



February 1997

Small Business

Update of Information on SBA's Small Business Investment Company Programs



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Resources, Community, and
Economic Development Division

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February 21, 1997

The Honorable Christopher S. Bond
Chairman, Committee on Small Business
United States Senate

Dear Mr. Chairman:

The Small Business Investment Act of 1958 created a program to help small businesses obtain financing for starting, maintaining, and expanding operations. Under the program, Small Business Investment Companies (SBIC) provide funding to small businesses through equity investments (purchasing the stock of small businesses) and debt (making loans to small businesses). In 1972, the Congress amended the act to establish Specialized SBICs, called SSBICs, to provide funding to small businesses owned by socially or economically disadvantaged individuals.¹ In addition to using their own private capital to support small businesses, SBICs and SSBICs can also obtain funds by issuing debentures or participating securities,² which the Small Business Administration (SBA) pools and sells to the public. The principal and interest on both of these instruments are guaranteed by SBA. In addition, SSBICs could also receive funds by selling nonvoting preferred stock to SBA. Until November 1989, SSBICs could sell to SBA stock carrying a 3-percent annual dividend (generally referred to as 3-percent preferred stock), and until October 1995, they could also sell stock to SBA carrying a 4-percent annual dividend.³ SBA refers to the financial assistance that SBICs and SSBICs receive as "leverage."⁴

In May 1995, we reported on the performance of the programs and investment activities for fiscal years 1990 through 1994.⁵ Because of your interest in the SBIC and SSBIC programs, you requested that we update

¹The Small Business Programs Improvement Act of 1996 amended the Small Business Investment Act of 1958 and provided that, effective October 1, 1996, no new SSBICs may be established.

²A debenture is an unsecured debt instrument issued by the SBIC or SSBIC that requires periodic interest payments and the repayment of the principal when the debenture matures, which is generally in 5 or 10 years. The participating security is an instrument that allows SBA to invest in SBICs and SSBICs as a limited partner and to share in their profits and allows the SBICs and SSBICs to defer payments to SBA until they are generating profits.

³The Congress has not provided funds to SBA to purchase 4-percent stock since fiscal year 1995.

⁴The Small Business Investment Act, as amended, provides that an SBIC can receive up to \$3 of SBA funding for every \$1 of private capital; an SSBIC, up to \$4 for every \$1 of private capital.

⁵That report, Small Business: Information on SBA's Small Business Investment Company Programs (GAO/RCED-95-146FS, May 1995), also provided information on the educational background and experience of the SBA staff responsible for the programs.

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through fiscal year 1996 selected information presented in that report. As agreed with your office, this report provides information on (1) the programs' trends for fiscal years 1990 through 1996 in terms of the number, size, funding, and private capitalization of SBICs and SSBICs; (2) SBA's cumulative net program losses through fiscal year 1996 from liquidating SBICs and SSBICs,⁶ and SSBICs' participation in the Three Percent Preferred Stock Repurchase Program through December 1996;⁷ and (3) SBICs' and SSBICs' investment activities during fiscal years 1990 through 1996.

Results in Brief

Data on the SBIC and SSBIC programs for fiscal years 1990 through 1996 show that (1) while 127 new SBICs and SSBICs were licensed by SBA, the total number participating in the program declined from 383 to 282; (2) the number of larger SBICs and SSBICs—those with more than \$10 million in private capital and SBA leverage—increased from about 70 in fiscal year 1993 to 115 by fiscal year 1996; (3) funds obligated by SBA for the SBIC and SSBIC programs ranged from \$77 million to over \$355 million; and (4) private capital brought into the programs by SBICs and SSBICs increased from about \$2 billion in fiscal year 1990 to over \$4.5 billion in fiscal year 1996. (See app. I.)

As of the end of fiscal year 1996, SBA had incurred about \$365 million in losses from liquidating failed SBICs and SSBICs and projected that it would lose an additional \$123 million from liquidations ongoing at that time. As of December 1996, SSBICs had paid SBA about \$31 million to repurchase stock for which SBA had originally paid about \$87 million, and SBA forgave or allowed the SSBICs to write off \$22.5 million in dividends owed SBA on that stock. (See app. I.)

Data on SBICs' and SSBICs' investment activities during fiscal years 1990 through 1996 show that (1) the amount of funding provided to small businesses each year ranged from about \$490 million to about \$1.6 billion; (2) SBICs invested primarily in manufacturing firms, while SSBICs invested primarily in transportation, communications, and utilities; and (3) SBICs tended to make mostly equity-type investments, such as purchasing stock, while SSBICs primarily provided loans. (See app. II.)

⁶SBA Standard Operating Procedure 50 53 prescribes the policies and procedures used by SBA for liquidating the assets of SBICs and SSBICs that are in unacceptable financial condition to recover the government's investment.

⁷The Three Percent Preferred Stock Repurchase Program, authorized by the Congress in November 1989 and established by SBA in April 1994, allows SSBICs to repurchase their 3-percent preferred stock from SBA at a price less than par value.

Agency Comments

We obtained comments on a draft of this report from SBA officials, including the Associate Administrator for Investment, who noted that the information contained in the report was accurate. The Associate Administrator noted that the updated statistics in the report demonstrated a steep decline in the numbers of licensees entering liquidation and a dramatic increase in the amount of long-term debt and equity capital provided to small businesses. He attributed this to changes to the program resulting from SBA's implementation of the Small Business Equity Enhancement Act of 1992. SBA officials also provided suggestions for clarifying the report, which we incorporated where appropriate.

Scope and Methodology

To respond to your request, we relied on existing data from SBA on SBICS' and SSBICS' licensing, capitalization, investments, and liquidations and on SSBICS' participation in the Three Percent Preferred Stock Repurchase Program. We discussed the data with officials of SBA's Investment Division, the office responsible for the SBIC and SSBIC programs. We did not verify the accuracy of SBA's data nor conduct reliability assessments of SBA's databases. We conducted our review from August 1996 through January 1997 in accordance with generally accepted government auditing standards.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days after the date of this letter. At that time, we will send copies of the report to interested congressional committees, the Administrator of SBA, and other interested parties. We will also make copies available to others upon request. Major contributors to this report include Assistant Director Erin Bozik and Evaluators Sally Moino, Rick Smith, and Stan Ritchick. Please call me at (202) 512-7631 if you or your staff have any questions.

Sincerely yours,



Lawrence J. Dyckman
Associate Director, Housing and
Community Development Issues

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Abbreviations

SBA	Small Business Administration
SBIC	Small Business Investment Company
SSBIC	Specialized Small Business Investment Company

The SBIC and SSBIC Programs

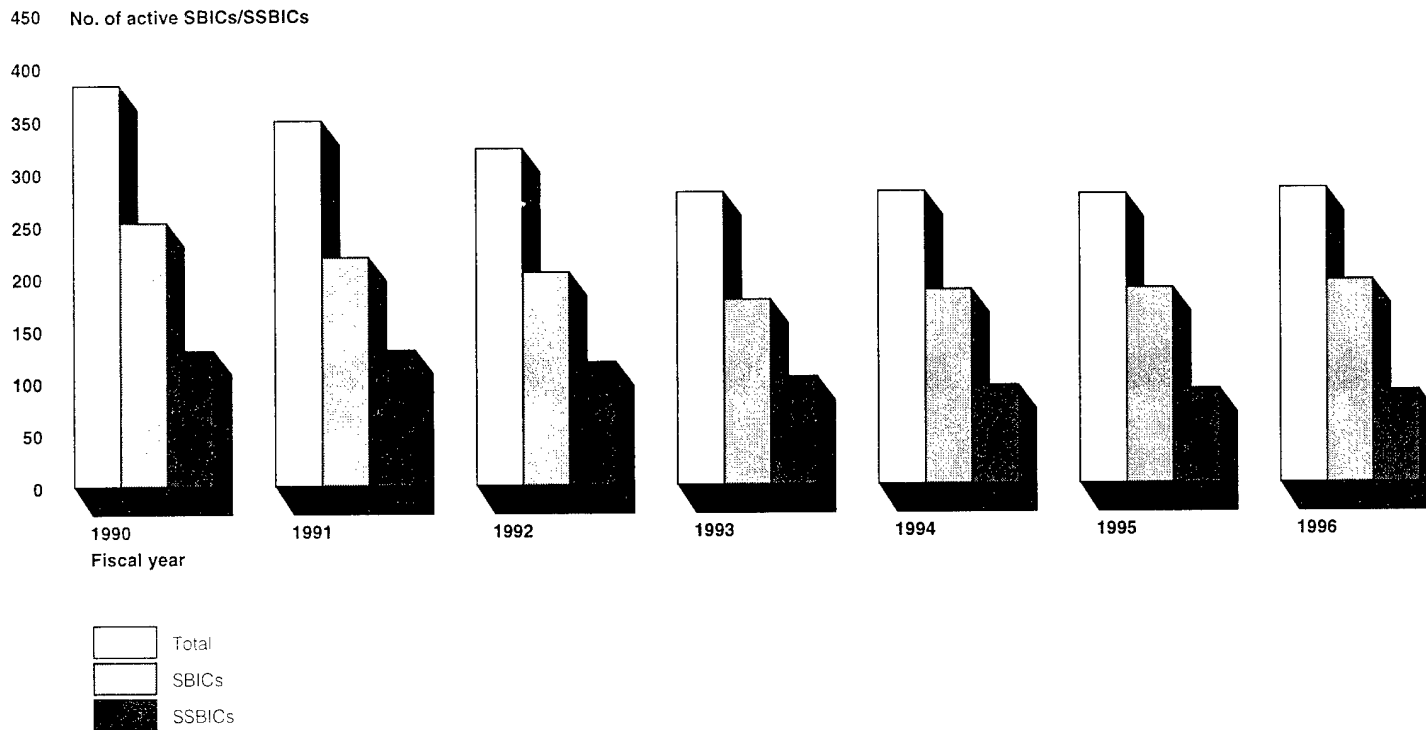
This appendix presents information on the Small Business Investment Company (SBIC) and Specialized Small Business Investment Company (SSBIC) programs, including the number of SBICs and SSBICs that the Small Business Administration (SBA) has licensed to participate in the programs, their size, trends in SBA's budget for the SBIC and SSBIC programs, and the capitalization levels of investment companies, for fiscal years 1990 through 1996. The appendix also discusses (1) SBIC and SSBIC liquidations and losses to SBA from the liquidations through fiscal year 1996 and (2) the status of the Three Percent Preferred Stock Repurchase Program for SSBICs.

The Number of SBICs and SSBICs in the Programs Since 1990

The number of SBICs and SSBICs actively participating (that is, investment companies that are operating as SBICs or SSBICs) in the programs declined from 383 firms in fiscal year 1990 to 282 in fiscal year 1996. As figure I.1 shows, the overall number of SBICs and SSBICs declined from fiscal years 1990 through 1993 but leveled off in fiscal year 1994. Also, the number of new SBICs and SSBICs licensed by SBA declined steadily from fiscal years 1990 through 1993. From fiscal year 1994 through fiscal year 1996, a relatively large number of new SBICs were licensed. No new SSBICs were licensed in fiscal years 1994 or 1995, and two new SSBICs were licensed in fiscal year 1996. (See fig. I.2.)

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Figure I.1: Number of Active SBICs and SSBICs, Fiscal Years 1990 Through 1996

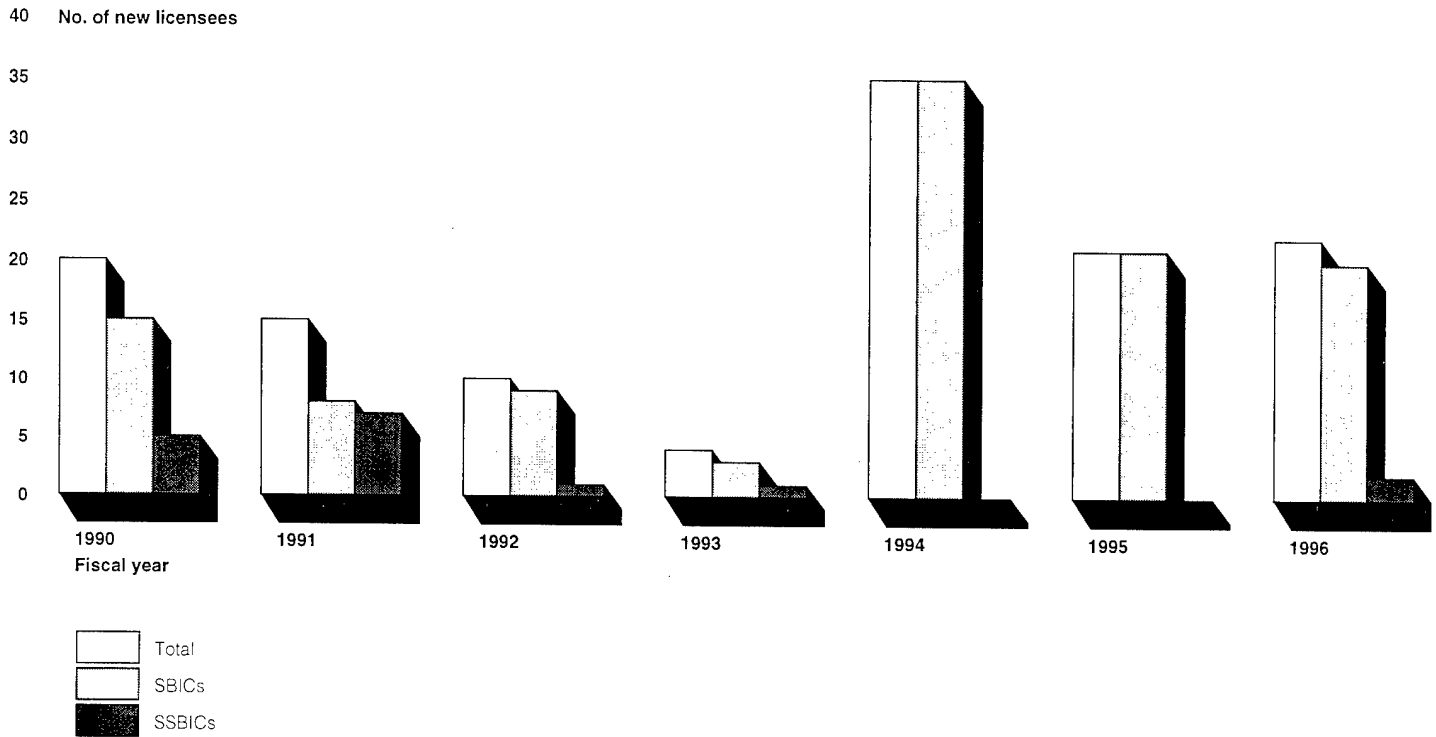


Source: GAO's analysis of data from SBA.

Figure I.1 shows that the number of active SBICs declined from 253 in fiscal year 1990 to 194 in fiscal year 1996. SSBICs also declined from 130 in fiscal year 1990 to 88 in fiscal year 1996.

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Figure I.2: Number of New Licensees in the SBIC and SSBIC Programs, Fiscal Years 1990 Through 1996



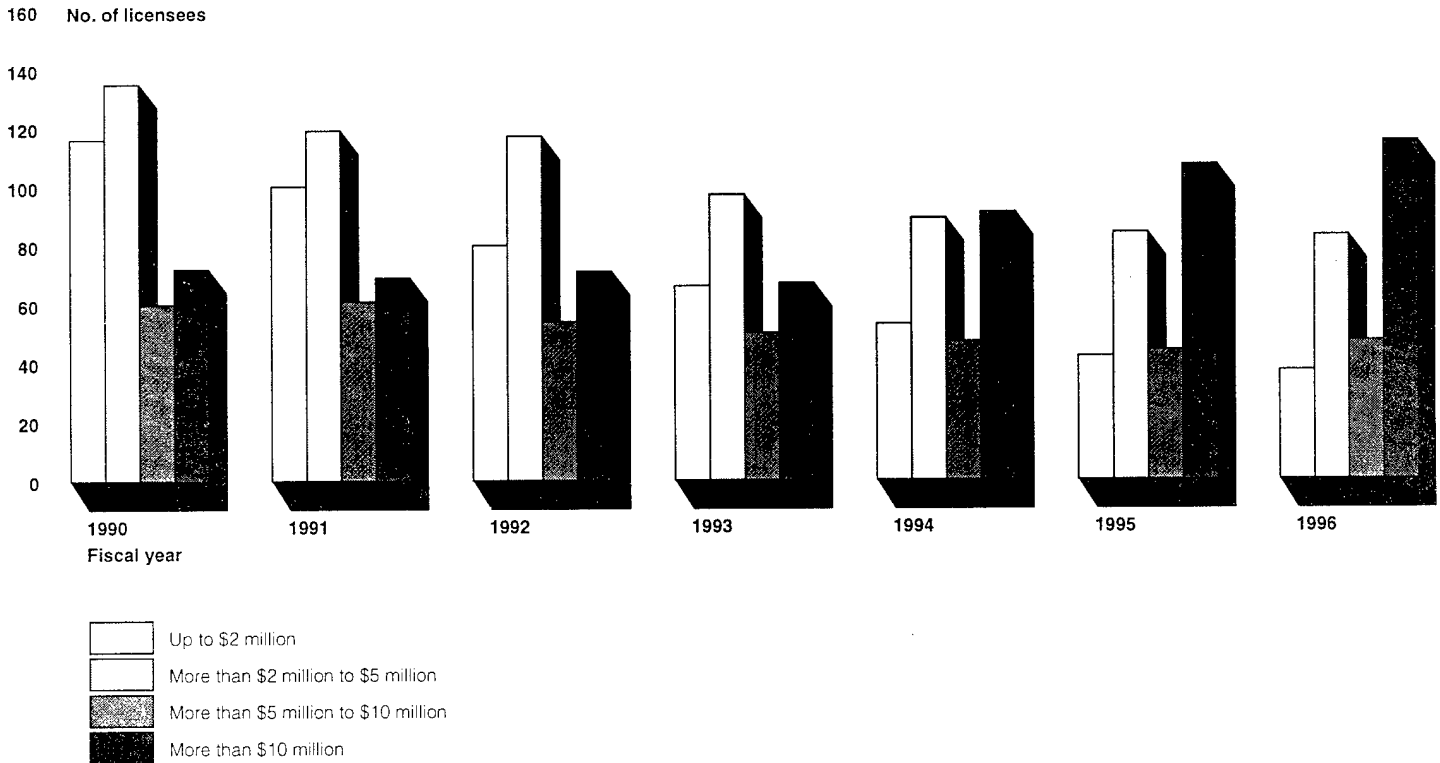
Source: GAO's analysis of data from SBA.

For fiscal years 1990 through 1996, 127 new licensees entered the programs—111 new SBICs and 16 new SSBICs. As figure I.2 shows, the number of new licensees entering the programs declined steadily from 20 in fiscal year 1990 to 4 in fiscal year 1993. In fiscal year 1994, 35 new licensees entered the programs, 21 entered in fiscal year 1995, and 22 entered in fiscal year 1996. More SBICs than SSBICs were licensed during this period. Also, no new SSBICs entered the program during fiscal years 1994 or 1995, and two entered in fiscal year 1996.

Size of SBICs and SSBICs in the Programs Since 1990

The number of small SBICs and SSBICs (those with up to \$2 million in private capital and SBA leverage) in the programs declined from 116 to 37 from fiscal year 1990 through fiscal year 1996. The number of larger SBICs and SSBICs (those with more than \$10 million) remained fairly constant through fiscal year 1993, ranging from 67 to 72, but increased to 91 in fiscal year 1994, and to 115 by fiscal year 1996. (See fig. I.3.)

Figure I.3: Number of Licensees, by Level of Capitalization, Fiscal Years 1990 Through 1996



Source: GAO's analysis of data from SBA.

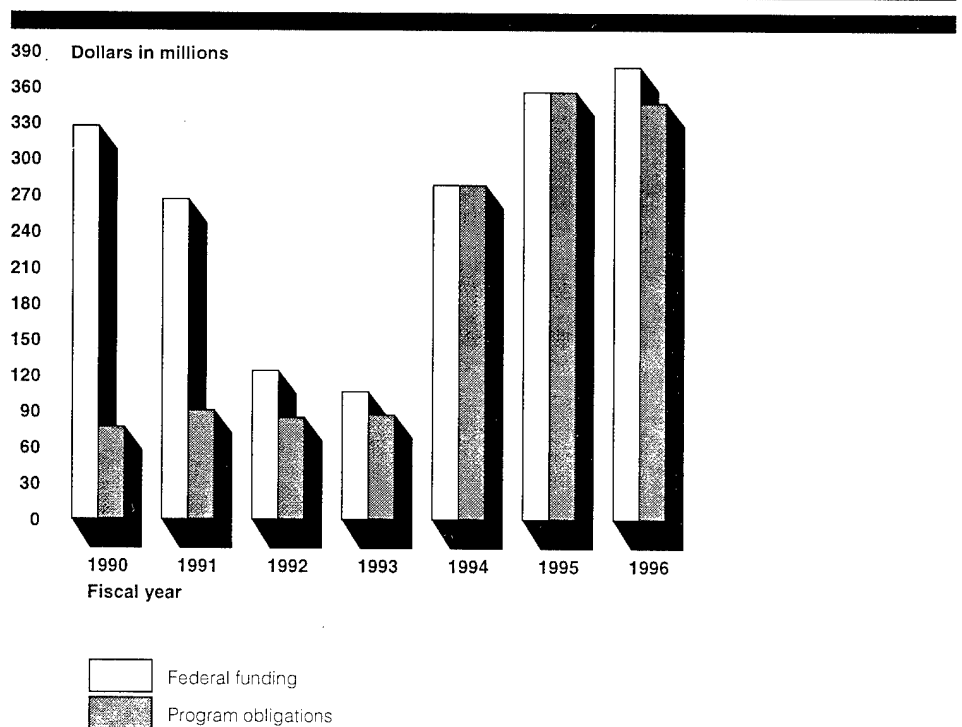
Federal Funding for SBIC and SSBIC Programs Since 1990

The program level authorized by the Congress each year for the SBIC and SSBIC programs (federal funding) decreased from \$326.4 million in fiscal year 1990 to \$106 million in fiscal year 1993; at the same time, the amount of program authority used by SBA (program obligations) remained fairly

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constant, ranging from \$77 million to \$91 million. In fiscal year 1994, federal funding increased by 162 percent, and obligations increased by 220 percent, each going up to \$277.9 million. Federal funding continued to increase to \$376.4 million in fiscal year 1996. Program obligations increased to over \$355 million in fiscal year 1995 and decreased to \$346.4 million in fiscal year 1996. (See fig. I.4.) As noted in our May 1995 report, the Associate Administrator for Investment attributed the dramatic increase in the fiscal year 1994 federal funding to the fact that SBA asked the Congress for an increase because SBA believed that the new participating security would attract an increased number of new licensees into the programs. Similarly, obligations increased, the Associate Administrator explained, because a large number of new, highly capitalized licensees entered the programs and requested significant SBA funding, requiring SBA to, in turn, guarantee more funding.

Figure I.4: Federal Funding and Obligations, Fiscal Years 1990 Through 1996

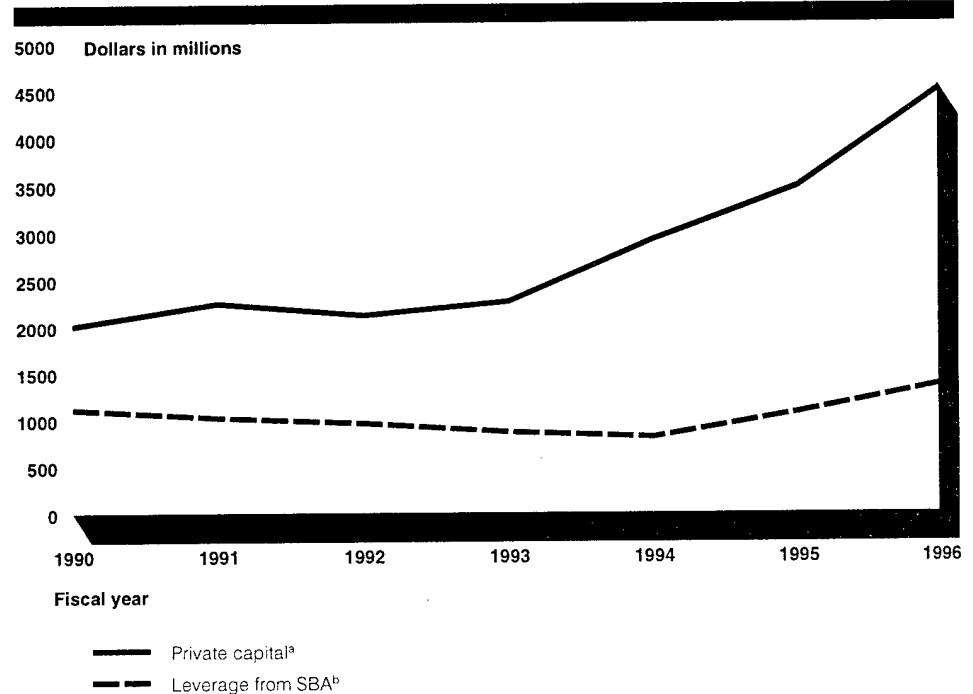


Source: GAO's analysis of data from SBA.

SBICs' and SSBICs' Capitalization Levels

In fiscal years 1990 through 1996, the private capital of active SBICs and SSBICs increased by 125 percent, from approximately \$2 billion in fiscal year 1990 to \$4.52 billion in fiscal year 1996. The total amount of leverage provided to these investment companies increased from \$1.1 billion in fiscal year 1990 to \$1.4 billion in fiscal year 1996. The increase in private capital has come primarily from SBICs rather than SSBICs. Those that are bank-dominated or bank-associated⁸ are bringing in most of the private capital, followed by those that are individually owned.⁹ Most of the leverage has gone to individually owned SBICs and SSBICs. (See figs. I.5 through I.8.)

Figure I.5: SBICs' and SSBICs' Capitalization, Fiscal Years 1990 Through 1996



^aPrivate capital includes capital from those SBICs and SSBICs that do not use leverage from SBA. Therefore, the ratio of private capital to leverage is greater than it would be if those investment companies were excluded.

⁸Bank-dominated ownership groups are groups that are 50 percent or more owned by a bank or a bank holding company. Bank-associated ownership groups are groups that are 10 percent to 49 percent owned by a bank or a bank holding company.

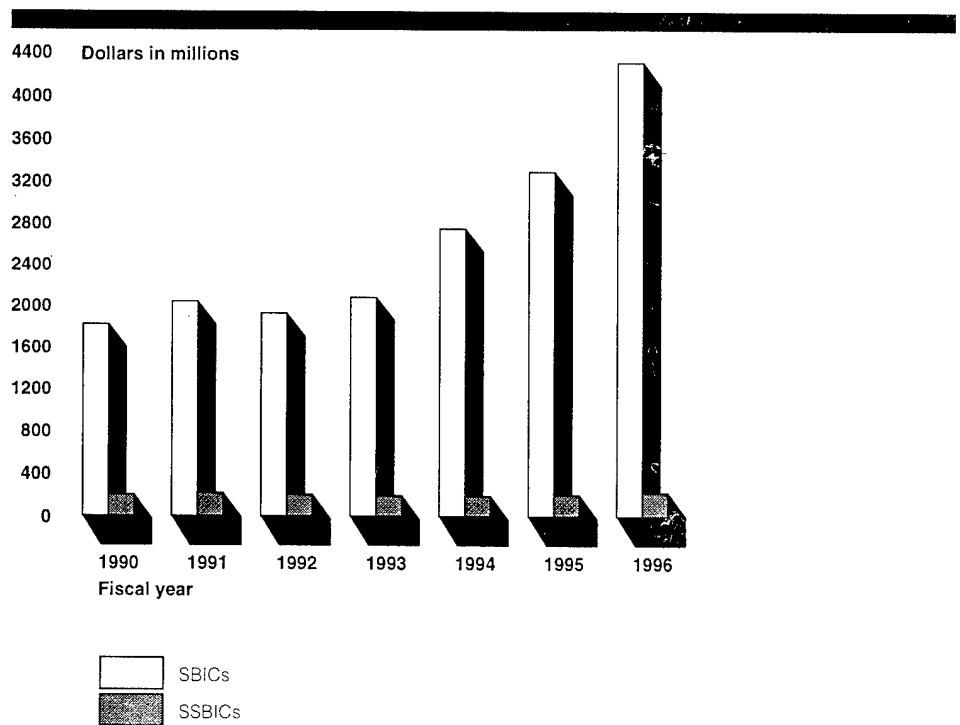
⁹Individually owned ownership groups are privately held only.

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Source: GAO's analysis of data from SBA.

Figure I.5 shows that the amount of private capital that SBICs and SSBICs are bringing into the programs has increased, rising from a total of about \$2 billion in fiscal year 1990 to about \$4.52 billion in fiscal year 1996. While the private capital has increased substantially, the total amount of leverage that SBA provided to these licensees increased from about \$1.1 billion in fiscal year 1990 to about \$1.4 billion in fiscal year 1996.

Figure I.6: Total Private Capital for SBICs Versus SSBICs, Fiscal Years 1990 Through 1996

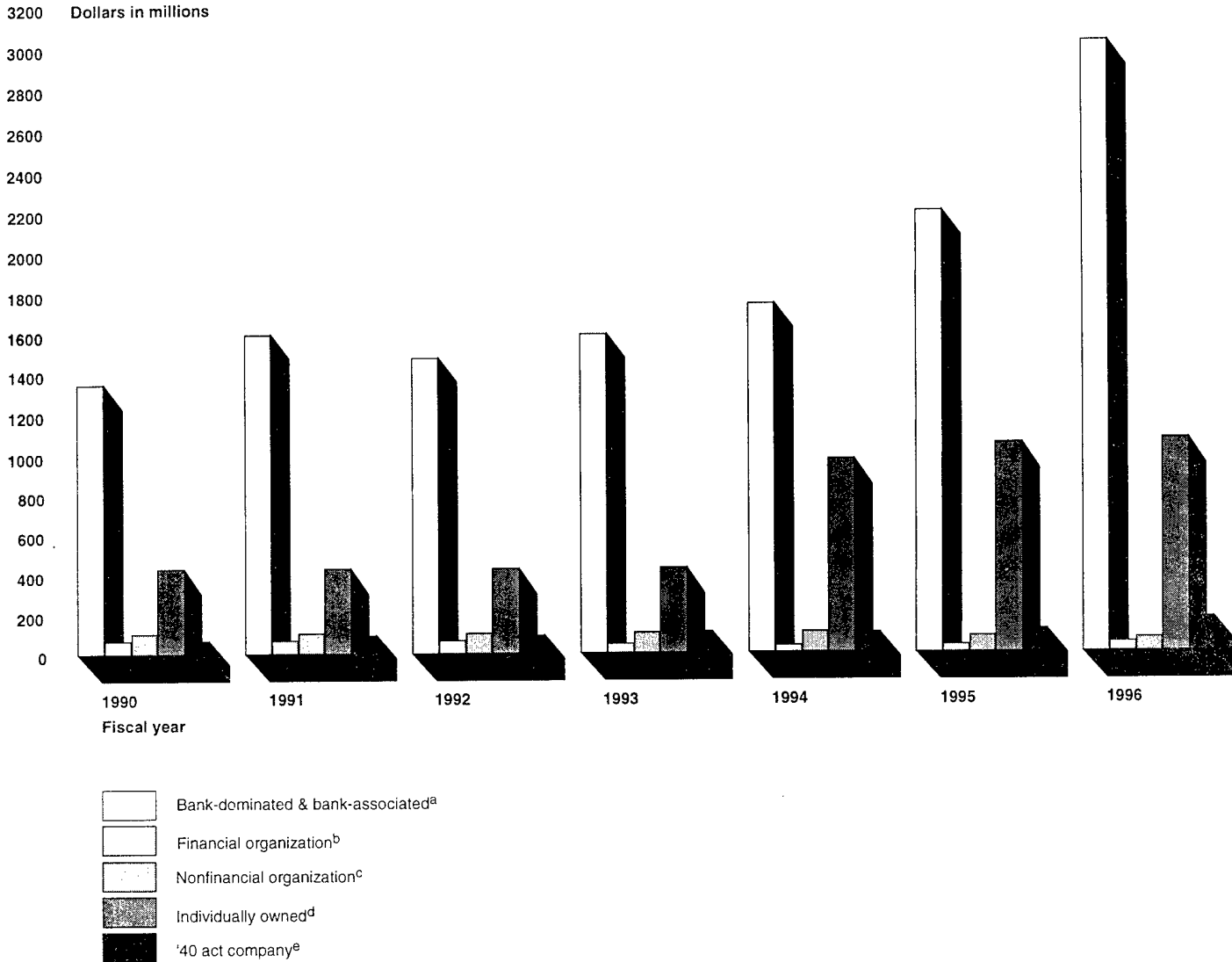


Source: GAO's analysis of data from SBA.

Figure I.6 shows that the increase in private capital comes primarily from SBICs rather than SSBICs. The total private capital for SBICs increased from about \$1.8 billion in fiscal year 1990 to \$4.3 billion in fiscal year 1996, while the total private capital for SSBICs varied between \$187 million and \$220 million over this period.

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Figure I.7: SBICs' and SSBICs' Private Capital, by Type of Ownership, Fiscal Years 1990 Through 1996



^aBank-dominated ownership groups are groups that are 50 percent or more owned by a bank or a bank holding company. Bank-associated ownership groups are groups that are 10 percent to 49 percent owned by a bank or a bank holding company.

^bFinancial organization ownership groups are public and private financial organizations, excluding banks and bank holding companies.

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^aNonfinancial organization ownership groups are public and private groups.

^bIndividually owned ownership groups are privately held only.

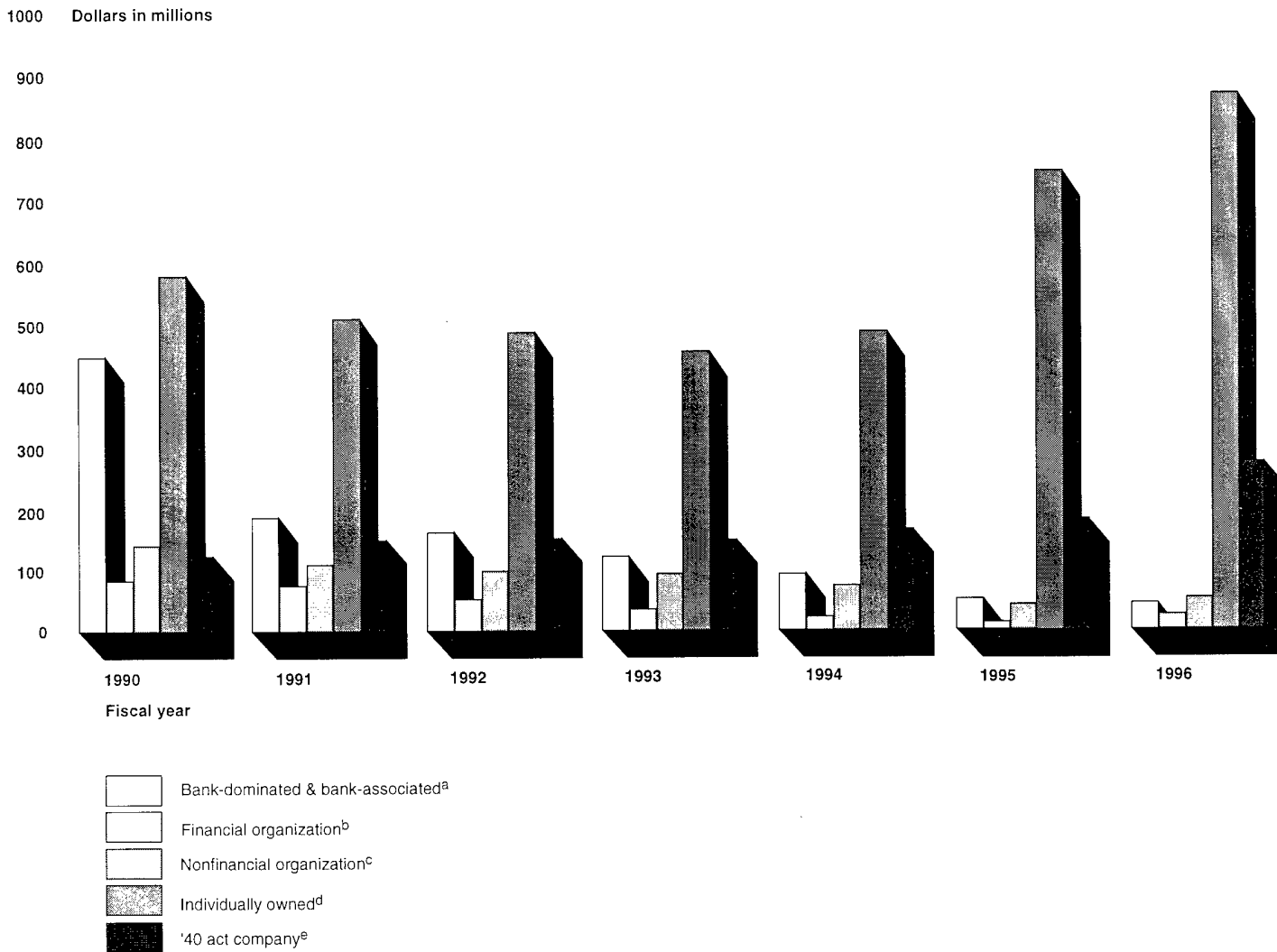
^c40 Act Company ownership groups are groups licensed under the Investment Company Act of 1940. These companies are registered with the Securities Exchange Commission and are required to follow many regulations prescribed by the Commission.

Source: GAO's analysis of data from SBA.

Figure I.7 shows that since fiscal year 1990, most of the increase in private capital came from bank-dominated and bank-associated, as well as individually owned, SBICS and SSBICS. Private capital from individually owned SBICS and SSBICS ranged from \$407 million to \$433 million from fiscal year 1990 through fiscal year 1993, and by fiscal year 1996 increased to almost \$1.1 billion. Capital from those that are bank-dominated or bank-associated increased by about \$1.5 billion from fiscal year 1993 through fiscal year 1996.

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Figure I.8: SBA's Leverage, by Type of Ownership, Fiscal Years 1990 Through 1996



^aBank-dominated ownership groups are groups that are 50 percent or more owned by a bank or a bank holding company. Bank-associated ownership groups are groups that are 10 percent to 49 percent owned by a bank or a bank holding company.

^bFinancial organization ownership groups are public and private financial organizations, excluding banks and bank holding companies.

^cNonfinancial organization ownership groups are public and private groups.

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^aIndividually owned ownership groups are privately held only.

^e40 Act Company ownership groups are groups licensed under the Investment Company Act of 1940. These companies are registered with the Securities Exchange Commission and are required to follow many regulations prescribed by the Commission.

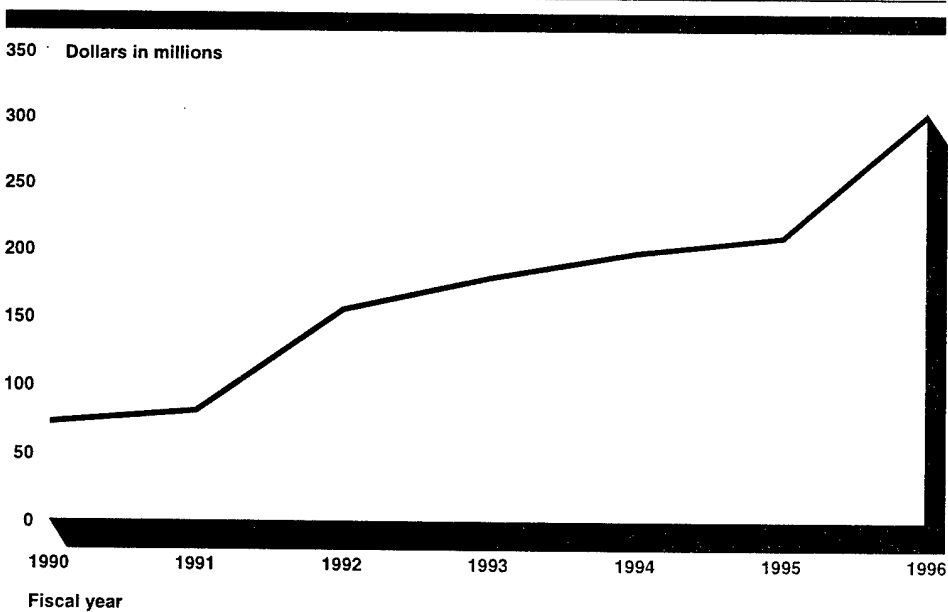
Source: GAO's analysis of data from SBA.

Figure I.8 shows that since fiscal year 1990, most of the leverage received by licensees has gone to individually owned SBICs and SSBICs.

**Liquidations of SBICs
and SSBICs**

The cumulative net program losses incurred by SBA from liquidating failed SBICs and SSBICs increased from \$83.2 million in fiscal year 1990 to \$364.6 million in fiscal year 1996. (See figs. I.9 and I.10.)

Figure I.9: SBA's Cumulative Net Program Losses From Liquidating Failed SBICs, as Reported by SBA, Fiscal Years 1990 Through 1996

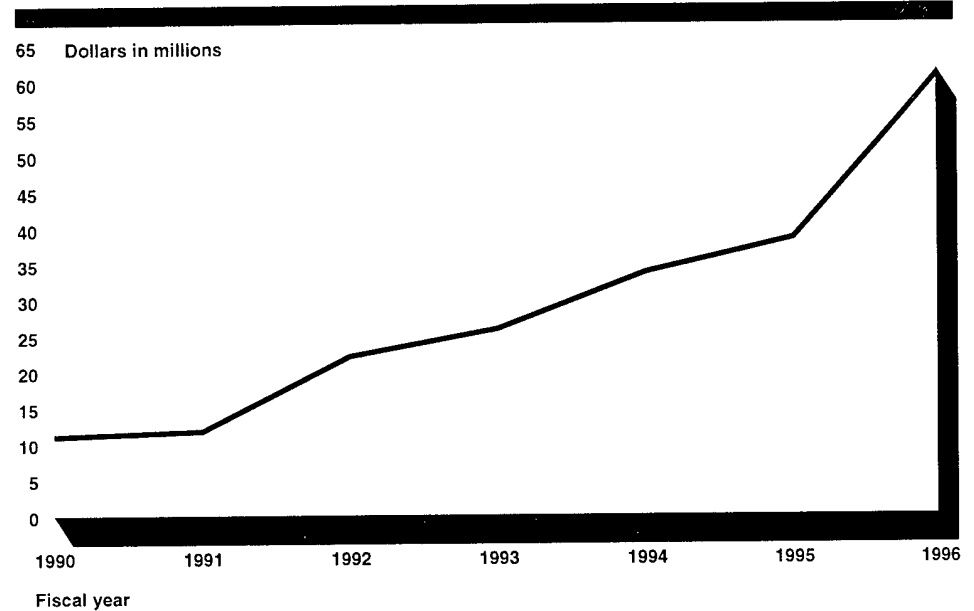


Note: Net losses as calculated by SBA are cumulative over the life of the program.

Source: SBA.

Figure I.9 shows that the cumulative net losses incurred by SBA from liquidating failed SBICs increased from \$72.2 million in fiscal year 1990 to \$303.4 million in fiscal year 1996.

Figure I.10: SBA's Cumulative Net Program Losses From Liquidating Failed SSBICs, as Reported by SBA, Fiscal Years 1990 Through 1996



Note: Net losses as calculated by SBA are cumulative over the life of the program.

Source: SBA.

Figure I.10 shows that the cumulative net losses incurred by SBA from liquidating failed SSBICs increased from \$11 million in fiscal year 1990 to \$61.2 million in fiscal year 1996.

An analysis of SBA's liquidations from December 1966, when SBA began to compile data on liquidations, through September 30, 1996, shows that 593 SBICs and SSBICs had been transferred to the SBA Investment Division's Office of Liquidations. The amount of leverage originally owed to SBA by these firms totaled about \$1.2 billion. As of September 30, 1996, 160 of the SBICs and SSBICs were still in liquidation. The amount of leverage originally owed by these firms totaled \$577.6 million. As of September 30, 1996, SBA had incurred \$364.6 million in losses from the liquidations of SBICs and

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SSBICS and projected that it would lose an additional \$122.7 million after the ongoing liquidations are completed. (See table I.1.)

Of the 160 SBICs and SSBICs in liquidation as of September 30, 1996, 57 (36 percent of the total) had been in liquidation fewer than 5 years, and the remaining 103 SBICs and SSBICs (64 percent of the total) had been in liquidation for 5 years or more. (See table I.2.)

Table I.1: Liquidations of SBICs and SSBICs Through September 30, 1996, and Projected Losses by SBA

Dollars in millions				
Stage of liquidation	No. of SBICs and SSBICs	Leverage originally owed SBA	SBA's actual/anticipated recoveries	SBA's actual/anticipated losses
Completed	433	\$621.5	\$366.1	\$255.4
Ongoing	160	577.6	345.7	231.9 ^a
Total	593	\$1,199.1	\$711.8	\$487.3

^aIncludes actual losses of \$109.2 million and potential losses of \$122.7 million.

Source: SBA.

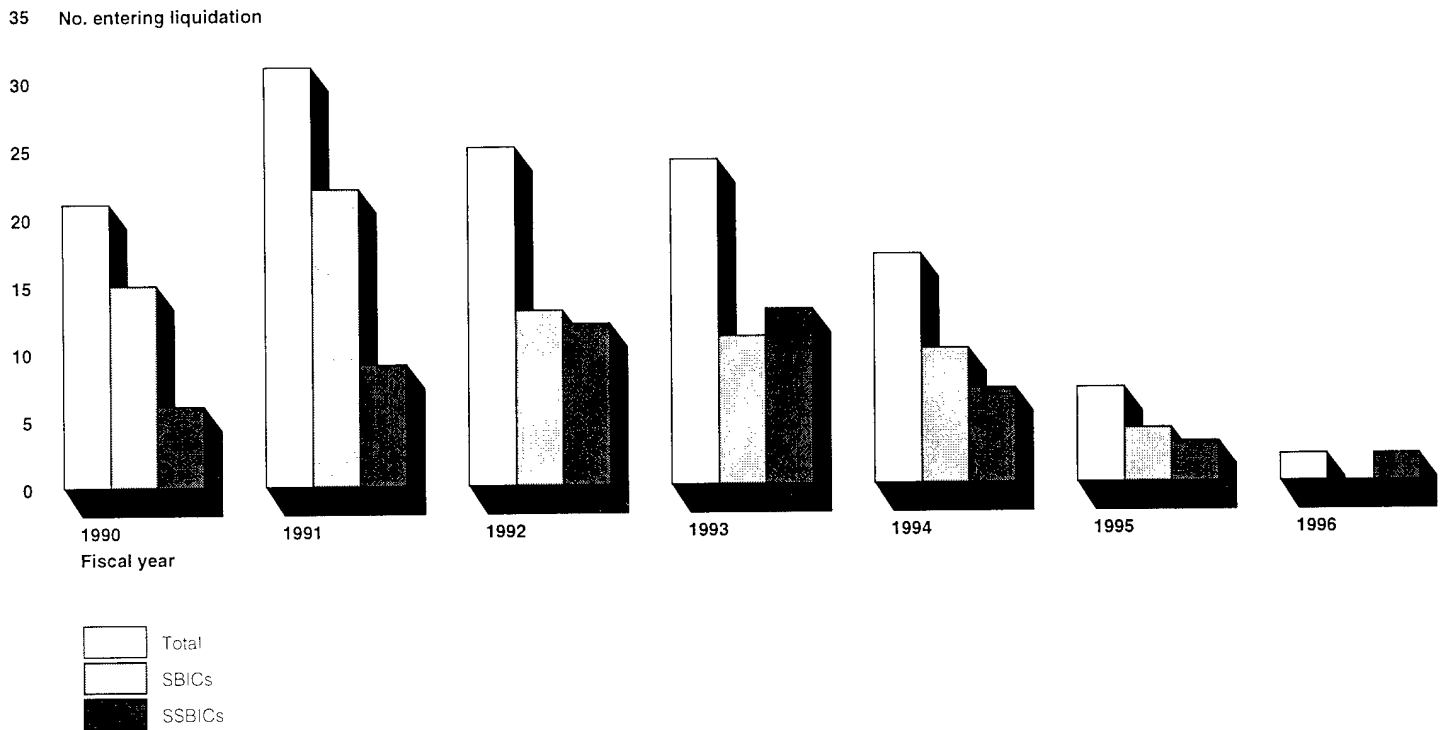
Table I.2: Number of Years the 160 SBICs and SSBICs Were in Liquidation as of September 30, 1996

	Under 5 years	5-9 years	>9-15 years	>15-20 years	Over 20 years	Total
SBICs	25	36	28	3	2	94
SSBICs	32	14	17	3	0	66
Total	57	50	45	6	2	160

Source: SBA.

From fiscal year 1990 through fiscal year 1996, a total of 127 SBICs and SSBICs entered liquidation. The numbers varied each year, increasing from 21 to 31 from fiscal years 1990 to 1991 and declining since that time to 2 in fiscal year 1996. In fiscal years 1990 and 1991, more SBICs than SSBICs were entering liquidation. Starting in fiscal year 1992, the numbers were about equal, with the number of SSBICs entering liquidation increasing slightly above the number of SBICs in fiscal year 1993 and declining slightly below the number of SBICs in fiscal year 1994. In fiscal year 1995, four SBICs and three SSBICs entered liquidation, while in fiscal year 1996, two SSBICs and no SBICs entered liquidation. (See fig. I.11.)

Figure I.11: Number of SBICs and SSBICs Entering Liquidation, Fiscal Years 1990 Through 1996



Source: GAO's analysis of data from SBA.

Status of the Three Percent Preferred Stock Repurchase Program

As previously stated, the 1972 amendments to the Small Business Investment Act created SSBICs, which provide financing to small businesses that are owned by socially or economically disadvantaged persons. Up until November 1989, SBA provided leverage to the SSBICs by purchasing stock carrying a 3-percent annual dividend generally referred to as 3-percent preferred stock. In November 1989, the Congress terminated SBA's further purchase of 3-percent preferred stock and authorized SBA to permit SSBICs to repurchase their preferred stock at a price less than its par value, with the terms and conditions as well as the price to be determined by SBA.¹⁰ SBA piloted the Three Percent Preferred Stock Repurchase Program in 1992 and in 1993. During the pilot, six SSBICs completed a repurchase of their stock. In April 1994, SBA implemented the program to

¹⁰Par value is the amount that SBA paid the SSBIC for the preferred stock.

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allow SSBICs to apply for the repurchase of their 3-percent preferred stock at 35 percent of par value. Any accrued unpaid dividends due SBA in connection with that stock were to be forgiven at the time of repurchase for financially distressed SSBICs or allowed to be amortized (written off) over a 5-year period by nondistressed SSBICs as an incentive for the SSBICs to remain active in the program.¹¹ Under the pilot repurchase program, all companies' accrued preferred stock dividends were forgiven even if they were not financially distressed.

According to SBA's records, as of December 23, 1996, 36 SSBICs had repurchased their preferred stock from SBA, while 28 other SSBICs still had outstanding preferred stock totaling approximately \$50.7 million. Of the 28 SSBICs, 12 had submitted applications to SBA to repurchase their stock, 6 had received applications but had not yet submitted them to SBA, and 10 had not requested applications from SBA. Table I.3 shows the 36 SSBICs that repurchased their preferred stock from SBA, the repurchase prices, discounted values, and unpaid dividends forgiven or allowed to be amortized by SBA.

Table I.3: SSBICs That Repurchased 3-Percent Stock From SBA

Dollars in thousands

SSBIC	Par value paid by SBA	Repurchase price paid by SSBICs	Amount discounted	Dividends forgiven/amortized	Total amount discounted and dividends forgiven/amortized
Alabama Capital	\$1,550	\$543	\$1,007	\$73	\$1,080
Alliance Enterprise	2,700	945	1,755	1,355	3,110
Atly Finance	950	323	627	323	950
Asian American	500	175	325	205	530
Astar Capital	2,040	714	1,326	377	1,703
Calsafe Capital	1,010	354	656	172	828
Capital Dimensions	10,000	3,572	6,428	2,364	8,792
Capital Investment & Management Company	950	333	617	425	1,042
Dearborn Capital Corporation	1,500	525	975	500	1,475
East Coast Capital	1,000	350	650	137	787

(continued)

¹¹Financially distressed SSBICs were defined as those companies that, as of their fiscal year end preceding the April 1994 notice in the Federal Register, had undistributed realized losses and a capital impairment percentage of at least 10. Capital impairment, as defined by SBA for the repurchase program, is the ratio of cumulative actual losses (from operations and investment transactions) and unrealized losses (from decreases in the value of securities) to the capital invested in the SSBIC.

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Dollars in thousands

SSBIC	Par value paid by SBA	Repurchase price paid by SSBICs	Amount discounted	Dividends forgiven/amortized	Total amount discounted and dividends forgiven/amortized
Elk Funding	5,473	1,915	3,558	513	4,071
Equal Opportunity Finance	1,600	560	1,040	792	1,832
Exim Capital	1,300	455	845	490	1,335
Fair Capital Corp.	500	175	325	169	494
Freshstart Venture Capital Corp.	1,520	551	969	82	1,051
Future Value	1,000	350	650	227	877
Ibero-American	1,750	625	1,125	382	1,507
Lailai	700	245	455	155	610
Medallion Funding Corp.	9,234	3,232	6,002	0	6,002
Mesbic Ventures	5,450	1,908	3,542	1,895	5,437
Minority Broadcast	1,000	350	650	241	891
Motor Enterprises	2,000	700	1,300	859	2,159
Pacific Capital	700	245	455	293	748
Peterson Finance	1,035	362	673	214	887
Pierre Funding	2,371	830	1,541	6	1,547
Rutgers Minority Investment	905	314	591	484	1,075
Security Financial	500	175	325	20	345
Situation Ventures	2,000	700	1,300	757	2,057
Syncom Capital Corp.	3,125	1,083	2,042	1,236	3,278
Tower Ventures	3,000	1,050	1,950	1,386	3,336
Transpac Capital	2,000	700	1,300	388	1,688
Transportation Capital	3,383	1,184	2,199	231	2,430
TSG	10,295	3,603	6,692	4,679	11,371
United Capital Investment	1,000	362	638	47	685
United Oriental Capital	2,000	700	1,300	613	1,913
Venture Opportunities	1,150	403	747	398	1,145
Total	\$87,191	\$30,611	\$56,580	\$22,488	\$79,068

Source: SBA.

During the pilot project, SBA resold the stock to six SSBICs at prices ranging from 34.66 percent of the par value to 36.23 percent of the par value. Subsequent participants in the program repurchased stock at 35 percent of the par value. As table I.3 shows, the discount given by SBA on the stock

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repurchased by the 36 SSBICs and the accumulated dividends that SBA forgave or allowed the SSBICs to amortize totaled over \$79 million, and ranged from a low of \$345,000 for Security Financial to a high of nearly \$11.4 million for TSG.

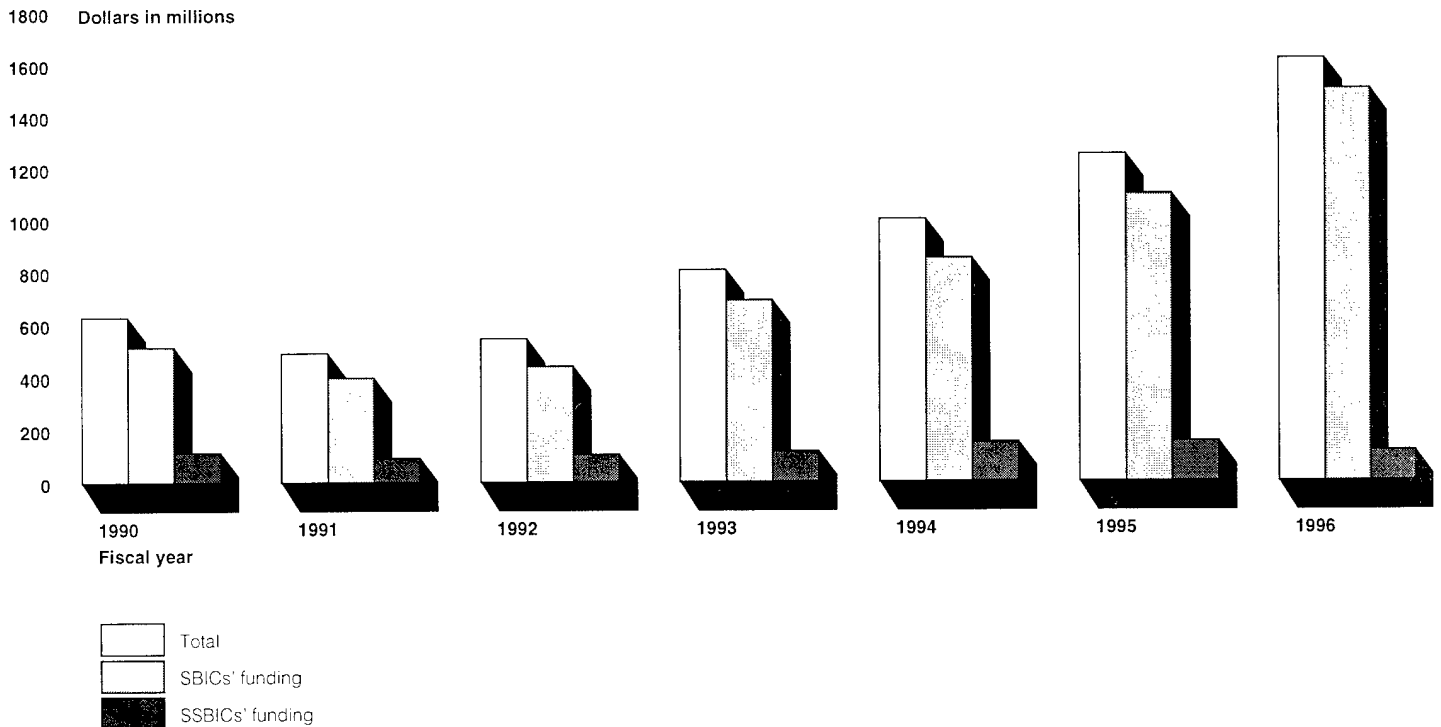
SBICs' and SSBICs' Investment Activities

This appendix presents information on SBICs' and SSBICs' investment activities, including trends in the amount of funding and financing to small businesses, the industries financed, and the type of financing (equity or debt).

SBICs' and SSBICs' Funding and Financing to Small Businesses Since 1990

Between fiscal years 1990 and 1993, SBICs' and SSBICs' total funding to small businesses fluctuated between about \$490 million and \$806 million; then, in fiscal year 1994, it increased to about \$1 billion, and by fiscal year 1996, to \$1.6 billion. The total number of financings declined from fiscal year 1990 through fiscal year 1993, then increased in fiscal year 1994 and decreased in fiscal years 1995 and 1996. SBICs generally made larger financial commitments to small businesses than SSBICs. (See figs. II.1 and II.2.)

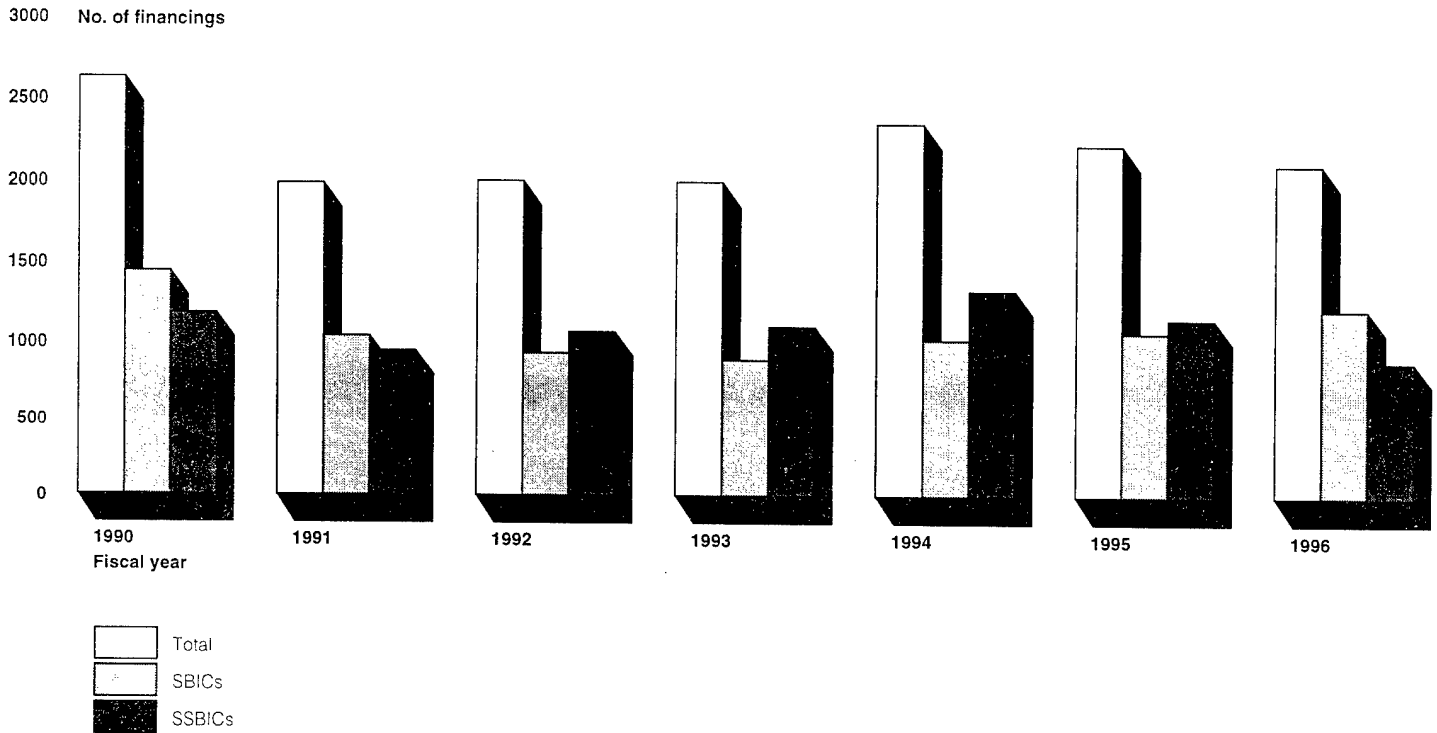
Figure II.1: SBICs' and SSBICs' Funding to Small Businesses, Fiscal Years 1990 Through 1996



Source: GAO's analysis of data from SBA.

Appendix II
SBICs' and SSBICs' Investment Activities

Figure II.2: Number of Financings by SBICs and SSBICs to Small Businesses, Fiscal Years 1990 Through 1996



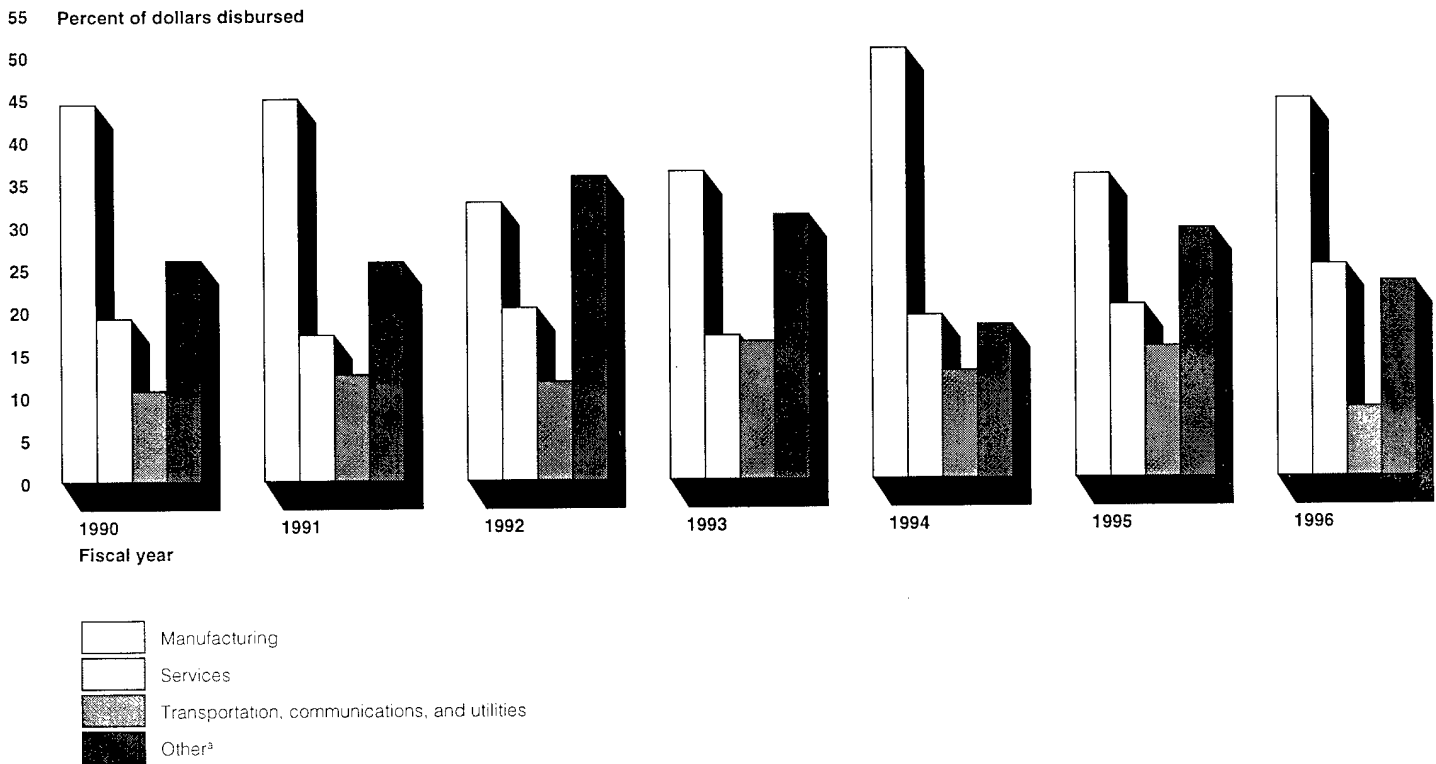
Source: GAO's analysis of data from SBA.

Figure II.2 shows that the number of financings to small businesses from SBICs and SSBICs declined from 2,624 in fiscal year 1990 to 1,992 in fiscal year 1993. In fiscal year 1994, the number of financings increased to 2,348 but declined through fiscal year 1996 to 2,107. A comparison of figures II.1 and II.2 shows that SBICs generally made larger financial commitments to small businesses than SSBICs.

Funding by SBICs and SSBICs, by Industry and Type of Investment, Since 1990

During fiscal years 1990 through 1996, most SBICs' dollars (ranging from 64 percent to 82 percent over the period) were invested in a wide array of industries in three broad industry groups. SBICs invested primarily in manufacturing, followed by services, transportation, communications, and utilities. Similarly, SSBICs invested most dollars (ranging from 79 to 88 percent over the period) in transportation, communications, and utilities, followed by retail trade and by services. (See figs. II.3 and II.4.)

Figure II.3: Industries Receiving Financing From SBICs, Fiscal Years 1990 Through 1996

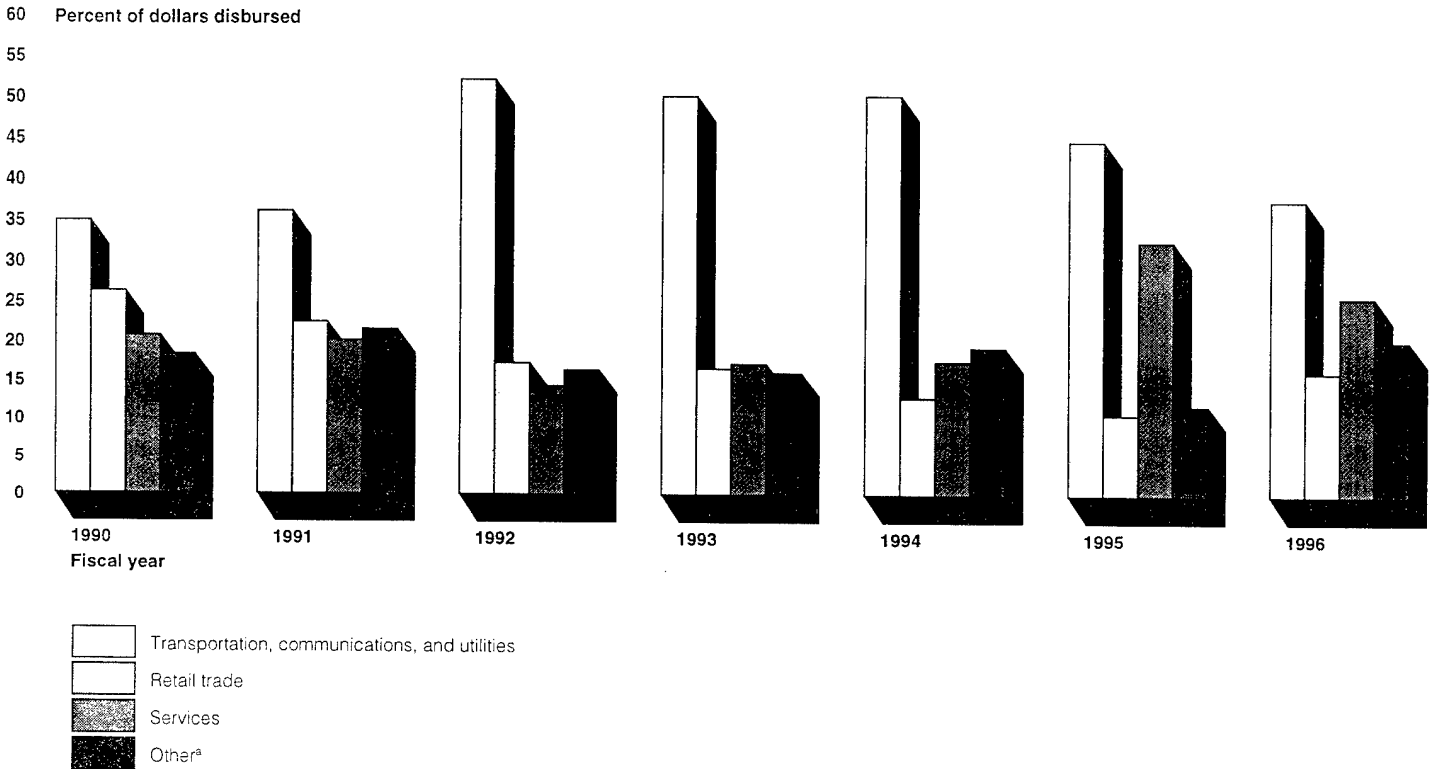


^aOther major industry groups are (1) agriculture, forestry, and fishing; (2) mining; (3) construction; (4) wholesale trade; (5) retail trade; (6) financial, insurance, and real estate; and (7) unclassifiable establishments.

Source: GAO's analysis of data from SBA.

Appendix II
SBICs' and SSBICs' Investment Activities

Figure II.4: Industries Receiving Financing From SSBICs, Fiscal Years 1990 Through 1996

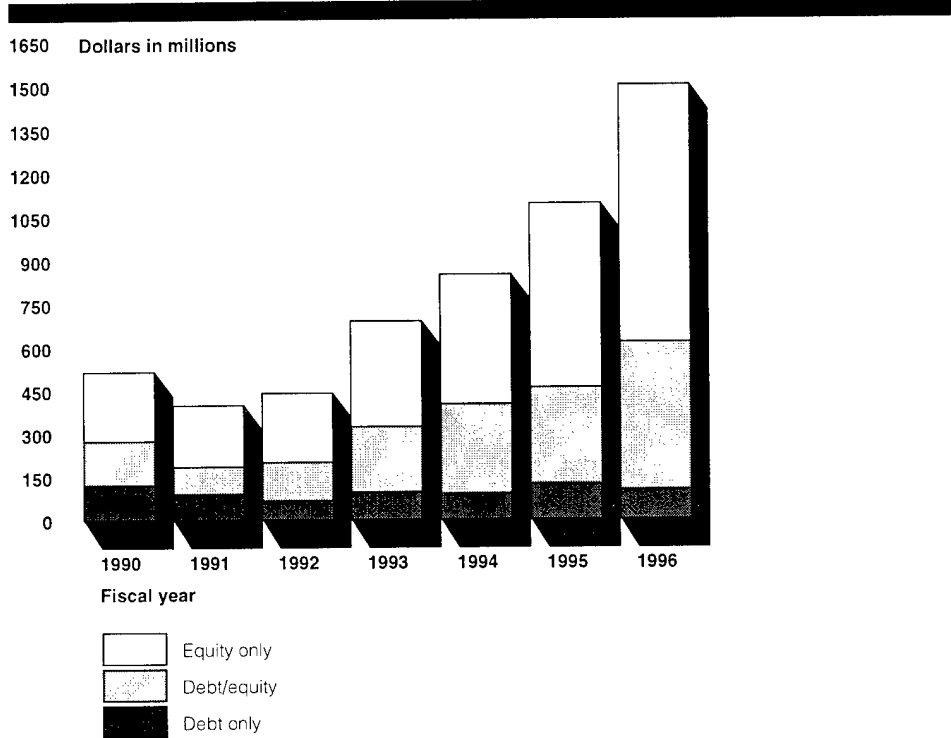


^aOther major industry groups are (1) agriculture, forestry, and fishing; (2) mining; (3) construction; (4) manufacturing; (5) wholesale trade; (6) financial, insurance, and real estate; and (7) unclassifiable establishments.

Source: GAO's analysis of data from SBA.

SBICs have continued to make mostly equity investments (purchasing securities of small businesses) while SSBICs have continued to make debt investments (providing loans to small businesses). (See figs. II.5 and II.6.)

Figure II.5: Types of Financing—Equity Versus Debt—by SBICs, Fiscal Years 1990 Through 1996

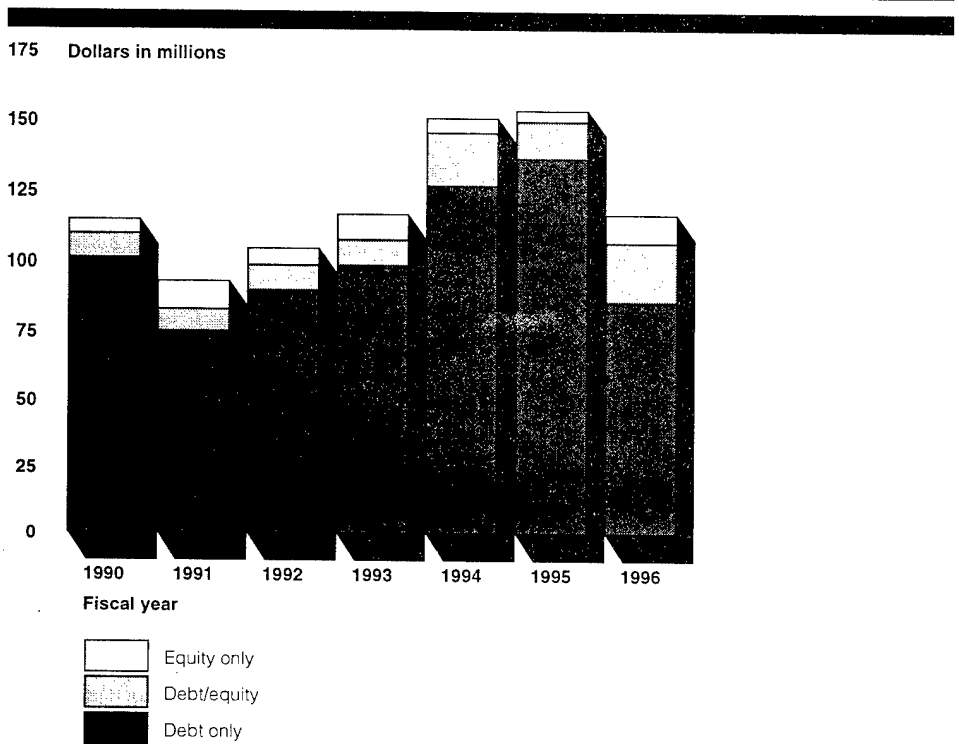


Note: Investments in equity only, as well as debt with equity, are defined by SBA as equity-type investments.

Source: GAO's analysis of data from SBA.

Figure II.5 shows that SBICs tend to make mostly equity-type investments, which SBA defines to include equity only as well as debt with equity. During fiscal year 1990 through fiscal year 1996, equity-type investments ranged from \$309 million (78 percent) to \$1.4 billion (93.2 percent) of SBICs' dollars invested.

Figure II.6: Types of Financing—Equity Versus Debt—by SSBICs, Fiscal Years 1990 Through 1996



Note: Investments in equity only, as well as debt with equity, are defined by SBA as equity-type investments.

Source: GAO's analysis of data from SBA.

Figure II.6 shows that SSBICs tend to make mostly debt investments. During fiscal year 1990 through fiscal year 1996, debt investments ranged from \$75 million (81 percent) to \$136 million (89 percent) of SSBICs' dollars invested.