



U.S. Small Business  
Administration

**Statement of Joseph Shepard  
Associate Administrator  
Office of Investment and Innovation  
U.S. Small Business Administration**

**before the  
Senate Committee on Small Business and Entrepreneurship**

**Hearing on Investing in Idaho: Exploring Ways to Encourage Small Business  
Innovation and Start-Ups**

**May 3, 2019**

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**Associate Administrator**  
**U.S. Small Business Administration**

Senator Risch and distinguished members of the committee, thank you for inviting me to Boise, Idaho today to discuss investing in the state's small businesses.

I am the U.S. Small Business Administration (SBA) Associate Administrator for the Office of Investment and Innovation. Prior to the SBA, my business career has included leadership positions in consulting, investment banking, venture capital, private equity, and investment fund management for such organizations as KPMG, Texas Pacific Capital, Principal Financial Securities, Banc One Capital Markets, as well as a previous tenure in public service at the SBA.

The Office of Investment and Innovation is the program office within SBA that has oversight responsibilities for three different programs: the Small Business Innovation Research (SBIR) program created in 1982; the Small Business Technology Transfer Program (STTR) created in 1992; and the Small Business Investment Company (SBIC) program created approximately 60 years ago in 1958. Regarding the SBIR/STTR program, the SBA does not provide SBIR/STTR awards to small businesses; rather, awards are provided by the eleven (11) participating federal agencies that take part in the programs.

The SBIC program was created by Congress through the Small Business Investment Act of 1958 at a time when no private equity industry existed in the United States. The purpose of the SBIC program is to supplement private equity capital and long-term loan funds that are not available to small businesses in adequate supply. Since the SBA does not provide capital directly to small businesses, instead, SBA provides taxpayer-backed, SBA-guarantees to SBA-licensed SBICs. The SBICs use these SBA-guarantees and privately raised funds to independently provide capital to qualifying small businesses. The majority of capital a SBIC typically invests into a small business consists of the SBA-guaranteed loan the SBIC borrows from the SBA after the SBIC is licensed.

Small businesses seeking capital from SBICs are typically later-stage, profitable businesses that are generating cash flows sufficient to service interest, when due, principal payments. SBIC financings are primarily in the form of subordinated debt with equity enhancements. SBIC financings to small businesses typically range from \$2.5 million to \$10.0 million. However, each SBIC has its own investment profile in terms of targeted industry, geography, company maturity, and the type and size of financing the SBIC will provide to small businesses. Small businesses interested in the possibility of receiving investment capital from a SBIC are encouraged to contact SBICs directly. On the SBA website, small businesses are able to view existing SBICs along with contact information. SBICs, though, without involvement from SBA, make independent decisions over whether to make an investment in any particular qualifying small business.

As of March 31, 2019, the SBIC program had a portfolio of 304 SBICs with total outstanding and committed SBA-guaranteed capital of approximately \$13.887 billion. The SBICs are located throughout the U.S. and many invest nationwide.

Currently, there are no SBICs in Idaho. Since 1959, there has been one (1) SBIC that received an SBA license and that was located in Boise, Idaho. The SBIC was licensed as a debenture SBIC on 3/19/74 and received \$3,000,000 in SBA-guaranteed capital. However, the SBIC failed with 88.4% or \$2,651,862 of the SBA-guarantee being written off as uncollectable.

For the fiscal year ended September 30, 2018, SBICs provided financings totaling \$5.502 billion to 1,151 small businesses. Of this amount, SBICs financed four (4) Idaho small businesses in FY 2018 totaling \$35.326 million. These four businesses operate in the consulting services, cosmetics, jewelry, and landscaping sectors. The financings were provided by four different SBICs located in California, Connecticut, New York, and Texas.

On December 19, 2018, the Spurring Business in Communities Act of 2017, sponsored by Chairman Rubio, was enacted into law. SBA is currently in the process of reviewing its internal procedures and drafting a notice to the public in order to fully implement the law. SBA is reviewing the appropriate data to determine which States are both (i) “underlicensed” and (ii) “below median financing” as provided by the law. SBIC applicants from the states that qualify will receive first priority consideration in SBA’s licensing process. SBA will review its licensing process to determine how best to process the anticipated inflow associated with priority applicants over other applicants seeking an SBIC license. Later this year, SBA intends to provide education activities focusing on the underlicensed states.

Additionally, SBA plans to continue our education activities and events associated with the April 2018 Memorandum of Understanding (MOU) with the U.S. Department of Agriculture to encourage rural investing. These events will include SBA partnering with USDA and other federal agencies, including the Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation and the Federal Reserve Board to hold community development investment workshops that discuss the Community Reinvestment Act. Last October, we hosted such an event in North Carolina, and later this month we will hold a similar event in Maine.

In conclusion, thank you for your support of Small Business Administration. I look forward to speaking with you today and continuing to work to better assist America’s small businesses.