forming an SBIC, we are glad to have your inquiry.

## **Applicability**

This document summarizes the key elements of the process for obtaining an SBIC license. It applies to all parties that intend to seek a license to operate an SBIC, as well as to all existing SBICs that may wish to change ownership or control. If you currently manage an existing SBIC and are seeking another license or wish to convert from one form of SBIC to another, please contact your SBA operations analyst for further guidance.

This document should assist you in determining: (1) whether you and your associates have the experience necessary to participate in the SBIC program, (2) whether the type of investing you are contemplating is compatible with the SBIC program, (3) whether you could operate successfully and comfortably within the SBIC regulatory structure, and (4) how to go about applying for an SBIC license, should you wish to proceed.

The process of obtaining a license is summarized within these six topics:

- I. Understanding the Licensing Standards.
- II. Getting Ready.
- III. The First Steps.
- IV. Preparing the Application.
- V. Filing the Application.
- VI. The Licensing Process.

If you are contemplating applying for an SBIC license, your very first activity should be to read this document from beginning to end. Then, check our web site at [www.sba.gov/inv](http://www.sba.gov/inv) where you can find a wealth of information. Look under the heading *SBIC Licenses*, and check to see that you are reading the latest version of this document. Then, if you have any questions or want to get started on the process, send an email to [sbic@sba.gov](mailto:sbic@sba.gov), and a program development specialist should respond by voice or by email within five working days.

# I. UNDERSTANDING THE LICENSING STANDARDS

## **The Goal of the Licensing Process**

As found in *Statement of Policy*, Section 102 of the *Small Business Investment Act of 1958, as amended* (the Act), the purpose of the program is to stimulate the “growth, expansion, and modernization” of small American businesses. In Section 301(c)(3) of the Act, Congress directs the SBA to determine whether “the management of the applicant is qualified and has the knowledge, experience, and capability necessary to comply with [the] Act...” and to assess “the probability of successful operations of the applicant, including adequate profitability and financial soundness.” In addition, the Act sets certain minimum capital requirements which will be discussed below.

The purpose of the licensing process is to ascertain whether all of these elements come together sufficiently in order for there to be a high probability (1) of success for you and your investors, (2) for the SBA to avoid suffering losses, and (3) that management of an SBIC by your team will further the purposes of the program. In the years since the first SBIC was licensed in 1959, we have found that successful SBICs usually have certain characteristics in common. Some of these characteristics can be quantified, but many are intangible. Three broad categories that we look at are:

*Experience.* The management team of a prospective SBIC should be able to demonstrate that they have experience relevant to successfully managing a venture capital fund. Commercial banking, investment banking, and merger and acquisition experience are relevant, but are not a replacement for experience in venture investing, which involves long-term relationships and value-added beyond finance. Similarly, operating experience in companies can provide an excellent background for managing a venture fund, but the skill set necessary to rely upon reports and meetings with the senior management of a small business is considerably different from being involved in operations on a day-to-day basis.

*A Real Team.* Your management team should be a group that has previously worked together as a team. If they haven't, then you should be able to demonstrate that you are a cohesive integrated working team, not just a group of individuals who have assembled for the purpose of getting an SBIC license. (One of the identifying characteristics of a real team is whether it shows balance in the skills, experience and influence of its members. Another indicator can be found in the division of the carry among the principals, and whether you are providing incentives to any junior members of your team.)

