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Congress of the United States

U.S. House of Representatives

Committee on Small Business

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To: Members, Subcommittee on Economic Growth, Tax, and Capital Access, Committee on Small Business
From: Committee Staff
Date: May 15, 2015
Re: Subcommittee Hearing: "*Improving Capital Access Programs within the SBA*"

On Tuesday, May 19, 2015, at 10:00 am in Room 2360 of the Rayburn House Office Building, the Subcommittee on Economic Growth, Tax, and Capital Access of the Committee on Small Business will meet to examine capital access programs within the Small Business Administration (SBA). The Subcommittee will specifically look at whether improvements are necessary to bolster these programs effectiveness in helping small firms obtain capital.

I. Introduction

Unlike large enterprises that can obtain funds from commercial debt and equity markets, small businesses must rely on their own personal assets, retained earnings, and commercial banks for needed capital. For more than 60 years (since the July 1953 creation of the SBA during the Eisenhower Administration), the SBA has sought to fill gaps in the commercial debt and equity markets. The four major programs overseen by the SBA are the: 7(a) Guaranteed Loan Program (7(a)); Certified Development Company (CDC) Loan Program; Small Business Investment Company Program (SBIC); and the Microloan Program.[1]

While each of the aforementioned programs will be discussed at length below, it is important to understand that the Federal Credit Reform Act (FCRA), 2 U.S.C. § 661, requires government agencies to estimate the net present value cost to the government of any loan program that the agency operates. In the case of the SBA, the agency is required to comply with that standard for all of its capital access programs. Essentially, the FCRA requires that SBA receive in income (be it through an appropriation or from fees paid by lenders and borrowers or some combination of both) sufficient monies to cover any losses in its capital access programs for any loan made in the fiscal year for which the net present value of the cost is calculated. For example, if the SBA plans on making $10 billion in its 7(a) loans for FY 2015 and estimates that net present value of the cost to the government (loan defaults) will cost the government $100

[1] Please note this is an oversimplification in that none of these programs does the SBA directly provide funds to small businesses; instead, the SBA guarantees the repayment of credit and equity issued by private-sector partners as will be discussed at length throughout the memo.

million, the agency must receive $100 million dollars in FY 2015 to cover that cost (this is the so-called subsidy rate). If a program received no appropriated funds to cover their costs under the FCRA, the programs were denominated as "zero-subsidy." If the subsidy rate is positive, that means the government needs to appropriate funds to cover the cost of the program and if the subsidy rate is negative, the government takes in more fees and recoveries on defaults than needed to run the program.

II. The 7(a) Loan Guarantee Program

The 7(a) Loan Guarantee Program (named after § 7(a) of the Small Business Act, 15 U.S.C. § 636(a)) serves as the SBA's primary mechanism to offer needed debt capital to small businesses when they may not be able to obtain sufficient credit from normal lending channels.[2] Loans are not made directly by the SBA; rather the SBA issues guarantees of repayment of loans made by commercial lenders. The size of the guarantee is related to the size of the loan with guarantees of 85 percent for smaller loans (those under $150,000) and 75 percent for loans in excess of $150,000. In 2009, the American Recovery and Reinvestment Act (ARRA) temporarily authorized, but did not mandate, the SBA to increase the guarantee for all loans to 90 percent.[3] Maximum loan size used to be set at $2 million dollars but that upper-level cap was permanently increased in Title I of the Small Business Jobs Act of 2010, Pub. L. No. 111-240, to $5 million.[4] Interest rates vary depending on the size of the loan with the largest loans having the lowest interest rates (usually 2.25 or 2.75 percent above prime depending on the maturity date of the loan). The 7(a) Loan Program operates with a negative subsidy rate.[5]

The SBA is authorized to charge an up-front guarantee fee which will vary depending on the size of the loan with a maximum cap of 3.75 percent of the amount guaranteed.[6] For example, a borrower having a gross loan amount of $3 million with a 75 percent guarantee (a SBA-guarantee amount of $2.25 million) would pay $84,375 as the guarantee fee (.0375 * $2.25 million).[7] In addition to this up-front guarantee fee, there also is an ongoing guarantee fee paid by the lender to the SBA and amounts to 0.55 percent (or 55 basis points where each basis point is equal to .01 percent) of the unpaid balance of the guaranteed portion of the loan.[8]

Any lender is eligible, after receiving approval from the Administrator, to originate loans for which the SBA will issue a guarantee. A subset of these lenders, denoted "preferred lenders," has substantial expertise with the SBA lending programs and regulations. Preferred

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[2] K. MARKS, L. ROBBINS, G. FERNANDEZ & J. FUNKHOUSER, THE HANDBOOK OF FINANCING GROWTH 146 (2005).
[3] The Small Business Jobs Act of 2010, Pub. L. No. 111-240, extended the authority to grant 90 percent guarantees through December 31, 2010. Since that authority terminated, the President has not sought additional authority to grant guarantees of 90 percent.
[4] With a maximum gross loan amount of $5 million and a guarantee percentage of 75 percent, the SBA will guarantee up to 3.75 million dollars for a small business loan under the 7(a) loan program.
[5] The SBA takes in more fees than needed to run the program. The SBA uses the excess to waive the upfront fee on smaller loans. UNITED STATES SMALL BUSINESS ADMINISTRATION, FY 2016 CONGRESSIONAL BUDGET JUSTIFICATION AND FY 2014 ANNUAL PERFORMANCE REVIEW 38-39 (Feb. 2015) [hereinafter SBA Budget].
[6] 15 U.S.C. § 636(a)(18(A).
[7] By statute, the lender actually pays the fee but the lender is permitted to charge the cost of the fee to the borrower. 15 U.S.C. § 636(a)(18)(A). From the perspective of the borrower, this up-front guarantee fee is similar to points that would be paid on a residential mortgage but, unlike that case, the legal obligation to pay the fee rests with the lender.
[8] *Id.* at § 636(a)(23).

lenders are authorized to approve loans using documentation and loan forms developed by the SBA to issue guarantees without first submitting the loan packages to the agency for approval.

In addition, preferred lenders may utilize the Express Loan program,[9] in which the preferred lender may use their own forms and documentation but only will be eligible for a 50 percent guarantee of loans up to $350,000[10] from the SBA rather than the normal 75 or 85 percent. On July 1, 2014, the SBA implemented a new policy to encourage lenders offering smaller loans under $350,000 to utilize a new credit scoring model which utilizes personal and business information with predictive behavior.[11] Even though the guarantee percentage of a loan is lower, the government runs a substantial risk from the Express Loan program because the quality of loan documentation is not as substantial as in the normal 7(a) loan program.

According to SBA, in FY 2014 loans totaling $19.2 billion were approved; which supported over 503,000 jobs and assisted approximately 45,000 small businesses.[12] Additionally, "the SBA waived up-front and annual fees on 7(a) loans of $150,000 or less, resulting in 30,675 loans issued that supported $1.9 billion in lending."[13] In FY2014, SBA has 2,244 active lending partners, but is seeking raise that number to 2,850.[14] The hearing will provide an opportunity for 7(a) lenders to discuss ways to increase their participation thereby increasing access to capital to small firms.

For example, a key challenge for lenders is the use of Standard Operating Procedures, or SOPs, that provide guidance to the lenders run to around 500 pages (this is a significant reduction from about 1,000 pages before a massive rewrite). According to the SBA's regulations, lenders must comply with the SOPs in closing loans. As a result, these SOPs then constitute regulations (an exegesis on the distinctions over the different type of regulations enumerated in the Administrative Procedure Act is beyond the scope of this memorandum) that limit the discretion of the SBA and its lending partners. Yet, the SOPs are not promulgated according to the procedures mandated by the Administrative Procedure Act for regulations as already discussed elsewhere in this memorandum. If that is the case, the SBA is regulating by guidance which violates both the Administrative Procedure Act,[15] and the Agency's own regulations on public participation, which also constitutes a violation of the Administrative Procedure Act. These ad hoc changes may impose significant costs on lenders as they need to change their processes and procedures. The Subcommittee will hear from 7(a) lenders on the Agency's use of SOPs and its effects on their ability to participate in the 7(a) program.

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[9] *Id.* at § 636(a)(31).

[10] In the Small Business Jobs Act of 2010, loan limits for the Express Loan program were raised for one year to a maximum of $1 million. The rationale for the Express Loan program (somewhat defeated by increasing the loan size) is that the processes and documentation to approve a normal SBA loan are sufficiently time consuming that banks cannot make a profit on such small loans. Another advantage to the banks is that the ongoing cost of Express Loans are lower since the outstanding guarantee amount for a loan will be less (0.55 percent of a 50 percent guarantee will be less than 0.55 percent of the same size loan with an 85 percent guarantee). A significant component of SBA lending is done by large preferred lenders through the Express Loan program.

[11] SBA Budget, *supra* note 5, at 38.

[12] *Id.* at 37-38.

[13] *Id.* at 38.

[14] *Id.* at 43.

[15] *See Appalachian Power Co. v. EPA*, 208 F.3d 1015 (D.C. Cir. 2000).

III. The CDC Program

The CDC Program provides long-term fixed-rate financing to small businesses to acquire real estate or machinery or equipment for expansion or modernization as long as the loans[16] meet certain policy and job creation standards. The program was created by Congress in Title V of the Small Business Investment Act of 1958, 15 U.S.C. §§ 695-97g, and is referred to colloquially (and incorrectly) as the "504 Loan Program."[17] This loan program is set up in which the small business contributes 10 percent of the value of the project, a commercial bank contributes 50 percent,[18] and a certified development company or CDC contributes 40 percent through the issuance of a debenture whose repayment is guaranteed by the federal government. The maximum size of the debenture that can be issued by a CDC will vary depending upon the purpose of the project and the type of borrower.[19] However, as a general rule, CDCs can finance significantly larger projects than those available under the 7(a) Loan Guarantee Program. Interest rates on CDC debentures are pegged to an increment above the interest rate for 5- and 10-year Treasury notes. As with 7(a) loans, there is a fee structure but it is a somewhat more complicated calculation of various fees paid by borrowers, first lien lenders, and the CDC.[20]

Historically, CDC loans could not be used for purposes of refinancing existing debt.[21] The rationale behind the prohibition was that refinancing, while potentially beneficial to the business to reduce debt, was not a key component of economic development that led Congress to create the CDC program. The Small Business Jobs Act of 2010 created a two-year temporary authorization to permit CDCs (using the same basic lending structure outlined above) to refinance existing non-governmental debt, i.e., debt not issued by the SBA or any other federal agency. Unlike a normal CDC loan which requires that the loan create or save jobs, the CDC refinancing program authorized the SBA to impose, but did not require, job savings or retention requirements; the SBA opted not to impose any when it implemented the program. Although the

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[16] K. MARKS, L. ROBBINS, G. FERNANDEZ & J. FUNKHOUSER; THE HANDBOOK OF FINANCING GROWTH 147 (2005).

[17] Section 504 of the Small Business Investment Act of 1958, 15 U.S.C. § 697a, authorizes the SBA to securitize instruments issued by CDCs and sell them to private investors. The reference is a misnomer because the authority of CDCs to make loans and the purposes for which such loans can be made is found in § 502 of the Small Business Investment Act of 1958, 15 U.S.C. § 696. The incorrect nomenclature has been a longstanding complaint of the Committee under both Republican and Democratic Chairs because that title does not adequately reflect what the loan program does. However, the SBA remains resistant to modifying the nomenclature because it would require the agency to modify its website, alter materials in which it makes reference to this program, and require industry to change its verbiage. Of course, the argument is sophistical since the program used to be called the "502 Loan Program" and the "503 Loan Program." The putting forth of such sophistry simply represents SBA's overall aversion to change.

[18] If the borrower fails to pay and there is a bankruptcy proceeding, the commercial bank lender will be paid back before the federal government. The bank then is considered to hold a first lien on the property.

[19] The sizes of the debentures were $1.5 million if the project does not meet certain statutory goals, $2 million if it meets certain goals, and $4 million dollars for loans to small manufacturers. The Small Business Jobs Act of 2010 raised these limits to $5 million for most projects and $5.5 million for certain projects of small manufacturers. Thus, for a project with a $2 million dollar debenture, the project size is actually $5 million ($2 million debenture, $2.5 million from a commercial bank lender, and $500,000 from the borrower). With the typical forty percent guarantee, the largest project that can be financed in the CDC program is $13.75 million.

[20] 15 U.S.C. § 697(b)(7),(d).

[21] For businesses seeking to refinance existing debt, they would have to utilize the 7(a) loan program.

refinancing authority lapsed, the SBA and industry continue to seek reauthorization of that authority.[22]

The ARRA created a subsidiary program within the broader CDC program to boost lending in this program. It authorized the SBA to guarantee repayment on the first-lien loans made by commercial bankers that are part of the overall CDC loan package. The poolers of such loans are required to pay fees for the guarantee of the pools of the first liens sold to private investors.[23] The authority for this program has lapsed and the SBA has not sought its reauthorization.

Unlike the 7(a) loan program, the vast majority of loan packages in the CDC must be approved by the SBA. Of the approximately 270 authorized CDCs in the United States, only a handful are designated as "Premier Certified Lenders" or PCLs[24] which are entitled to approve loan packages without first submitting the loans to the SBA.[25] These PCLs also have the authority to liquidate (just as preferred lenders do in the 7(a) loan program) loans that go into default without the assistance or approval of the SBA.

The SBA does not anticipate a need for that credit subsidy if FY2016.[26] According to the SBA, in FY 2014 loans totaling $4.2 billion were approved; which supported over 67,000 jobs and assisted approximately 5,725 small businesses.[27] However, given a recent rule change meant to reduce regulatory burdens on CDCs, the SBA expects an increase in loan volume in FY2015.[28] That said, this hearing will present industry will an opportunity to discuss the merits of this claim by SBA.

IV. The Microloan Program

When starting a business, the vast majority of these very small business owners do not actually utilize banks to take out commercial loans. Rather, they rely on loans, contributions from relatives, and revolving credit loans using their own credit cards. There are some potential entrepreneurs that cannot even rely on angels or revolving credit to find funds for their startups.

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[22] SBA Budget, *supra* note 5, at 41.

[23] As with any securitization of any credit instruments, the primary purpose is to increase liquidity by removing the loans from the banks (so they do not have to retain capital to cover potential loan losses) in order to increase lending. T. KOCH & S. MACDONALD, BANK MANAGEMENT 41 (2006).

[24] In 2011 and again in 2013 the SBA (for the first time in its history) revoked the charters of two PCLs for violating a panoply of SBA regulations that implement the program.

[25] The primary rationale for the establishment of PCLs no longer exists. Historically, it took the SBA up to 3 months of review at an SBA district office to approve a CDC loan package. PCLs avoided these delays because they could approve loans without SBA review of each individual loan. However, the cost of this authority was a requirement that the PCL maintain larger loan loss reserves than other CDCs. The SBA, after intercession and complaints by the Committee on Small Business in 2003-04, centralized review of CDC loans in its Sacramento loan processing facility. The time frame for processing such loans has now dropped to anywhere from 2 to 5 business days. Without significant delay and no requirement for additional loan loss reserves, very few CDCs have sought the authority to be a PCL.

[26] SBA Budget, *supra* note 5, at 41. During the Great Recession, this program operated with a positive subsidy rate.

[27] *Id.* at 40.

[28] *Id.*, *see also* 504 and 7(a) Programs Updates, Final Rule, 79. Fed. Reg. 15,641 (Mar. 21, 2014).

The Microloan Program is designed to provide credit for those entrepreneurs that would not otherwise have any access to credit, even revolving credit.

The SBA jumped into the mix with a pilot program in 1991. Congress then created a statutory microloan program to assist low-income individuals who do not have the financial or technical resources needed to start and operate a small business. In the 1997 reauthorization, the Microloan Program became permanent. Since the introduction of microfinance programs in the United States, the number of organizations providing direct services to entrepreneurs as microdevelopment organizations or MDOs is about 550. Of these, only about 175 operate as intermediaries in the SBA program. Typically intermediaries make about 2,500 loans each year to borrowers with a total value of about $32 million. The default rate on loans by the SBA to intermediaries is close to zero. The default rate for borrowers from intermediaries is quite low – although not as low as that on the 7(a) loan program.[29]

As with all SBA financial assistance programs (except disaster loans), the SBA does not make a microloan directly to a small business. Rather, it makes a loan to a non-profit called a microloan intermediary. These loans are made at interest rates 1.25 percent below the market rate for 5-year rate for United States Treasury notes. Intermediaries are prohibited from obtaining all of their loan funds from the federal government. At least 15 percent of funds made available for loans must come from sources other than the federal government.[30] Unlike the 7(a) and CDC loan programs, appropriated funds cover the cost of subsidizing the interest rate differential in the Microloan Program.[31] The intermediary, in turn, makes loans of up to $50,000 to borrowers.[32] Loans in excess of $20,000 only can be made if the borrower can demonstrate that comparable credit is not elsewhere available.[33] Borrowers then repay the intermediary which in turn repays the SBA. Unlike the banks operating in the 7(a) loan guarantee program, the SBA requires that the intermediaries provide education and training to its borrowers. The intermediaries can provide such training or contract for some other enterprise to provide training

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[29] The SBA readily admits that it does not have good data on the default rate of loans made by intermediaries.

[30] 15 U.S.C. § 636(m)(3)(b). In this regard, the Microloan Program is no different than the other SBA-sponsored financing programs. The 7(a) loan program requires that a bank put up anywhere from 15 to 50 percent of each individual loan depending on the size and duration of the loan. CDC loans require the borrowers to obtain financing from sources other than the debenture provided by the SBA. Small business investment companies must provide their own capital before obtaining leverage from the SBA.

[31] Intermediaries make loans at interest rates that exceed their cost of funds but lower than a commercial bank might charge for a customer with a similar credit history. The intermediaries then plow the excess income to reimburse their cost of operation and to supplement the funds borrowed from the federal government.

[32] Maximum loan size in the program was $35,000 before it was raised in the Small Business Jobs Act of 2010 to $50,000. In selecting intermediaries for the program, the SBA is to give preference to those intermediaries who will maintain an average loan size in its portfolio of $10,000. 15 U.S.C. § 636(m)(3)(A)(ii). The rationale behind this is twofold. First, it ensures that intermediaries actually focus on microloans rather than normal commercial loans. Second, an average loan limit size of $10,000 prevents intermediaries from competing with banks operating the 7(a) loan program using subsidized interest rates.

[33] *Id.* § 636(m)(3)(b).

and counseling.[34] Funds for training and counseling are provided, in part, by appropriated funds made available to the intermediaries.

"In FY2014, the SBA approved 36 loans to microloan intermediaries for more than $26 million."[35] In turn, these intermediaries provided nearly $56 million in microloans to small firms aiding small firms in creating or retaining 15,000 jobs.[36] The SBA is requesting a loan subsidy for the microloan program of $3.3 million for FY2016 and received a loan subsidy of $2.5 million in FY2015.[37] SBA's budget request for FY2016 is additionally requesting "legislative authority to eliminate the 25/75 rule and adjust the cap for 1/55th rule."[38] Therefore, this hearing will provide the Subcommittee with an opportunity to hear from industry on the merits of this legislative request and whether it is necessary for continued success of the program.

V. The SBIC Program

SBICs are for-profit enterprises organized under state law as either a corporation or partnership or a variant thereof. SBICs receive a license to operate from the SBA pursuant to authority in Title III of the Small Business Investment Act of 1958. The SBA may not grant a license until it is satisfied that the licensee has: a) sufficient capital to operate soundly and profitably; and b) has qualified management.[39] If the SBA is satisfied with these aforementioned determinations, then the agency, prior to issuing a license, must consider whether: a) there is a need for investment in the area in which the applicant will operate; b) the reputation of the owners of the applicant; and c) the prospect that the ownership will manage the business in a profitable manner. Once the SBA is satisfied, it will then issue a license. Thus, the licensing process requires the SBA to consider the business plan of the SBIC before issuing a license.[40]

Once licensed, the SBIC is able to "borrow" money from the federal government to invest in small businesses. These borrowed funds are denominated "leverage" (as in leveraging private dollars with federal funds) in tiers. For every dollar of private investment, an SBIC is entitled to draw up to three dollars in government funding (but is not required to draw that maximum amount). Rather than simply borrowing directly from the federal government, SBICs sell securities that are sold in the private market (essentially a loan by private investors to the SBIC) and the federal government guarantees that the "lenders" to the SBIC are repaid with interest. The SBICs must repay the federal government for the leverage. In essence, there are two separate "loan" transactions; a loan of leverage by the SBA to the SBIC and a loan of private funds by investors to the SBIC who receive either a debenture to the total value of funds provided by the private investors as "collateral." The SBA guarantees the repayment of the

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[34] The training and counseling requirement is direct adaptation of the model followed by Grameen Bank in making credit available to its borrowers. Dr. Yunus recognized that its borrowers needed significant advice on how to manage money in order to create a small business that could repay loans. However, in Bangladesh and other foreign countries that have duplicated the Grameen Bank model, the lender became the only available entity to provide such advice.

[35] SBA Budget, *supra* note 5, at 94.

[36] *Id.*

[37] *Id.* at 95.

[38] *Id.*

[39] 15 U.S.C. § 681(c)(3)(A).

[40] *See* 13 C.F.R. § 107.130.

funds provided to the SBIC by the private investors who purchased the leverage. As with the 7(a) and CDC loan programs, there are fees paid upfront by the investment company (a fee up to 3 percent of the value of the leverage to purchase a commitment of leverage),[41] and an ongoing fee for the SBA's guarantee which is paid as additional interest charge on the amount owed to the government by the SBIC for the issuance of the leverage.[42]

Title III of the Small Business Investment Act of 1958 authorizes two types of SBICs – debenture SBICs and participating security SBICs. The primary distinction between the two entails the schedule for repayment of the leverage which led SBICs to invest at different stages of a company's development. The Participating Security Program is dormant.[43]

Some of the most famous names in corporate America, including Apple Computer, Nike, Dell Computer, Federal Express, Callaway Golf, and Outback Steakhouse, were recipients of debenture SBIC funding. These companies were established and utilized debenture SBIC funding for expansion because they had sufficient cash flow to repay the SBICs that in turn could repay their leverage borrowing from the SBA. In essence, the basic philosophy of the debenture SBIC is to invest in companies in which the return on the investment will be split between an increase in the value of the company and monetary payments back to the SBIC.

The SBA also imposes significant oversight and control on the operations of SBICs primarily through its control on the issuance of leverage. The SBA only will issue leverage (even if the SBIC has purchased a commitment for leverage) when the SBIC demonstrates that it needs the leverage.[44] Nor will the agency issue leverage if it determines that the issuance of the leverage will unduly place the government at risk of loss.[45] The SBA also conducts examinations of licensees to ensure they are in compliance with all applicable regulations and ensure that they are not placing the government at undue risk.[46] SBICs are limited in the amount of funds that may be invested in any one company.[47] Finally, the SBA can stop the SBIC from

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[41] 15 U.S.C. § 683(i).
[42] *Id.* at § 683(b).
[43] The structure of repayments in the participating SBIC program leads to a very different type of investment. Since the requirements of repayment are not as immediate in this program as in the debenture SBIC program, these SBICs may invest in firms that are startup firms, rather than established firms looking for expansion capital. In essence, participating security SBICs receive the bulk of their investment payback in the growth of the value of the companies in which they invest. One such successful investment by participating securities has been Build-a-Bear. It goes without saying that investments relying solely on an increase in the value of a company are going to be more volatile than investments in companies that can pay a "dividend" as a well as have some growth. Volatility, however, does not lead to consistent returns and that has created significant problems for the participating security firms leading to potential significant losses. As a result of these losses, the SBA has not issued any new participating securities since 2004. Given the fact that the participating security is a ten-year note, the last repayment was due on December 31, 2014. While the SBIC may continue to operate as a private investment fund, it will have no further monetary connection to the federal government unless it has not repaid its "leverage" in which case the government may force the SBIC into receivership and operate the SBIC in order to recoup the monies guaranteed to the private investors by the participating SBIC's sale of the participating security.
[44] 13 C.F.R. § 107.1120(a).
[45] *Id.* at § 107.1120(c)(2)(ii).
[46] *Id.* at § 107.690.
[47] *Id.* at § 107.740.

making investments if the investment losses are sufficiently severe to place the company in "capital impairment."[48]

In FY2014, the SBA leveraged over $2.5 billion of debenture funds to SBICs and licensed 30 new SBIC funds.[49] As of Dec. 31, 2014, there were a total of 299 SBICs licensed.[50] During the 112th Congress, the *Small Business Investment Company Modernization Act of 2012*, H.R. 6504, passed the House by an overwhelming majority, but was not acted upon by the Senate.[51] This bill would have increased the amount of leverage available to SBICs under common control from $225 million to $350 million. As this is the statutory cap, legislation would be required to raise the leverage amount. This Congress, the *Small Business Investment Company Capital Act of 2015*, H.R. 1023, which contains identical legislative language (aside from the name) to the 112th, has been introduced. Therefore, this hearing will provide the Subcommittee with an opportunity to hear from industry on the merits of the legislation as well as additional legislative changes which may be beneficial to improve the SBIC program.

VI. Conclusion

As demonstrated above, the SBA offers a number of programs which aim to fill gaps in the lending market and increase small firms access to capital by partnering with financial institutions and private investment funds. Given that access to capital remains a key concern for small firms, legislative and policy change may offer opportunities to correct and clarify requirements to further maximize small businesses and lenders ability to participate in the SBA's financing programs which bolsters business growth and job creation.

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[48] *Id.* at § 107.1830-50.
[49] SBA Budget, *supra* note 5, at 76-77.
[50] https://www.sba.gov/sites/default/files/articles/WebSBICProgramOverview_December2014_0.pdf.
[51] Passed the House 359-36. "Small Business Investment Company Modernization Act of 2012: Roll Vote No. 629," 158 CONG. REC. 163, H6852 (Dec. 18, 2012).