



U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INVESTMENT AND INNOVATION
409 THIRD STREET, SW SUITE 6300
WASHINGTON, D.C. 20416

DATE: October 21, 2017
TO: Small Business Investment Company (SBIC) Licensees
SUBJECT: SBIC Program Examination Priorities

1. **Introduction.** This letter is intended to clarify the U.S Small Business Administration’s (SBA) examination priorities with respect to SBICs and requests advance notice from SBICs (i) seeking or intending to seek a leverage commitment (in the case of certain first-time SBICs, additional leverage in excess of 50 percent of Regulatory Capital) or (ii) SBICs seeking to submit an application for a subsequent SBIC license (each, a “Request”).
2. **Background.** Pursuant to SBA standard operating procedures (SOPs), SBA evaluates regulatory compliance as part of its leverage commitment and subsequent fund licensing decisions, and limits aggregate leverage draws to no more than 50 percent of Regulatory Capital for first time SBICs until SBA has examined the SBIC for regulatory compliance.¹ SBA relies on timely and thorough examinations of SBICs to assist SBA in determining regulatory compliance. In order to adequately assess regulatory compliance, SBA believes that the most recent exam should cover a period ending within 18 months of submission of the SBIC’s Request (“Recent Examination”).
3. **SBIC Examination Priority.** SBA’s goal is to examine debenture SBICs every 12-14 months.² SBA has noted that several SBICs seeking leverage commitments and/or subsequent licenses do not satisfy the Recent Examination standard. In light of the importance of regulatory compliance in connection with SBA’s consideration of a Request, effective as of the date of this letter, SBA will prioritize examinations in the following order, on a first-come basis within each category:
 - a. SBICs that SBA has determined may be at high risk for default, regulatory non-compliance, or special circumstances in SBA’s discretion.
 - b. SBICs that have not been examined within the past 2 years, with leveraged SBICs taking priority over non-leveraged SBICs.

¹ [SOP10 06](#): Oversight and Regulations of SBICs Investment Division, Chapter 4, page 49 identifies SBIC regulatory compliance as one of the considerations in processing leverage requests. Per [SOP 10 04](#): Processing Applications for SBIC Licenses, Chapter 2, page 8, SBICs submitting a request for a subsequent fund must have “no unresolved regulatory violations AND the most recent exam should have covered a period ended within 12 months of the request being filed.” Per [SOP 10 04](#) Chapter 5, page 32, SBA’s review of a manager who has previously worked with an SBIC includes evaluating regulatory performance of their prior fund(s); Chapter 4, page 45.

² [SOP 10 09](#): SBIC Internal Examinations Guidelines, Chapter 7, page 54.

- c. Active SBICs seeking leverage to execute their investment plan, including SBICs seeking new leverage commitments and first-time SBICs seeking to draw leverage in excess of 50 percent of Regulatory Capital.
- d. SBICs managed by Principals who have received a green-light letter for a subsequent license and have filed a complete license application (Phase III of SBA's licensing process).
- e. SBICs managed by Principals seeking a green-light letter for a subsequent license (Phase I of SBA's licensing process). For SBICs currently in Phase I, under certain limited circumstances (for example if you do not fall under paragraph 3a or 3b), SBA may issue a green-light letter even if you have not had a Recent Examination. However, SBA will require a Recent Examination before the application can be taken to the Divisional SBIC Licensing Committee in Phase III.

Note: SBA reserves the right, at any time, to revise its examination schedule.

- 4. **Request for Advance Notice. If any of the circumstances described in paragraph 3 of this letter apply to you, you should notify your Financial Analyst at least six months in advance of any Request so that SBA can assess whether an examination is required prior to SBA's consideration of your Request** (and, if necessary, schedule an examination). If you expect to submit such a request within the next six months, notify your Financial Analyst as soon as possible. Please note that SBA may be unable to schedule your examination in your desired timeframe. The earlier you notify SBA, the more likely your examination can be scheduled in time to meet your Request.
- 5. **Further Information.** If you have any further questions or seek additional clarification, please contact your Financial Analyst.

Sincerely,
A. Joseph Shepard
Associate Administrator
Office of Investment and Innovation
U.S. Small Business Administration