

SUPPORTING STATEMENT

SBA Form 2181: Applicant Narrative	} Management	} License Application	
SBA Form 2181: Excel Supplement			} Assessment
SBA Form 2182: Principal Exhibits			} Questionnaire
SBA Form 2183: Fund Exhibits			

A. Justification

1. Circumstances necessitating the collection of information:

The Small Business Investment Act of 1958, as amended (the “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.

Form 2182, which includes exhibits applicable to individuals, is 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 and owners of new license applicants.

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

- To reduce requests for information that has proven to be of minor analytical value. Specifically, the revised collection will:
 1. Remove question 5.3 from Form 2181 (Applicant Narrative). This question asked broadly about “any compensation” earned by fund managers from sources outside the SBIC applicant. SBA is primarily interested in compensation earned from other investment funds, not from other outside activities. The Form 2181 Excel supplement asks a much more narrowly targeted question regarding compensation that provides sufficient information for SBA’s purpose, which is to understand the full picture of principals’ investment-related incentives and time dedication.
 2. Revise instruction in Section 3 of Form 2181 (Excel Supplement) to reduce the information requested regarding consultants used by prospective SBIC principals.

The currently approved collection asks for “any consultants” that have been used to assist with due diligence on any investment made during the past five years. As there can be many different aspects of due diligence, the information provided was at times extensive and beyond SBA's ability to make effective use of it. The revised instruction asks for a representative list of consultants that the applicant has used in the past and expects to use on a regular or periodic basis going forward.

3. Revise instruction 1 in Form 2182, Exhibit F (Portfolio detail) that requests, for each investment fund included in the track record a principal submit with the application, “all annual reporting packages sent to limited partners as well as the four most recent quarterly reporting packages.” SBA added this request in 2013 with the intention of reducing the need for follow-up due diligence calls requesting details of prior funds managed by an applicant's principals. Although SBA requested this information in electronic format only (no hard copies), the scope of the request proved to be unnecessarily large. The revised instruction will request submission for each fund of “the most recent annual and most recent quarterly reporting packages sent to limited partners.”
 4. Revise instruction 2 in Form 2182, Exhibit F (Portfolio detail) that requests submission of “the original investment memoranda” for all individual investments included in the track record a principal submits with the application. SBA added this request in 2013 with the intention of reducing the need for follow-up due diligence calls requesting details of prior investments made by an applicant's principals. Although SBA requested this information in electronic format only (no hard copies), the scope of the request proved to be unnecessarily large. The revised instruction will request submission of one sample investment memorandum similar to the primary type of investment planned by the SBIC applicant.
- To satisfy a statutory information requirement in a less burdensome way. Section 13 of the Small Business Act (15 U.S.C. § 642) requires that an applicant to SBA for loans, equipment, facilities, or services identify the names of persons engaged by or on behalf of the applicant for the purpose of expediting the application and the fees paid or to be paid to any such person. 13 CFR Part 103 contains the rules governing compensation of agents in connection with any application for assistance from the Investment Division of SBA (the Investment Division is currently known within SBA as the Office of Investment and Innovation, or OII). For many years, Form 159, filed by applicants in connection with a leverage commitment, served the function of statutory and regulatory compliance for this requirement. A number of years ago (c.2008), Form 159 was separated by program and no form was created specifically for the SBIC program, which has led to some confusion for SBIC program participants. To resolve that situation and comply with the reporting requirement, SBA proposes to collect the required compensation information on a one-time basis as part of the SBIC license application, rather than repeatedly with each leverage commitment application. As a result, on Form 2181 (Excel Supplement), Section 2.1, the instructions for Service Providers will be expanded to include the following:

List any law firms, accounting firms or consultants that will be compensated for assisting you in any manner to submit an application for a leverage commitment, and the anticipated amount of such compensation.

- To update language in the authorization (in Form 2182, Exhibit B) signed by principals to allow SBA to request their criminal record information from criminal justice agencies. SBA is in the process of shifting internal responsibility for this function from its Office of Inspector General to a different office. To accommodate this change, the authorization will be revised to accommodate this administrative change.
- To provide more useful guidance regarding the certification of final fully-executed legal documents submitted prior to SBA's approval of a license application. Current Form 2183, Exhibit S, provides the required certification language (certifying that the executed documents are unchanged from the versions approved by SBA), but does not explain which documents should be so certified. Exhibit S will be revised to include a sample list of documents.

2. How, by whom, and for what purpose the information will be used.

SBA Forms 2181, 2182 and 2183 will provide SBA with the information necessary to make informed and proper decisions regarding the approval or denial of an applicant for an SBIC license. Forms 2181 and 2182 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 is 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 is qualified, the group is invited to submit a formal license application using Forms 2181, 2182 and 2183. Forms 2181 and 2182 must be updated as needed, but not rewritten or reformatted for the license application.

SBA's licensing and legal staff use the information collected about an applicant on Forms 2181, 2182 and 2183 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 Form 2182, the staff evaluates these individuals to determine whether they have the professional qualifications to operate an SBIC and are of good character. This process includes 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.

SBA application forms are made available for download at www.sba.gov/inv, the SBIC Program webpage. All application materials are prepared using Microsoft Word and

Microsoft Excel. The Management Assessment Questionnaire is now accepted in electronic format only. This will speed the preparation and review process. In addition, SBA is currently in the later stages of developing fillable web-based versions of Forms 2181, 2182 and 2183, building on the “SBIC Web” platform already in use for certain other SBIC program information collections such as SBA Forms 468 and 1031. A fillable version of the Capital Certificate, Exhibit K of Form 2182, is already available on SBIC Web. SBA expects to make the web-based versions of all forms currently prepared in Word available in the first half of 2017. Exhibits now prepared in Excel will remain in their current format, which provides applicants and SBA with the greatest flexibility to manipulate and analyze quantitative information. Applicants will still be required to submit portions of their License Application (excluding exhibits prepared in Excel, as well as offering memoranda and similar documents) in hard copy so SBA may maintain a record of signed originals.

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 previously reported the required information to SBA or any other governmental entity. Another SBA form (Form 912) entitled “Statement of Personal History” has some questions similar to those in Exhibit H 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 H of Form 2182.

In some cases, SBIC applicants may have already prepared some of the information requested in Forms 2181, 2182 and 2183 for private investors. Where appropriate, these applicants are encouraged to use pre-existing materials to satisfy SBA’s information requests and thus limit the amount of new material that must be produced.

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 and 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 June 14, 2016, 81 FR38769. SBA received one set of comments from a trade association representing middle market investment funds, with a substantial SBIC membership, suggested a number of requirements that could be eliminated or reduced in scope. SBA agreed with the majority of these comments, as reflected in the changes detailed in the first bullet point under question 1, above.

The commenter offered feedback obtained from its member SBICs and their legal counsels indicating that the current hour burden per response is understated. In part, the commenter pointed out that the hour burden should encompass adequate time for the individuals completing the forms to discuss responses with counsel, and should include certain ancillary activities necessary to complete the forms, such as the time (including travel time) spent by each principal to have his or her fingerprints taken at an authorized location.

SBA agrees that the current estimates do not cover all activities related to the information collection. The commenter noted in particular that many principals take substantial time to complete Form 2182, Exhibit H (Statement of Personal History). The current SBA burden estimate allocates minimal time to this exhibit because it consists of a limited number of yes/no questions. However, SBA understands that individuals who have "yes" answers may need to spend substantial time preparing explanations of those answers, and that some individuals (or their counsel) may need to perform record searches to ensure that they are disclosing all required information regarding their criminal or litigation histories.

9. Payment or gifts.

SBA also 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. The feedback from these groups, accumulated over the last several years, was also considered as part of this review process.

10. Assurance of confidentiality.

The information collected in SBA Forms 2181, 2182 and 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 collection includes notices concerning these protections.

11. Questions of a sensitive nature.

Exhibits A through I of Form 2182 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.

At this time, the personal information collected is not retrieved by a personal identifier, such as a name or social security number. However, SBA anticipates that following the planned migration of the forms to SBIC Web in 2017, SBA will develop capabilities to retrieve information by personal identifier, at which point SBA would be required by law to maintain a Privacy Act system of records for this information. SBA will publish the required system of records notice in the Federal Register and provide a link to it on the SBIC Web. In any event, SBA will continue to protect this information to the extent permitted by law, including the Privacy Act 5 U.S.C. 552a and the Freedom of Information Act (FOIA), 5 U.S.C. 552.

12. Estimate of the hourly burden of the collection of information.

To obtain an SBIC license, an applicant fund is required to complete a two-phase application process. New applicants to the SBIC Program begin with the submission of the Management Assessment Questionnaire ("MAQ"), which is comprised of Form 2181 and Exhibits A-F of Form 2182. If approved in the first phase of the application process, new applicants may then move to the second phase with the submission of a License Application. The License Application involves (i) updating their MAQ submission with any new information and (ii) submitting Exhibits G-J of Form 2182 and Form 2183.

Existing SBIC licensees seeking a subsequent license ("subsequent applicants") do not submit a MAQ during the first phase of the application process. Instead, these applicants work with their assigned SBA analyst to obtain initial approval from SBA's investment committee to apply for an additional license. If such initial approval is obtained, subsequent applicants may then move to the second phase with the submission of a License Application. The License Application involves (i) updating the Form 2181 and Form 2182 Exhibits A-F submitted with the application for the previously licensed SBIC and (ii) submitting Exhibits G-J of Form 2182 and Form 2183.

Although SBA is not proposing major changes to the forms at this time, we are adjusting the burden estimates based on the comments received in response to the June 14, 2016

Federal Register notice. See discussion re comments in number 8 above. The adjustment to Form 2182 accounts for the largest area of burden increase on a percentage basis.

SBA believes the total number of respondents submitting Forms 2181 and Exhibits A-F of Form 2182 will remain in line with previous estimates. SBA has observed a shift in recent years to a higher proportion of subsequent applicants. It may be the case that a subsequent applicant can complete the forms in less time than a new applicant because substantial portions of the forms submitted by the previously licensed SBIC may still be applicable. However, subsequent applicants can also undergo significant changes (in strategy, personnel, etc.) and SBA does not have a basis to assign a lower burden estimate to these applicants.

Based on recent experience, SBA is slightly reducing the number of respondents submitting Form 2183 and Exhibits G-J of Form 2182 as part of a License Application.

SBA's estimates in the following table continue the current assumption that each applicant will be managed by an average of four individual principals, each of whom will be required to complete Form 2182.

Form Number	(No. of Respondents)	x (Hours per Response)	= Total Hour Burden
MAQ			
Form 2181 – Entity	50	70	3,500
Form 2182 (Exhibits A-F) – Individuals	200	80	16,000
License Application only			
Form 2182 (Exhibits G-J) – Individuals	100	30	3,000
Form 2183 - Entity	25	85	2,125
TOTAL:	375		24,625

Note 1: Form 2182 is split between those exhibits that must be filed as part of the Management Assessment Questionnaire and those required for the License Application only.

Note 2: Please note that the 250 respondents indicated in Item 13a of OMB Form 83-I are less than the 375 respondents included in the table above. The 250 respondents consist of the 50 entities plus 200 individuals who will respond to Forms 2181 and 2182 (Exhibits A-F), respectively. The 100 individuals shown as responding to Form 2182 (Exhibit G-J) and 25 entities shown as responding to Form 2183 are a subset of the first group, and therefore have been excluded from the total number of respondents reported to avoid double-counting.

Note 3: The total number of responses shown on OMB Form 83-I (item 13b) is 375, calculated as follows:

Form 2181, entity responses	50
Form 2182 (Exhibits A-F), individual responses	200
Form 2182 (Exhibits G-J), individual responses	100
<u>Form 2183, entity responses</u>	<u>25</u>
Total responses	375

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

Form Number	(Total Hour Burden)	x (Cost per Hour)	= (Total Cost)
Form 2181	3,500	\$125	\$437,500

Form 2182 (Exhibits A-F)	16,000	\$125	\$2,000,000
Form 2182 (Exhibits G-J)	3,000	\$125	\$375,000
Form 2183 – Entity	2,125	\$125	\$265,625
TOTAL:	24,625	125	\$3,078,125

The cost per hour is based on estimated annual compensation of \$250,000 per year for venture fund professionals who would be preparing the forms. SBA has significantly increased the cost per hour from \$75 to \$125 to more realistically reflect the typical compensation of venture fund professionals.

13. Estimate the 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:

Expense	Form 2181	Form 2182	Form 2183	Total
Attorney Fees	\$10,000	\$500	\$200,000	\$210,500
Accounting/financial advisory fees	\$5,000	\$0	\$5,000	\$10,000
State filing fees	\$0	\$0	\$2,000	\$2,000
*SBA application fee	\$0	\$0	\$15,000	\$15,000
Total cost per response	\$15,000	\$500	\$222,000	--
Estimated No. of Responses	50	200	25	--
Total cost to respondents	\$750,000	\$100,000	\$5,550,000	\$6,400,000

*Depending on an applicant's form of organization and application type, the SBA application fee may be \$10,000, \$15,000 or \$25,000. For the 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:	Hours	Rate	Total
Analysis by Licensing Analyst (GS-13)	60	\$50	\$3,000
Supervisory Review (GS-14)	10	\$60	\$600
Review by Investment Committee (6 Members at GS-15/SES)	1	\$75	\$450
Total Cost per Applicant			\$4,050
Estimated No. of Responses			50
Total Annual Cost - Management Assessment Phase			\$202,500

License Application Phase:	Hours	Rate	Total
Analysis by Licensing Analyst (GS-13)	110	\$50	\$5,500
Supervisory Review (GS-14)	30	\$60	\$1,800
Supervisory Review (GS-15)	8	\$70	\$560

Review by SBA Attorney	100	\$70	\$7,000
Review by Licensing Committees (8 Members at GS-15/SES)	1	\$75	\$600
Total Cost per Applicant			\$15,460
Estimated No. of Responses			25
Total Annual Cost - License Application Phase			\$386,500
TOTAL ANNUAL COST:			
			\$589,000

15. Explanation of program changes or adjustments in Items 13 or 14 on OMB Form 83-I.

The total annual hour burden has increased by a total of 17,255 hours. This represents an adjustment for the increased hour burden per response for all three forms based on industry feedback received in response to the June 14, 2016 solicitation of public comment, netted against the effect of a small decrease (220 hours based on the current hour burden) in the number of License Applications SBA expects to receive. The total annual cost burden has increased by \$40,000 because of an increase in the rates typically charged by outside attorneys for application-related legal services (e.g. preparation of partnership documents and opinions of counsel), partially offset by the decrease in the number of License Applications SBA expects to receive.

16. Collection of information whose results will be published.

Results of this collection information will not be published.

17. Expiration date for collection of information.

Not applicable; expiration date will be published.

18. Exceptions to certifications in Block 19 on OMB Form 83-I

Not applicable.

B. Collection of Information Employing Statistical Methods.

This collection of information does not employ statistical methods.