SMALL BUSINESS INVESTMENT COMPANIES

Characteristics and Investment Performance of Single and Multiple Licensees

GAO Highlights

Highlights of GAO-16-107, a report to the Ranking Member, Committee on Small Business, House of Representatives

Why GAO Did This Study

Under the SBIC program, SBA licenses privately owned and managed investment funds that provide capital to small businesses. SBICs use their own capital plus funds (known as leverage) that are borrowed at favorable rates because SBA guarantees the loan obligation, which is known as a debenture. Holders of SBIC licenses can manage a single SBIC ("single licensee") or two or more SBICs ("multiple licensee").

This report examines (1) the characteristics of single- and multiple-license SBICs, (2) the investment performance of single versus multiple licensees and the attributes of the small businesses in which they invest, and (3) the SBIC program's overall financial performance and the extent to which SBA manages program risk. GAO analyzed SBA data (generally covering from 2005-2014), policies, processes, and procedures and interviewed SBA staff, SBIC fund managers, and industry stakeholders, who were selected to represent a mix of SBIC characteristics and based on suggestions by various stakeholders.

What GAO Recommends

GAO recommends that SBA provide guidance to SBIC licensees on how to collect and report data on their investments in minority-, women-, and veteran-owned businesses. SBA neither agreed nor disagreed with this recommendation.

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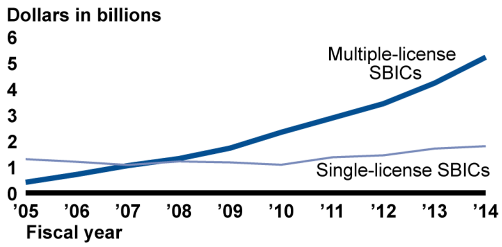
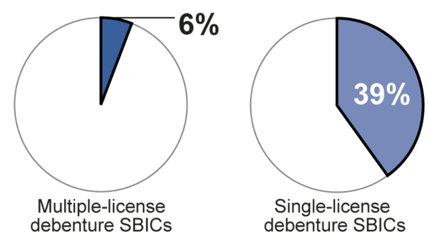
What GAO Found

Small Business Investment Companies (SBIC) managed by entities holding multiple licenses controlled most Small Business Administration (SBA) leverage and shared similar characteristics with entities holding a single license. At the end of fiscal year 2014, multiple licensees controlled $5.2 billion of the $7 billion (about 74 percent) in outstanding debenture SBA leverage, compared to 2005, when they controlled 24 percent (see figure, left). SBIC characteristics, including geographic distribution and management demographics, were largely similar for single and multiple licensees.

SBA leverage held by debenture Small Business Investment Companies (SBIC)



Percent of debenture SBICs transferred to liquidation, September 30, 2005 to July 15, 2014



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-16-107

Multiple licensees have demonstrated better aggregate investment performance than single licensees, although the investments have similar attributes. For example, from 2005 to 2014, 6 percent of multiple-license debenture SBICs were put into liquidation (typically because of excessive losses), compared with 39 percent of single-license SBICs (see figure, right). Both types of licensees invested in a roughly similar range of industries and geographic areas. Multiple-license SBICs were slightly more likely to invest in smaller enterprises or in low- or moderate-income areas. However, data on minority, women, and veteran ownership of SBIC investments are unreliable, in part because SBA does not provide guidance to SBIC licensees on how to collect and report this information. Providing such guidance would help improve the quality, consistency, and value of these data, which would help inform SBA's strategic priority of providing financial capital for underserved small businesses.

The SBIC program's financial performance has been relatively stable in recent years, although the degree to which program performance can be attributed to SBA oversight is unclear. For instance, most losses from 2003 to 2014 were incurred from SBICs remaining in the participating securities program (where SBA held an equity interest in SBICs), for which SBA stopped issuing new licenses in 2004 due to losses. The SBIC program's risk management mechanisms include the application and licensing processes, which are largely the same for single and multiple licensees, and requirements for private capital fundraising. SBA monitors SBICs through risk assessments of their financial condition; examinations assessing regulatory compliance; and, as necessary, liquidation to recover financial assets. The effect of SBA oversight on financial performance is difficult to measure, however, because it cannot easily be isolated from other internal and external factors, such as economic conditions.