

SUPPORTING STATEMENT FOR:

SBA FORM 2181: SBIC MANAGEMENT ASSESSMENT QUESTIONNAIRE/SBIC LICENSE APPLICATION, PART I

SBA FORM 2182: PART II, EXHIBITS TO SMALL BUSINESS INVESTMENT COMPANY LICENSE APPLICATION

SBA FORM 2183: PART III, EXHIBITS TO SMALL BUSINESS INVESTMENT COMPANY MANAGEMENT ASSESSMENT QUESTIONNAIRE

A. Justification

1. Circumstances necessitating the collection of information. The Small Business Investment Act of 1958, as amended (Act), authorizes the Small Business Administration (SBA) to license, regulate, and provide leverage to Small Business Investment Companies (SBICs) for the purpose of providing financial and management assistance to eligible small business concerns. Section 301(c) of the Act requires that SBA consider certain factors in its evaluation of a license application, including adequate capital; diversification of ownership; whether management is qualified and has the knowledge, experience and capability necessary to comply with the Act; the need for and availability of financing in the applicant's proposed service area; the general business reputation of the applicant's owners and managers; and the probability of successful operations. SBA Forms 2181, 2182 and 2183 are the application documents used in the SBIC licensing process.

The exhibits to Form 2183 that are applicable to individuals are also used occasionally in connection with SBA's evaluation of persons who wish to join the management team of an SBIC that is already licensed. Under the Act and under 13 CFR 107.410 and 107.680, SBA has the same responsibility to review and approve the qualifications of these individuals as it does for proposed managers of new license applicants.

SBA is proposing a number of changes to the forms for the following purposes:

- To collect better information about the prior experience and investment strategies of current applicants to the SBIC program. When the current license application was introduced, most applicants were equity-oriented funds seeking SBA leverage in the form of participating securities. As a result, the application and exhibits were designed to gather information about the fund managers' knowledge and experience in early-stage venture capital investing. Today, SBA leverage is available only in the form of debentures; this form of leverage is suitable for use by SBIC focused primarily on various types of lending, which may be accompanied by some equity participation to enhance returns. Throughout Forms 2181, 2182 and 2183, SBA has eliminated questions relating solely to "participating securities" and "venture" investing in early stage companies, and added a smaller number of questions focused on underwriting and monitoring debt investments in later stage companies. The most extensive changes are in Exhibit F ("Investment Experience of Principals") of Forms 2182 and 2183, which

has been shortened and re-formatted to accommodate reporting of the types of debt financings typically made by prospective managers of debenture SBICs.

- To eliminate collection of information in Form 2181 that SBA has found to be of marginal analytical value, such as a series of hypothetical questions about how managers would respond to changes in the macroeconomic environment.
- To update instructions for Form 2182 (exhibits to license application) to conform to current licensing requirements. For example, at what point must an applicant provide SBA with exhibits that are signed rather than pro forma? What is the correct Capital Certificate presentation (Exhibit M) for an SBIC that is a subsidiary of another investment fund? What are the underlying assumptions that an applicant should make clear in its financial forecast (Exhibit N)?

2. How, by whom and for what purpose information will be used. SBA Forms 2181, 2182 and 2183 will provide SBA with the necessary information to make informed and proper decisions regarding the approval or denial of an applicant for an SBIC license. Forms 2181 and Form 2183 are designed to give a potential applicant the opportunity to file information (the Management Assessment Questionnaire) without paying a license application fee, and before preparing legal documents and raising the required minimum capital. SBA analyzes the information provided to determine whether the potential applicant may be qualified for an SBIC license. If SBA does not believe the prospective management team is qualified, the potential applicant will have made a relatively modest investment of time and money. If SBA determines that the management team appears to have the necessary qualifications, the group is invited to submit a formal license application using Form 2181 (with any necessary updates) and Form 2182. The information submitted during the Management Assessment phase does not have to be rewritten or reformatted for the formal license application, only updated if necessary and supplemented by the exhibits included in Form 2182.

SBA's licensing and legal staffs use the information collected about an applicant on Forms 2181 and 2182 to evaluate whether the applicant's structure, capitalization, ownership, and investment strategy are consistent with SBA's regulatory requirements. The staff also reviews the business plan for consistency with private equity industry norms to evaluate the probability of successful operations. Using the information collected about proposed SBIC fund managers on Forms 2182/2183, the staff evaluates these individuals to determine whether they have the professional qualifications to operate an SBIC and are of good character. This process encompasses reference checks, independent verification of résumé information, review of any involvement in bankruptcy or litigation, and searches of public records for tax liens, judgments, etc. SBA uses all of this information to determine whether to approve an applicant for an SBIC license.

3. Technological collection techniques. Read-only versions of the forms are available electronically at www.sba.gov/INV. SBA sends fillable forms to applicants upon request via email, which assures that the forms being used are current and uncorrupted. SBA accepts electronic submissions of the Management Assessment Questionnaire. The formal

license application and accompanying exhibits are prepared electronically (in Word and Excel) and submitted to SBA electronically and in hard copy, which enables SBA to obtain the various required certifications with original signatures and to begin its review without the delay that would occur if licensing and legal staff were required to print out extensive application submissions. With this revision of the forms, SBA is changing its instructions so that certain materials that do not have to be certified (sample term sheets, investment memoranda, etc.) will be submitted only in electronic form.

4. Avoidance of Duplication. SBA Forms 2181, 2182 and 2183 require information that is relevant to the formation and operation of an SBIC. Companies are newly formed for the specific purpose of seeking an SBIC license and have not reported the required information to any other party or in any other format. The information collected will not be collected by any other form used by SBA or by any other SBA program. Another SBA form (Form 912) entitled “Statement of Personal History” has some questions similar to those in Exhibit C of Form 2182, also entitled “Statement of Personal History”; however, Form 912 was designed for use in SBA lending programs and does not collect the same information as Exhibit C of Form 2182.
5. Impact on small businesses or other small entities. The majority of applicants for an SBIC license are small entities. These entities typically are newly formed for the purpose of seeking an SBIC license. This information collection will not have a significant impact on a substantial number of these entities. The one-time burden of completing SBA Forms 2181/2182/2183 is part of the overall process of organizing and capitalizing the fund.
6. Consequences if collection of information is not conducted. These forms are critical to the integrity of the SBIC licensing process. There is no similar information available that can be used to accomplish the purposes of this collection. If the information were not collected, SBA would be unable to meet its statutory responsibilities with respect to the licensing and oversight of SBICs. Since we only collect this information once per respondent it cannot be conducted less frequently.
7. Existence of special circumstances. Respondents are required to submit confidential business information. Without this information, SBA could not satisfy its statutory obligation to evaluate an applicant’s probability of successful operations, as well as the qualifications, experience and business reputation of prospective SBIC managers. The information collected will be protected to the extent permitted by law.
8. Solicitation of Public Comment. A notice was published in the Federal Register on January 12, 2010, Volume 75, Number 7, page 1660. No comments were received. In addition, SBA maintains extensive direct contact with license applicants throughout the licensing process and thereafter with licensed SBICs, as well as with attorneys who regularly assist clients with the SBIC formation and application process. These parties provide SBA with a regular source of feedback concerning the license application forms. Many of the revisions that SBA is currently requesting are in response to recent changes in the type of investments that debenture SBICs typically make, and are intended to make the forms easier for current applicants to use.

9. Payment or gifts. No payments or gifts are provided to respondents.
10. Assurance of confidentiality. Confidentiality is based on the Privacy Act and the Freedom of Information Act. The information collected in SBA Forms 2181/2182/2183 includes personal data concerning managers of the proposed SBIC, financial data for companies with which the managers are or have been associated, and projected financial data for the proposed SBIC. Exemptions 4, 6 and 8 of the Freedom of Information Act allow SBA to withhold financial data on individual companies. The information collected will be protected to the extent permitted by law. The information collection includes notices concerning the applicability of the Privacy Act and the Freedom of Information Act.
11. Questions of a sensitive nature. Exhibits C through G of Forms 2182/2183 request information that may be considered sensitive (employment and professional history, professional affiliations, education, and criminal history). SBA considers this information essential to the fulfillment of its obligations under the Small Business Investment Act. The Act requires SBA, in its evaluation of a license application, to determine whether management has the professional qualifications needed to operate an SBIC and the knowledge, experience and capability necessary to comply with the Act; and to consider the general business reputation of the applicant’s owners and managers as well as the probability of an applicant’s successful operations.
12. Estimate of the hourly burden of the collection of information. A small sample of respondents was consulted regarding the amount of time required to complete the forms. Submission of a Management Assessment Questionnaire requires applicants to submit SBA Forms 2181 and 2183; submission of a complete SBIC license application requires applicants to update this information if it has changed, and also to submit the additional exhibits in Form 2182 that are not included in Form 2183. Based on recent experience, SBA estimates that the number of full license applications filed will be 40 percent of the number of Management Assessment Questionnaires filed. For those portions of Forms 2182 and 2183 that must be completed by the individuals who are the proposed managers of the SBIC applicant, SBA estimates that information will be submitted by an average of 4 individuals per applicant. The estimated hour burdens for the forms are shown in the following table:

Form Number	Number of respondents	x	Frequency	x	Hours per response	=	Total Hour Burden
Form 2181-response by applicant	50		1		40		2,000
Form 2183-response by applicant	50		1		2		100
Form 2183-responses by individuals (average of 4 per applicant)	200		1		18		3,600
Form 2182-response by applicant	20		1		40		800
Form 2182-responses by individuals (average of 4 per applicant)	80		1		1		80
TOTAL COLLECTION							6,580

Note 1: Most of the information collected from individuals is requested under exhibits that are common to both Form 2182 and 2183. Individuals who wish to qualify as managers of an SBIC will complete the exhibits in Form 2183 during the Management Assessment phase. For those who proceed to the formal License Application phase, the information submitted for the

Management Assessment will need to be supplemented by only two additional exhibits included in Form 2182 (Exhibits C and H). Therefore, to avoid double-counting, the burden shown for “Form 2182-responses by individuals” includes only the incremental burden of completing Exhibits C and H.

Note 2: The total number of respondents shown on OMB Form 83-I (item 13a) is 250, calculated as the 50 entities plus 200 individuals who will respond on Forms 2181 and 2183. The 20 entities and 80 individuals shown as responding on Form 2182 are a subset of the first group, and therefore have been excluded from the total number of respondents to avoid double-counting.

Note 3: The total number of responses shown on OMB Form 83-I (item 13b) is 400, calculated as follows:

- Form 2181, entity responses 50
- Form 2183, entity responses 50
- Form 2183, individual responses 200
- Form 2182, entity responses 20
- Form 2182, individual responses 80
- Total responses 400

The cost to respondents of the estimated hour burden is shown in the following table:

Form Number	Number of responses	x	Hours per response	x	Cost per hour	=	Total Cost
Form 2181-response by applicant	50		40		\$75		\$150,000
Form 2183-response by applicant	50		2		\$75		\$7,500
Form 2183-responses by individuals	200		18		\$75		\$270,000
Form 2182-response by applicant	20		40		\$75		\$60,000
Form 2182-responses by individuals	80		1		\$75		\$6,000
TOTAL COLLECTION							\$493,500

The cost per hour is based on estimated annual compensation of \$150,000 per year for venture fund professionals who would be preparing the forms.

13. Estimate of total annual cost burden.

- a. There are no capital or start-up costs to respondents.
- b. The annual cost burden for the purchase of services resulting from the collection of information is estimated as follows:

	Form 2181	Form 2182	Form 2183	Total
Attorney fees	\$10,000	\$125,000	\$0	\$135,000
Accounting/financial advisory fees	\$5,000	\$5,000	\$0	\$10,000
State filing fees	\$0	\$2,000	\$0	\$2,000
SBA application fee	\$0	\$15,000	\$0	\$15,000
Total cost per response	\$15,000	\$147,000	\$0	\$162,000
Estimated no. of responses	50	20	200	
Total cost to respondents	\$750,000	\$2,940,000	\$0	\$3,690,000

Depending on an applicant’s form of organization, the SBA application fee may be \$10,000 or \$15,000. For purposes of the annualized cost estimate, a \$15,000 fee was used because this is the fee paid by the vast majority of applicants.

14. Estimated annualized cost to the Federal government. The annualized cost to the Federal government for this collection is estimated as follows:

Management Assessment phase:	
Cost of analysis by program development analyst (GS-13): 40hrs @ \$50	\$2,000
Supervisory review: 2 hrs @ \$70 (GS-15)	140
Cost of review by investment committee: 6 people (GS-15/SES) x 1 hr @ \$75	450
Total cost per applicant to Federal government	\$2,590
Estimated number of responses	50
Total annual cost to Federal government of management assessment	\$129,500
Formal application phase:	
Cost of analysis by licensing analyst (GS-13): 110 hrs @ \$50	\$5,500
Supervisory review: 30 hrs @ \$60 (GS-14) + 4 hrs @ \$70 (GS-15)	2,080
Cost of review by SBA attorney (GS-14): 100 hrs @ \$60	6,000
Cost of review by licensing committees: 8 people (GS-15/SES) x 1 hr @ \$75	600
Total cost per applicant to Federal government	\$14,180
Estimated number of responses	20
Total annual cost to Federal government of application review	\$283,600
Total annual cost to Federal government of both phases	\$413,100

15. Explanation of program changes or adjustments in Items 13 or 14 on OMB Form 83-I. Annual hour burden (item 13 of OMB 83-I) and annual cost burden (item 14 of OMB 83-I) have increased because of a higher estimate of the number of MAQ respondents. The increased estimate is consistent with recent MAQ submission activity and reflects fund managers' high level of interest in the leverage available through the SBIC program. This interest is the result of two primary factors: (1) a favorable investment climate, with high demand from borrowers and diminished competition from non-SBIC lenders; and (2) a difficult environment for raising capital from private sources. The annual cost burden has increased because of a substantial increase in rates typically charged by outside attorneys for application-related legal services (e.g., preparation of partnership documents and opinions of counsel). The overall increases in the hour and cost burdens are shown as Adjustments on OMB Form 83-I.
16. Collection of information whose results will be published. Results of this collection of information will not be published.
17. Expiration date for collection of information. Not applicable.
18. Exceptions to certifications in Block 19 on OMB Form 83-1. Not applicable.
- B. Collection of Information Employing Statistical Methods
This collection of information does not employ statistical methods.