



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

**TESTIMONY OF
PRAVINA RAGHAVAN
ACTING ASSOCIATE ADMINISTRATOR FOR INVESTMENT
AND INNOVATION
U.S. SMALL BUSINESS ADMINISTRATION
BEFORE THE U.S. HOUSE SMALL BUSINESS
SUBCOMMITTEE ON INVESTIGATIONS, OVERSIGHT AND REGULATIONS
JULY 25, 2013**

Chairman Schweikert, Ranking Member Clarke and members of the Subcommittee. I'm pleased to testify before you today to discuss the Small Business Investment Company (SBIC) program. I want to thank you for calling this hearing, and for your strong support of the Small Business Administration (SBA) and your commitment to providing growth capital to small businesses.

As many here today know, the SBICs are part of a unique program at SBA that puts long-term patient investment capital into America's small businesses, allowing them to grow and create jobs. Today, the SBIC program serves as a model of a successful public-private partnership. The program, which began in 1958, is market-driven. We don't make the investment decisions; experienced private fund managers do.

The program oversees 295 operating funds with over \$19.2 billion in private and SBA guaranteed capital and commitments. These SBICs invest in a wide variety of small businesses, such as JSI Store Fixtures in Milo, Maine, which manufactures specialty fixtures and displays for the supermarket industry. The company more than doubled its workforce from 80 to 200 employees after receiving an SBIC investment in 2006. The company won an award last year from the Small Business Investor Alliance as the SBIC portfolio company of the year. Another great example is R360 Environmental Services which provides environmental solutions to some of the world's leading oil and gas producers to ensure environmental performance and compliance. Though headquartered in Houston, Texas, the company has 26 facilities located across Louisiana, New Mexico, North Dakota, Oklahoma, Texas, and Wyoming, providing high paying jobs to hundreds of new employees in rural areas. While the company has recently been acquired, R360 increased jobs by 40% after its SBIC investment.

I am proud to tell you that last fiscal year (FY) the SBIC Debenture program had its third consecutive record-breaking year in terms of the number of SBICs licensed, new private capital, and SBA-guaranteed leverage commitments. In FY 2012, SBA licensed 30 SBICs with \$973.9 million in private capital and approved over \$1.9 billion in Debenture commitments.

More importantly, in FY 2012 Debenture SBICs provided over \$2.9 billion in financings to 795 small businesses located across the country, more than twice the amount provided by Debenture SBICs in FY 2009. If you consider that SBICs issued only \$1.4 billion in SBA-guaranteed Debentures to support these financings, this means that for every \$1 in Debentures issued last year, small businesses received at least \$2 in financing. Over the past 5 years, SBIC debenture investment dollars were dispersed across a broad spectrum of industries, including 18% going to small U.S. manufacturing firms. In FY 2013, Debenture SBICs are on track to exceed FY 2012 financing dollars, having already provided almost \$2.6

billion in financing to 671 small businesses through June 2013. SBA accomplished this while keeping the Debenture program at *zero subsidy cost* to the taxpayer.

Much of the credit for keeping the program at zero subsidy cost is our licensing process. The licensing process consists of 3 basic steps: (1) Initial Review by SBA; (2) Capital Raising; and (3) Final Licensing. In the first step, SBA reviews the applicant's track record and performs initial due diligence, leading to a decision by SBA's Investment Committee as to whether to give the applicant a "green light letter". Once an applicant receives a green light letter, the managers have up to 18 months to raise the minimum private capital and submit a license application. After receiving the application, SBA reviews all legal documents and updated track records and performs further analysis and due diligence before consideration by the Investment Division Licensing Committee and then the Agency Licensing Committee, which is composed of the AA for Investment and senior SBA officials. SBA's Administrator then approves and issues the SBIC license. In determining whether to grant a license to an applicant, SBA considers the factors identified in its regulations (13 CFR §107.305), which include among other things: management qualifications; track record; proposed investment strategy; and fund economics. As a result of this process, only 1 of the 157 Debenture SBICs licensed since 2002 has been transferred to the Office of Liquidation to date.

Even though a lot of work goes into evaluating applicants, SBA improved licensing times over the past four years. It used to take almost 15 months on average to get a new SBIC fund licensed. That average is now less than 6 months. As a result, SBA is on track to exceed its FY 2012 licensing numbers, having already licensed 26 SBICs with almost \$1 billion in private capital and approved over \$1.5 billion in Debenture commitments in FY 2013 to date.

To help this large group of new licensees navigate our program, SBA's Office of SBIC Operations has initiated webcasts on various aspects of the program. SBA also has reduced average turnaround times on key decisions in Operations by over 50%, from 60 days in FY 2010 to 28 days in FY 2012. This improvement helps SBICs get critical financings to small businesses in a timely manner.

Obviously with rapid growth, SBA is concerned about program risk. Key to managing program risk is good reporting. SBA implemented a new web-based reporting system in FY 2013 to help improve communications and reporting from program participants. In addition, in the first quarter of this fiscal year SBA published its most recent annual report in order to improve transparency of the program and provide accountability.

With its processes and reporting in place, SBA believes it is poised to handle continued growth. And we believe that one legislative change currently under consideration would allow this program to reach even more high growth small businesses. Specifically, the proposal would increase the SBIC Debenture program authorization from \$3 billion to \$4 billion. While SBA has never hit the \$3 billion annual authorization limit, we have grown the program significantly in recent years. Over a 3 year period, SBA more than doubled the amount of Debenture commitments approved, from \$788 million in FY 2009 to over \$1.9 billion in FY 2012. SBA expects to exceed \$2 billion in FY 2013. With continued growth, SBA will outpace its current authorization level.

We believe this modest change will allow the program to continue to grow without any significant additional risk to the taxpayer, allowing us to keep this program at zero subsidy.

In closing, the SBIC program is well positioned to finance small businesses across the country. I look forward to working with you on policies that will help us achieve this goal. Thank you and I am happy to answer any questions you may have.