

U.S. SMALL BUSINESS ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

SBA's Awarding and Oversight of Small Business Investment Company Licenses



Evaluation Report
Report Number 26-08
March 17, 2026



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Pursuant to the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Public Law 117-263, Section 5274, any nongovernmental organizations and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context as it relates to any specific reference contained herein. Comments must be submitted to AIGA@sba.gov within 30 days of the final report issuance date. We request that any comments be no longer than two pages, Section 508 compliant, and free from any proprietary or otherwise sensitive information. The comments may be appended to this report and posted on our public website.



U.S. Small Business Administration Office of Inspector General

EXECUTIVE SUMMARY

SBA's Awarding and Oversight of Small Business Investment Company Licenses (Report 26-08)

What OIG Reviewed

The Small Business Investment Act of 1958 established the Small Business Investment Company (SBIC) program to stimulate the U.S. economy. The U.S. Small Business Administration (SBA) manages the program by licensing and overseeing professionally managed SBICs that provide small businesses with access to private equity capital and long-term debt financing to operate, expand, and modernize.

Entities applying for an SBIC license must raise the capital needed for operations and develop a viable strategy for how they will invest in small businesses, offer loans, and purchase equity. In 2023, SBA significantly revised the program by adjusting minimum capital requirements and modifying the fee structure, making it easier for new fund managers to enter the program. It also allowed for greater flexibility in investment strategies, modified interest payments, and introduced an expedited subsequent fund licensing process for existing licensees.

From fiscal year (FY) 2023 through FY 2024 the number of first-time applicants for an SBIC license almost tripled, going from 33 to 127. Our objective was to assess SBA's process for awarding SBIC licenses and its oversight to ensure program integrity and mitigate financial loss.

What OIG Found

SBA established adequate SBIC licensing and oversight controls to provide reasonable assurance of compliance with regulatory and program requirements. Additionally, SBA

complied with applicable requirements when awarding SBIC licenses and conducting oversight.

SBA's licensing controls included extensive vetting and verification of potential licensees, operational and investment due diligence, organizational and capitalization requirements, and market validation demonstrated through external fundraising.

SBA's oversight controls included conducting timely regulatory examinations, monitoring key investment performance metrics, and proactively addressing unresolved performance and regulatory matters.

We reviewed a small sample of licenses and examination reports based on our assessment of SBA's licensing and oversight controls which provided reasonable assurance of SBA's compliance with regulatory and program requirements. Specifically, of the 80 active SBICs that were licensed from October 1, 2022, through June 30, 2025, we reviewed four license approvals, one license pending approval, and three SBIC examination reports. We found no material deficiencies or problem areas warranting additional review.

What OIG Recommended

We did not make any recommendations.

Agency Response

The agency agreed with the findings and elected not to provide a formal response to this report.

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Introduction

Background

The Small Business Investment Company (SBIC) program was established by the Small Business Investment Act of 1958 (the Act) to stimulate the national economy by providing access to private equity capital and long-term debt financing required by small businesses to operate, expand, and modernize. The U.S. Small Business Administration (SBA) manages the program by licensing professionally managed SBICs that provide small businesses with access to private equity capital and long-term debt financing. This financing consists of private capital the SBIC has raised (regulatory capital) and SBA's financial assistance (leverage) through the SBIC program. SBICs can borrow funds at favorable rates because SBA guarantees the loan obligations (debentures).

Entities applying for an SBIC license must raise the capital needed for operations and develop a viable strategy for how they will invest in small businesses, offer loans, and purchase equity. Generally, applicants must raise a minimum of \$5 million of private capital to establish an SBIC. SBA typically provides leverage of up to \$2 for every \$1 an SBIC raises in private capital, up to a maximum of \$175 million for a single license and \$350 million for multiple licenses.

In 2023, the SBIC Investment Diversification and Growth's final rule significantly revised the SBIC program by introducing Accrual and Reinvestor licenses, modifying when interest payments are made. Other revisions included adjusting minimum capital requirements and modifying the fee structure, making it easier for new fund managers to enter the program.¹ The changes also allowed for greater flexibility in investment strategies and introduced an expedited subsequent fund licensing process for existing licensees in good operational and regulatory compliance standing with SBA. Additional eligibility requirements include:

- A clean regulatory history;
- Consistent strategy and fund size;
- Consistent partner dynamics; and
- Firm and investment performance stability.

¹ *Federal Register*, Vol. 88, No. 136, July 18, 2023.

From fiscal year (FY) 2023 through FY 2024, the number of first-time SBIC license applicants almost tripled, going from 33 to 127. As of June 30, 2025, the SBIC program had 336 active licenses. Collectively, these SBICs invested or committed more than \$44 billion in capital to small businesses, with about \$25 billion of that being SBA’s share.

The SBIC licensing process is rigorous. Applicants must demonstrate that their investment plan has a high probability of success and adheres to organizational and capitalization requirements and other non-regulatory considerations. Applicants must also demonstrate that their management team is qualified and experienced and has a viable business plan that aligns with the team’s market success.

SBIC Licensing Process

Pre-Screen Application (Optional)

SBA encourages potential applicants to participate in its optional pre-screening process before applying for an SBIC license to better understand licensing requirements and assess their suitability for the program without incurring the non-refundable application fee.

The pre-screen package submission contains a subset of the Management Assessment Questionnaire, including an overview of the proposed fund, a narrative detailing the applicant’s proposed investment strategy, and the management



Source: OIG-generated from SBA data.

team's biographies and investment track record.

Green Light Stage

Once an applicant is prepared to move forward with their application, the first phase of the application process requires (1) payment of a non-refundable initial licensing fee and (2) submission of the full Management Assessment Questionnaire. The Investment Committee and Agency Licensing Committee, comprised of key SBA officials and staff responsible for licensing in coordination with the SBA Administrator, will consider whether applicants have the experience and skills necessary to manage an SBIC.

If approved by both committees and the Administrator, the applicant will get a "green light" letter to submit a final license application and fee once sufficient capital has been raised to hold an initial closing.

Fund Closing Stage

When the applicant has secured sufficient private capital and is prepared to hold an initial close of the fund, they file for the final closing stage of the licensing process. The final closing documents must include a complete set of final legal documents, verification of sufficient capital, and certification of no material adverse changes since green light approval.

See Appendix 2 for full depiction of SBIC licensing process.

SBIC Oversight

SBA's oversight of SBICs includes review of the following:

- Financial statements and related schedules with licensee investment performance and portfolio company information;
- Valuation reports;
- Portfolio financing reports; and
- Capital certificates.

SBA also reviews investment performance metrics from these filings and financial reports provided to investors compared to standard industry benchmarks for the investment strategy and vintage year of the licensee.

Additionally, SBA monitors underperforming licensees to mitigate defaults or significant regulatory violations as well as:

- Outstanding leverage or commitments;
- Shifts in investment strategy;
- Deterioration of prior investment track record; and

- Litigation and governmental enforcement actions against the principals or fund.

SBICs with unresolved financial or regulatory issues may be placed in restricted operations and have their SBIC license revoked or be liquidated.

Objective

Our objective was to assess SBA's process for awarding SBIC licenses and its oversight of SBICs to ensure program integrity and mitigate financial loss.

Results

SBA established adequate SBIC licensing and oversight controls to provide reasonable assurance of compliance with regulatory and program requirements. Additionally, SBA complied with applicable requirements when awarding SBIC licenses and conducting oversight to ensure program integrity and mitigate financial loss.

SBA's Awarding of SBIC Licenses

SBIC licensing controls include:

- Organizational and capitalization requirements;
- Market validation demonstrated through external fundraising;
- Extensive vetting and verification of potential licensees that considers program suitability, the management team's qualifications and track record of successful investing, and economic viability; and
- Reviews by licensing analysts and SBA's Office of General Counsel (OGC) that assess operational and investment due diligence.

Of the 80 active and leveraged SBICs that were licensed between October 1, 2022, and June 30, 2025, we reviewed four approved applications and one pending application.²

We found SBA adhered to its policies and procedures and ensured applicants met requirements before awarding SBIC licenses. Specifically, SBA verified applicants' compliance with management ownership diversification and affiliation requirements. This aligns with SBA's goal to have professional, experienced managers handle investment decisions. SBA also verified the

²We performed limited testing based on our assessment of SBA's licensing and oversight controls which provided reasonable assurance of SBA's compliance with regulatory and program requirements.

management team's investment track records and whether minimum capital requirements were met.

Further, licensing analysts and SBA's OGC conducted comprehensive reviews, which included verifying management's role and responsibility, the legality of the organization's formation and structure, compensation agreements, and monitoring the status of fundraising.

SBA's Oversight of SBICs

The Small Business Investment Act of 1958 requires SBA to examine each SBIC licensee at least biannually to determine the licensee's financial position and assess its compliance with program requirements. SBA issues an examination report at the conclusion of each examination, detailing the examiner's findings and conclusions. In FY 2024, SBA issued SBIC examination reports for 228 of 318 active licenses. We reviewed three reports and their supporting information and found that SBA performed timely examinations and assessed SBICs' financial performance in accordance with requirements. Specifically, SBA:

- Evaluated financing agreements and direct confirmations of financings made;
- Reviewed licensees' valuation procedures, credit reports, and internal controls; and
- Reviewed licensees' financial statements and investment performance reports, reported discrepancies, and monitored corrective actions.

We also found SBIC case files indicated that SBA monitored key investment performance metrics for financial viability and compliance with performance standards outlined in the Code of Federal Regulations and SBIC Standard Operating Procedures. The SBIC reports on these performance metrics in an audited SBIC Financial Statement and Investment Performance report it provides at least annually. SBA evaluates these metrics during examinations and when licensees apply for leverage commitments and drawdowns. SBA also required leverage requests to be exercised approximately 58 days after approval to limit the likelihood of material adverse changes.

We also noted that SBA detected and addressed capital impairments, which occur when an SBIC's leverage coverage ratio falls below the predetermined acceptable percentage. SBA issued default letters and recommended placing affected SBICs on a watchlist, which subjected the licensee to additional monitoring and reporting requirements. SBA also recommended additional actions if the violation remained unresolved beyond the allotted timeframe.

Appendix 1: Scope and Methodology

This report presents the results of our evaluation of the Small Business Administration's (SBA) awarding and oversight of Small Business Investment Company (SBIC) licenses. Our objective was to assess SBA's process for awarding SBIC licenses and its oversight of SBICs to ensure program integrity and mitigate financial loss. Our scope of work included 80 active leveraged SBICs that were licensed from October 1, 2022, through June 30, 2025.

To answer our objective, we reviewed laws, regulations, procedures, and guidance pertaining to SBIC eligibility and oversight; and interviewed SBA officials from the Office of Investment and Innovation. In addition, to assess the process, we analyzed applications and supporting information for 4 of the 80 active and leveraged SBICs that were licensed and subject to regulatory oversight from October 1, 2022, through June 30, 2025; and one pending application.

Our sample included two first-time applicants and three previously licensed SBICs, or subsequent funds. Subsequent funds are a license type for management teams already operating one or more licensed SBICs in good operational and regulatory compliance standing. Two of these were Standard licenses, which require the licensee to pay semiannual interest payments on outstanding leverage. The other three were SBA's Accrual or Reinvestor Licenses, which allow the licensee to accrue interest over a 10-year term.

We also reviewed five SBIC case files and three Examination Reports issued from October 27, 2023, to April 2025, to assess SBA's oversight of SBICs to ensure compliance with applicable laws, regulations, and policies.

Although we performed limited testing, our assessment of SBA's licensing and oversight controls provided reasonable assurance of SBA's compliance with regulatory and program requirements. In addition, we found that the SBIC program operated with a near zero default rate over the past 5 years and a zero taxpayer subsidy for more than 20 years. As a result, we concluded our survey work, as we did not anticipate that the review of additional records would result in recommendations for potential program improvements.

We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation. These standards require that we adequately plan and perform this evaluation to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our conclusions based on our objective.

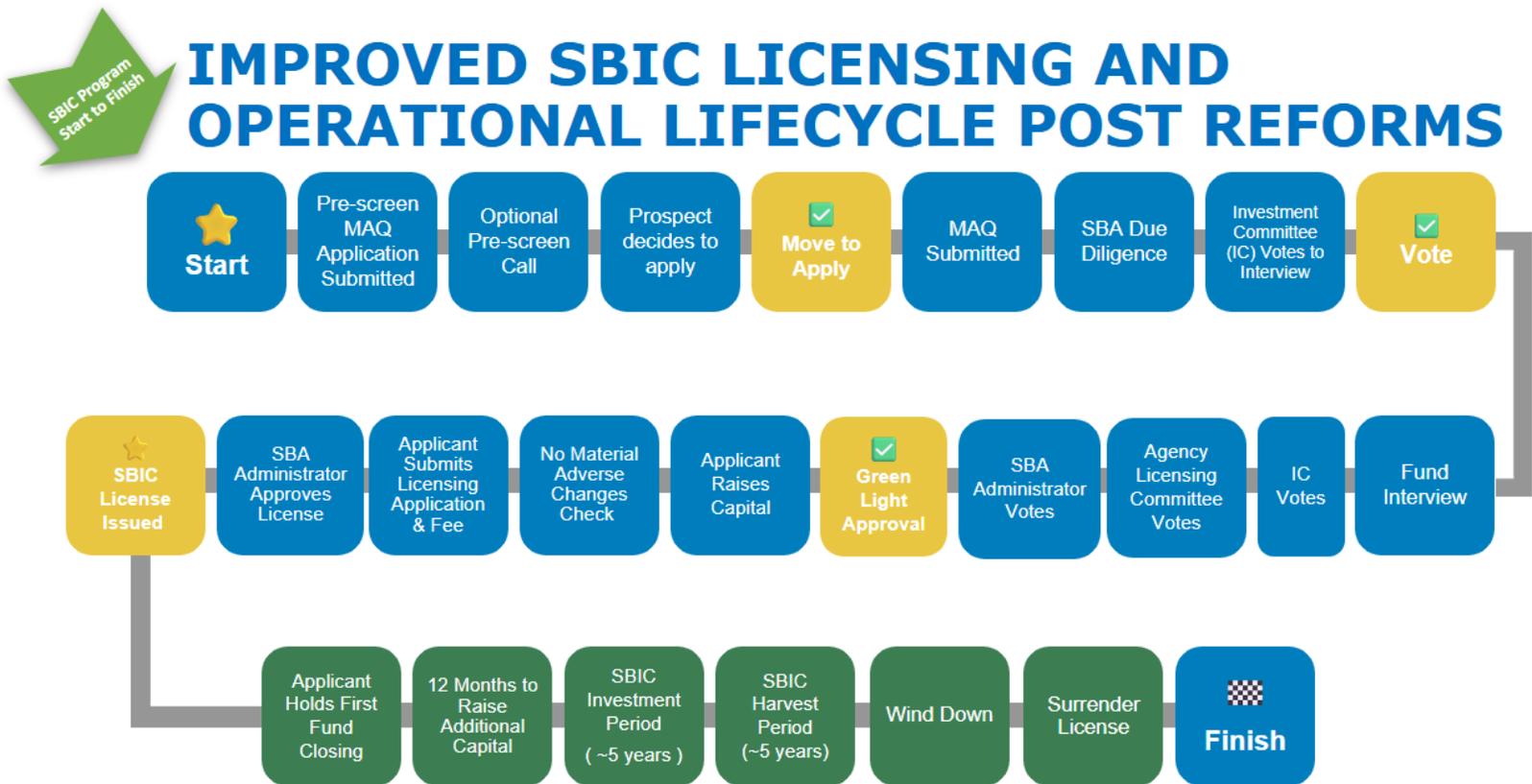
Use of Computer-Processed Data

We relied on applicants' management questionnaire and supporting information; and financial reports stored in FundHub, SBIC Web, and SBIC Operation files to conduct our evaluation. We obtained the population of active and leveraged SBICs that were licensed and subject to regulatory oversight during our scope period from the Office of Investment and Innovation and verified its accuracy with program officials. The reviewers' and the Office of General Counsel's analysis and conclusion about eligibility and SBIC operations were based on licensee submissions. As a result, we believe the data used in this report are sufficiently reliable to support our report conclusions.

Prior Audit Coverage

The OIG did not identify any recent prior audits or reviews related to the objective of this audit.

Appendix 2: Small Business Investment Company (SBIC) Licensing Lifecycle



The Green Light letter is a certification that the management team will be issued an SBIC license and the intended financial commitment from SBA at fund closing, provided that terms and conditions are met

*Average time from application submission to green light letter is 4-6 weeks

Source: Office of Investment & Innovation – SBIC Program Reforms Overview Presentation August 2023.