SBA New Markets Venture Capital Program

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Summary

Authorized by P.L. 106-554, the Consolidated Appropriations Act, 2001 (Appendix H — the New Markets Venture Capital Program Act of 2000), the New Markets Venture Capital (NMVC) program is designed to promote economic development and the creation of wealth and job opportunities in low-income geographic areas by addressing the unmet equity investments needs of small businesses located in those areas. Modeled on the SBA's Small Business Investment Company (SBIC) program, SBA-selected, privately owned and managed NMVC companies provide funding and operational training assistance to small businesses using private capital the NMVC company has raised (called regulatory capital) and up to 150% of that amount (called leverage) from the sale of SBA-guaranteed 10-year debentures (loan obligations) to third parties, subject to the availability of funds. Because the SBA guarantees the debenture, the SBA is able to obtain favorable interest rates. NMVC companies are responsible for meeting the terms and conditions set forth in the debenture. At least 80% of the investments must be in small businesses located in a low-income area.

Specialized Small Business Investment Companies (SSBICs) established under the SBIC program are also eligible for NMVC operational assistance training grants, which are awarded on a dollar-to-dollar matching basis. There are currently six NMVC companies participating in the program.

The NMVC program was appropriated $21.952 million in FY2001 to support up to $150 million in SBA guaranteed debentures and $30 million for operational assistance training grants for FY2001 through FY2006. The funds were provided in a lump sum in FY2001 and were to remain available until expended. In 2003, the unobligated balances of $10.5 million for the NMVC debenture subsidies and $13.75 million for operational assistance grants were rescinded. The program continues to operate, with the number and amount of financing declining in recent years as the program's initial investments expire and NMVC companies engage only in additional follow-on financings with the small businesses in their portfolio.

More than 30 bills have been introduced in recent Congresses to either expand or amend the NMVC program. Many of these bills would increase the program's funding. For example, during the 112th Congress, H.R. 2872, the Job Creation and Urban Revitalization Act of 2011, was introduced on September 8, 2011. The bill would have provided the NMVC program such subsidy budget authority as may be necessary to guarantee $75 million of debentures and $15 million for operational assistance training grants for FY2012 through FY2013.

This report examines the NMVC program's legislative origins and describes the program's eligibility and performance requirements for NMVC companies, eligibility requirements for small businesses seeking financing, and the definition of low-income areas. It also reviews regulations governing the SBA's financial assistance to NMVC companies and provides program statistics. The report concludes with an examination of (1) efforts to eliminate the program based on concerns that it duplicates other SBA programs and is relatively expensive, (2) the rescission of the program's unobligated funding in 2003, and (3) recent congressional efforts to provide the program additional funds.

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New Markets Venture Capital Program Overview

The Small Business Administration (SBA) administers several programs to support small businesses, including loan guaranty programs to enhance small business access to capital; programs to increase small business opportunities in federal contracting; direct loans for businesses, homeowners, and renters to assist their recovery from natural disasters; and access to entrepreneurial education to assist with business formation and expansion.[1] It also administers the New Markets Venture Capital (NMVC) Program.

Authorized by P.L. 106-554, the Consolidated Appropriations Act, 2001 (Appendix H—the New Markets Venture Capital Program Act of 2000), the NMVC program is designed to

- promote economic development and the creation of wealth and job opportunities in low-income geographic areas and among individuals living in such areas by encouraging developmental venture capital investments in smaller enterprises primarily located in such areas; and
- address the unmet equity investment needs of small enterprises located in low-income geographic areas.[2]

Modeled on the SBA's Small Business Investment Company (SBIC) program, SBA-selected, privately owned and managed NMVC companies provide funding and operational training assistance to small businesses using private capital the NMVC company has raised (called regulatory capital) and up to 150% of that amount (called leverage) from the sale of SBA-guaranteed 10-year debentures (loan obligations) to third parties, subject to the availability of funds.[3] Because the SBA guarantees the debenture, the SBA is able obtain favorable interest rates. NMVC companies are responsible for meeting the terms and conditions set forth in the debenture. At least 80% of the investments must be in small businesses located in a low-income area, as defined in the statute.

Specialized Small Business Investment Companies (SSBICs) established under the SBIC program are also eligible for NMVC operational assistance training grants, which are awarded on a dollar-to-dollar matching basis. There are currently six NMVC companies participating in the program.

The NMVC program was appropriated $21.952 million in FY2001 to support up to $150 million in SBA guaranteed debentures and up to $30 million for operational assistance training grants for FY2001 through FY2006.[4] The funds were provided in a lump sum in FY2001 and were to remain available until expended. The SBA subsequently provided $72.0 million in leverage to

[1] U.S. Small Business Administration, "Fiscal Year 2013 Congressional Budget Justification and FY2011 Annual Performance Report," 2012, p. 1.

[2] 15 U.S.C. §689(a).

[3] For further information and analysis concerning the SBA's Small Business Investment Company program, see CRS Report R41456, *SBA Small Business Investment Company Program*, by Robert Jay Dilger. The SBA is authorized to issue debentures with a term of up to 15 years. The SBA has opted to limit the term for NMVC debentures to 10 years.

[4] Because the SBA's NMVC debentures are discounted to guarantee the payment of interest during the first five years of the debenture, the funding provided was estimated to be sufficient to raise about $100 million in available capital for investment. Also, the appropriation was for FY2001 through FY2006, but was provided as a lump sum payment in FY2001.

NMVC companies in FY2002 and FY2003 ($12.5 million in FY2002 and $59.5 million in FY2003) and $14.4 million for operational assistance grants ($3.75 million in FY2002 and $10.65 million in FY2003).[5] In 2003, the unobligated balances of $10.5 million for the NMVC debenture subsidies and $13.75 million for operational assistance grants were rescinded.[6] The program continues to operate, with the number and amount of financing declining in recent years as the program's initial investments expire and NMVC companies engage only in additional follow-on financings with the small businesses in their portfolio.

As will be discussed, more than 30 bills have been introduced in recent Congresses to amend the NMVC program. Many of these bills would provide the program additional funding (a list and summary of bills introduced, by Congress, to provide the program additional funding is provided in the **Appendix**). For example, during the 112th Congress, H.R. 2872, the Job Creation and Urban Revitalization Act of 2011, was introduced on September 8, 2011. The bill would have provided the NMVC program such subsidy budget authority as may be necessary to guarantee $75 million of debentures and $15 million for operational assistance training grants for FY2012 through FY2013. The bill was referred to the House Committee on Small Business on September 8, 2011. No further action was taken on the bill.

This report examines the NMVC program's legislative origins and describes the program's eligibility and performance requirements for NMVC companies, eligibility requirements for small businesses seeking financing, and the definition of low-income areas. It also reviews regulations governing the SBA's financial assistance to NMVC companies and provides program statistics. The report concludes with an examination of (1) efforts to eliminate the program based on concerns that it duplicates other SBA programs and is relatively expensive, (2) the rescission of the program's unobligated funding in 2003, and (3) recent congressional efforts to provide the program additional funds.

Legislative Origins

105th Congress

On September 15, 1998, the Senate Committee on Small Business conducted a markup of several bills pending before the committee, including H.R. 3412, the Small Business Investment Company Technical Corrections Act of 1998, which the House had passed.[7] Senator Christopher Bond, chair of the Senate Committee on Small Business, proposed an amendment in the nature of a substitute to H.R. 3412 incorporating the full texts of S. 2372, the Year 2000 Readiness Act; and S. 2407, the Small Business Programs Restructuring and Reform Act of 1998; and provisions

5 U.S. Small Business Administration, Office of Congressional and Legislative Affairs, "Correspondence with the author," June 5, 2012.

6 P.L. 108-7, the Consolidated Appropriations Resolution, 2003; and U.S. Congress, Committee of Conference, *Making Further Continuing Appropriations for the Fiscal Year 2003, and for Other Purposes*, report to accompany H.J.Res. 2, 108th Cong., 1st sess., February 13, 2003, H.Rept. 108-10 (Washington: GPO, 2003), p. 787.

7 H.R. 3412, the Small Business Investment Company Technical Corrections Act of 1998, was introduced by Representative (later Senator) Jim Talent, chair of the House Committee on Small Business, on March 10, 1998. The bill would have authorized several technical corrections to the Small Business Administration's SBIC program. The House Committee on Small Business reported the bill on March 17, 1998, and the House passed it (on motion to suspend the rules and pass the bill, as amended), 407-0, on March 24, 1998.

from S. 2448, the Small Business Loan Enhancement Act.[8] The committee also debated and approved by unanimous voice votes seven amendments to the substitute amendment. One of the seven approved amendments was a precursor of the NMVC program.

The Community Development Venture Capital Demonstration Program

The amendment, offered by Senator Paul Wellstone, would have authorized a $20 million, four-year technical assistance program—the Community Development Venture Capital Demonstration Program—to provide grants, on a matching dollar-to-dollar basis, to experienced community development venture capital (CDVC) firms that invest in small businesses located in economically distressed areas, such as inner cities and poor rural counties. The grants would be used to provide technical expertise and operating assistance to new, emerging, less experienced CDVC organizations.[9] The program's stated purpose was "to develop and expand a new but growing field of organizations that use the tools of venture capital to create good jobs, productive wealth, and entrepreneurial capacity that benefit disadvantaged people and economically distressed communities."[10] The program's advocates argued that despite difficulties associated with making investments in economically distressed areas some successful CDVCs had produced "a 'double bottom line' of not only financial returns, but also social benefits in the form of good jobs and healthier communities."[11]

On September 15, 1998, the committee reported H.R. 3412, as amended, by a vote of 18-0. On September 30, 1998, the Senate passed the bill, with an amendment, by unanimous consent. The House did not act on the bill.

106th Congress

On January 19, 1999, President Bill Clinton announced during his State of the Union Address support for what was later called the "New Markets Investment Initiative."[12] The proposed initiative was comprised of several programs, including a New Markets Tax Credit program and a New Markets Venture Capital program, to encourage economic development in economically distressed areas.[13] President Clinton subsequently drew attention to the initiative by taking three separate trips to "underserved" inner city and rural communities, visiting the Pine Ridge Indian Reservation in South Dakota and Phoenix, AZ, on July 7, 1999, and Los Angeles, CA, and Anaheim, CA, on July 8, 1999 (trip 1); Newark, NJ, and Hartford, CT, on November 4, 1999 (trip

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[8] U.S. Congress, Senate Committee on Small Business, *Year 2000 Readiness and Small Business Programs Restructuring and Reform Act of 1998*, 105th Cong., 2nd sess., September 25, 1998, S.Rept. 105-347 (Washington: GPO, 1998).

[9] Ibid., pp. 18, 23; and Pherabe Kolb, "Senate Small Business Markup: Year 2000 Assistance, Drug-Free Workplace," *CQ Markup and Vote Coverage*, Washington, DC, September 15, 1998, at http://www.cq.com/doc/committees-COMM159517?print=true.

[10] U.S. Congress, Senate Committee on Small Business, *Year 2000 Readiness and Small Business Programs Restructuring and Reform Act of 1998*, 105th Cong., 2nd sess., September 25, 1998, S.Rept. 105-347 (Washington: GPO, 1998), p. 18.

[11] Ibid.

[12] U.S. President (Clinton), "Address Before a Joint Session of the Congress on the State of the Union," *Weekly Compilation of Presidential Documents*, vol. 35 (January 19, 1999), p. 83.

[13] U.S. President (Clinton), "Remarks on the New Markets Initiative," *Weekly Compilation of Presidential Documents*, vol. 35 (May 11, 1999), pp. 860-861.

2); and Hermitage, AR, and Chicago, IL, on November 5, 1999 (trip 3).[14] During his remarks in Chicago, President Clinton announced that he had reached an agreement with House Speaker Dennis Hastert (who was present) to develop a bipartisan legislative initiative on developing new market investments as a means to revitalize impoverished communities.[15]

SBA's LMI Initiative

In a related development, on February 9, 1999, the SBA proposed several incentives to encourage companies participating in its SBIC program to "expand their investment activity into economically distressed inner cities and rural areas."[16] After receiving public comments on several proposed incentives, the SBA issued a final rule, on September 30, 1999, implementing the SBIC low and moderate investments (LMI) initiative.[17]

The ongoing LMI initiative is designed to encourage SBICs to invest in small businesses located in inner cities and rural areas "that have severe shortages of equity capital" because investments in those areas "often are of a type that will not have the potential for yielding returns that are high enough to justify the use of participating securities."[18] SBICs that invest in small businesses that have at least 50% of their employees or tangible assets located in a low-to-moderate income area (LMI Zone), or have at least 35% of their full-time employees with their primary residence in an LMI Zone are eligible for the incentives.[19] For example, unlike regular SBIC debentures that typically have a 10-year maturity, LMI debentures are available in two maturities, 5 years and 10 years, plus the stub period. The stub period is the time between the debenture's issuance date and

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[14] U.S. President (Clinton), "Remarks to the Community at Pine Ridge Indian Reservation, South Dakota," *Weekly Compilation of Presidential Documents*, vol. 35 (July 7, 1999), pp. 1298-1302; U.S. President (Clinton), "Remarks in a Roundtable Discussion on Small Business Development in Phoenix, Arizona," *Weekly Compilation of Presidential Documents*, vol. 35 (July 7, 1999), pp. 1303-1308; U.S. President (Clinton), "Remarks in a Discussion on Youth Opportunities in Los Angeles, California," *Weekly Compilation of Presidential Documents*, vol. 35 (July 8, 1999), pp. 1318-1321; U.S. President (Clinton), "Remarks to the National Academy Foundation Conference in Anaheim, California," *Weekly Compilation of Presidential Documents*, vol. 35 (July 8, 1999), pp. 1322-1327; U.S. President (Clinton), "Remarks to the Community in Newark," *Weekly Compilation of Presidential Documents*, vol. 35 (November 4, 1999), pp. 2246-2249; U.S. President (Clinton), "Remarks to the North End Community in Hartford, Connecticut," *Weekly Compilation of Presidential Documents*, vol. 35 (November 4, 1999), pp. 2257-2259; The White House, Office of the Press Secretary, "Remarks by the President to the people of Bradley County: Hermitage Tomato Cooperative, Hermitage, Arkansas," November 5, 1999, at http://clinton3.nara.gov/WH/New/New_Markets_Nov/remarks/1105-1045a.html; and U.S. President (Clinton)," Remarks to the Englewood Community in Chicago, Illinois," *Weekly Compilation of Presidential Documents*, vol. 35 (November 4, 1999), pp. 2271-2275.

[15] U.S. President (Clinton)," Remarks to the Englewood Community in Chicago, Illinois," *Weekly Compilation of Presidential Documents*, vol. 35 (November 4, 1999), pp. 2273.

[16] U.S. Small Business Administration, "Small Business Investment Companies," 64 *Federal Register* 6256, February 9, 1999.

[17] U.S. Small Business Administration, "Small Business Investment Companies," 64 *Federal Register* 52641-52646, September 30, 1999.

[18] U.S. Small Business Administration, "Small Business Investment Companies," 64 *Federal Register* 52645, September 30, 1999.

[19] U.S. Small Business Administration, "Small Business Investment Companies," 64 *Federal Register* 52641-52646, September 30, 1999. LMI Zones are areas located in a HUBZone; an Urban Empowerment Zone or Urban Enterprise Community designated by the Secretary of the U.S. Department of Housing and Urban Development; a Rural Empowerment Zone or Rural Enterprise Community as designated by the Secretary of the U.S. Department of Agriculture; an area of low income or moderate income as recognized by the Federal Financial Institutions Examination Council; or a county with persistent poverty as classified by the U.S. Department of Agriculture's Economic Research Service. See 13 CFR §107.50.

the next March 1 or September 1. The stub period allows all LMI debentures to have common March 1 or September 1 maturity dates to simplify administration of the program.

In addition, LMI debentures are issued at a discount so that the proceeds that an SBIC receives for the sale of a debenture are reduced by (1) the debenture's interest costs for the first five years, plus the stub period; (2) the SBA's annual fee for the debenture's first five years, plus the stub period; and (3) the SBA's 2% leverage fee. As a result, these interest costs and fees are effectively deferred, freeing SBICs from the requirement to make interest payments on LMI debentures, or pay the SBA's annual fees on LMI debentures, for the first five years of a debenture, plus the stub period between the debenture's issuance date and the next March 1 or September 1.[20]

The Community Development and Venture Capital Act of 2000

On September 16, 1999, Senator John Kerry introduced S. 1594, the Community Development and Venture Capital Act of 2000.[21] The bill included several provisions in President Clinton's New Markets Investment Initiative. The bill had three main parts: a New Markets Venture Capital Program, very similar to the present program, to encourage investment in economically distressed communities; a Community Development Venture Capital Assistance Program to expand the number of community development venture capital firms and professionals devoted to investing in economically distressed communities; and BusinessLINC, a mentoring program to link established, successful businesses with small business owners in economically stagnant or deteriorating communities to facilitate the development of small businesses in those communities.[22]

After conducting two hearings and sponsoring a roundtable discussion on the Community Development and Venture Capital Act of 2000, the Senate Committee on Small Business reported the bill, as amended, by a vote of 16-1, on July 26, 2000. In the report accompanying the bill, Senator Christopher Bond, chair of the Senate Committee on Small Business, argued that the SBIC program had "proven to be an extremely successful public-private sector partnership with the government" and mentioned the SBA's LMI initiative as a new means to encourage SBICs to make investments in low-to-moderate income areas.[23] However, he argued that "as successful as the SBIC program is, it does not sufficiently reach areas of our country that need economic development the most."[24] He added that SBICs invested $771 million in low-to-moderate income areas in 1999, but "the vast majority of those investments were very large and not at all

[20] U.S. Small Business Administration, "For SBICs: Background Information on Low or Moderate Income (LMI) Debentures," at http://www.sba.gov/content/low-or-moderate-income-lmi-debentures. In FY2012, SBICs made 356 investments in small businesses located in a LMI Zone, totaling $471.5 million—about 14.6% of the total amount invested. See U.S. Small Business Administration, "SBIC Program Licensees Financing to Small Businesses Reported Between October 2011 and September 2012."

[21] The bill's five original co-sponsors were Senators Jeff Bingaman, Max Cleland, Carl Levin, Paul Sarbanes, and Paul Wellstone.

[22] U.S. Congress, Senate Committee on Small Business, *Community Development and Venture Capital Act of 1999*, report to accompany S. 1594, 106th Cong., 2nd sess., August 25, 2000, S.Rept. 106-383 (Washington: GPO, 2000), p. 4.

[23] Ibid., p. 3.

[24] Ibid.

comparable to the type of investments [NMVC] funds would make."[25] Senator Bond argued that the committee was approving the bill because it was necessary

> to expand the number of smaller investments being made to small businesses in the poorest areas, low-income geographic areas, and to fill another gap in access to capital that small businesses face. Investments for NMVC funds typically will range from $50,000 to $300,000 versus the $300,000 to $5 million range found in the Agency's SBIC program."[26]

The Senate did not take further action on the bill.

The New Markets Venture Capital Program Act of 2000

On December 14, 2000, Representative (later Senator) Jim Talent, chair of the House Committee on Small Business, introduced H.R. 5663, the New Markets Venture Capital Program Act of 2000.[27] The bill had two parts: the current New Markets Venture Capital Program and BusinessLINC. The next day, the bill was incorporated by reference in the conference report accompanying H.R. 4577, the Consolidated Appropriations Act, 2001, which became law (P.L. 106-554) on December 21, 2000.[28]

On January 22, 2001, the SBA published an interim final rule in the *Federal Registe*r to establish the NMVC program. Comments on the proposed rule were due by March 23, 2001. The SBA also published a notice in the *Federal Register* on January 22, 2001, inviting applications from venture capital firms and Specialized Small Business Investment Companies (SSBICs) established under the SBIC program to participate in the program.[29] The SBA published a final rule formally establishing the NMVC program on May 23, 2001.[30]

NMVC Company Eligibility and Performance Requirements

P.L. 106-554 specified that venture capital companies interested in participating in the program must submit

- a detailed application to the SBA that includes, among other items, a business plan describing how the company intends to make successful developmental venture capital investments in identified low-income geographic areas, and

[25] Ibid.

[26] Ibid.

[27] The bill was co-sponsored by Representative Nydia Velázquez.

[28] U.S. Congress, Committee of Conference, *Making Omnibus Consolidated and Emergency Supplemental Appropriations for Fiscal Year 2001*, report to accompany H.R. 4577, 106th Cong., 2nd sess., December 15, 2000, H.Rept. 106-1033 (Washington: GPO, 2000), pp. 1041-1054.

[29] U.S. Small Business Administration, "13 CFR Part 108: New Markets Venture Capital Program, Interim Final Rule" 66 *Federal Register* 7218-7246, January 22, 2001; and U.S. Small Business Administration, "New Markets Venture Capital Program; Notice of Funds Availability (NOFA) Inviting Applications for the New Markets Venture Capital Program," 66 *Federal Register* 7247, January 22, 2001.

[30] U.S. Small Business Administration, "New Markets Venture Capital Program: Final Rule," 66 *Federal Register* 28601-28632, May 23, 2001.

- information regarding the community development finance or relevant venture capital qualifications and general reputation of the company's management.[31]

In addition, an NMVC company must

- be a newly formed for-profit entity or a newly formed for-profit subsidiary of an existing entity;
- be organized under state law solely for the purpose of performing the functions and conducting the activities contemplated under the act;
- be organized either as a corporation, a limited partnership, or a limited liability company;
- show, to the SBA's satisfaction, that its current or proposed management team is qualified and has the knowledge, experience, and capability in community development finance or relevant venture capital finance necessary for investing in the types of businesses contemplated by the act; and
- have a primary objective of economic development of low-income areas.[32]

On January 22, 2001, the SBA solicited applications from venture capital companies and SSBICs to participate in the NMVC program. The SBA had planned to offer another round of applications for the program during the first quarter of 2003. However, the second round of applications was canceled because, as mentioned previously, P.L. 108-7, the Consolidated Appropriations Resolution, 2003, which became law on February 20, 2003, rescinded the program's unobligated funding.[33]

The SBA received 23 applicants during its initial solicitation from companies interested in participating in the NMVC program, and conditionally approved 7 of them.[34] Final approval is subject to the applicant meeting several conditions. For example, applicants are required to raise, within 18 months of being conditionally approved, at least $5 million in private capital or in binding capital commitments from one or more investors (other than federal agencies or

[31] In addition to these two items, NMVC applicants must also submit a description of how the company intends to work with community organizations and to seek to address the unmet capital needs of the communities served; a proposal describing how the company intends to use the grant funds provided under this part to provide operational assistance to smaller enterprises financed by the company, including information regarding whether the company intends to use licensed professionals, when necessary, on the company's staff or from an outside entity; with respect to binding commitments to be made to the company under this part, an estimate of the ratio of cash to in-kind contributions; a description of the criteria to be used to evaluate whether and to what extent the company meets the objectives of the program established under this part; information regarding the management and financial strength of any parent firm, affiliated firm, or any other firm essential to the success of the company's business plan; and such other information as the Administrator may require. See U.S. Congress, Committee of Conference, *Making Omnibus Consolidated and Emergency Supplemental Appropriations for Fiscal Year 2001*, report to accompany H.R. 4577, 106th Cong., 2nd sess., December 15, 2000, H.Rept. 106-1033 (Washington: GPO, 2000), p. 1044.

[32] 13 C.F.R. §108.100; 13 C.F.R. §108.110; and 13 C.F.R. §108.120.

[33] P.L. 108-7, the Consolidated Appropriations Resolution, 2003; and U.S. Congress, Committee of Conference, *Making Further Continuing Appropriations for the Fiscal Year 2003, and for Other Purposes*, report to accompany H.J.Res. 2, 108th Cong., 1st sess., February 13, 2003, H.Rept. 108-10 (Washington: GPO, 2003), p.787.

[34] The initial application deadline was April 19, 2001, and was later extended twice: first, to May 21, 2001; and second, to May 29, 2001. See U.S. Small Business Administration, "New Markets Venture Capital Program; Extension of Application Deadline," 66 *Federal Register* 18993, April 12, 2001; and U.S. Small Business Administration, "New Markets Venture Capital Program; Extension of Application Deadline," 66 *Federal Register* 27721, May 18, 2001.

departments) who meet criteria established by the administrator (the private funds are called regulatory capital). Applicants also must have in place binding commitments from sources other than the SBA that are payable or available over a multiyear period not to exceed 10 years that amount to not less than 30% of the total amount of regulatory capital and commitments raised (30% of $5 million = $1.5 million).[35] This additional funding is required to guarantee the applicant's ability to meet the required dollar-to-dollar matching contribution for operational assistance training grants.[36]

Six of the seven companies granted conditional approval subsequently met all of the program requirements (one in April 2002, three in March 2003, one in April 2003, and one in August 2003) and were accepted into the program after signing a formal participation agreement with the SBA.[37] The six NMVC companies, which continue to participate in the program, initially raised $48 million in private capital and were subsequently provided $72 million in leverage.[38] The companies are

- Adena Ventures, L.P., Athens, OH, approved on April 24, 2002, with targeted low-income areas in Ohio, West Virginia, and Maryland;
- New Markets Venture Partners, College Park, MD, approved on March 5, 2003, with targeted low-income areas in Maryland, Virginia, and the District of Columbia;
- CEI Community Ventures Fund, LLC, Portland, ME, approved on March 21, 2003, with targeted low-income areas in Maine, New Hampshire, and Vermont;
- Murex Investments I, L.P., Philadelphia, PA, approved on March 31, 2003, with targeted low-income areas in Pennsylvania, New Jersey, and Delaware;
- Penn Venture Partners, LP, Harrisburg, PA, approved on April 23, 2003, with targeted low-income areas in Pennsylvania;
- Southern Appalachian Fund, L.P., London, KY, approved on August 8, 2003, with targeted low-income areas in Kentucky, Tennessee, Georgia, Alabama, and Mississippi.[39]

[35] The SBA may accept binding commitments for operational assistance matching resources equal to at least 20% of the required minimum if the company has a viable plan to raise the balance. In no case, however, will the SBA disburse grant funds for operational assistance in excess of the amount actually raised, including in-kind contributions. See 13 C.F.R. §108.380.

[36] P.L. 106-554 authorized the SBA to provide conditionally approved applicants a period of time, not to exceed two years, to satisfy all program requirements necessary to participate in the program. The SBA provided applicants 18 months. See U.S. Small Business Administration, Office of New Markets Venture Capital, "New Markets Venture Capital (MNVC) Program, FAQs: How much time does a conditionally approved NMVCC have to raise its capital and grant matching resources?" at http://www.sba.gov/content/how-much-time-does-conditionally-approved-nmvcc-have-raise-its-capital-and-grant-matching-resources.

[37] U.S. Small Business Administration, Office of New Markets Venture Capital, "New Markets Venture Capital (MNVC) Program," June 2010, p. 13, at http://www.slideshare.net/Freddy56/new-markets-venture-capital-nmvc-program; and U.S. Small Business Administration, "NMVC Companies," at http://www.sba.gov/content/nmvc-companies.

[38] The Community Development Venture Capital Alliance, "The New Markets Venture Capital Program," Washington, DC, pp. 6, 18, at http://www.community-wealth.org/_pdfs/articles-publications/cdfis/paper-cdvca.pdf; and U.S. Small Business Administration, Office of Congressional and Legislative Affairs, "Correspondence with the author," June 5, 2012.

[39] U.S. Small Business Administration, "NMVC Companies," at http://www.sba.gov/content/nmvc-companies.

NMVC companies are subject to various reporting requirements. For example, for each fiscal year, NMVC companies must file an annual financial statement with the SBA that has been audited by an independent public accountant acceptable to the SBA.[40] The annual financial statement must include an assessment of the social, economic, or community development impact of each financing; the number of fulltime equivalent jobs created as a result of the financing; the impact on the revenues and profits of the business being financed; the impact on the taxes paid by the business being financed and by its employees; and a listing of the number and percentage of the business's employees that reside in a low-income area.[41] NMVC companies are also required to submit to the SBA a portfolio financing report for each financing made within 30 days of the closing date.[42]

Eligibility of Small Businesses and Low-Income Geographic Areas

NMVC companies are required to provide financial assistance and operational assistance training only to small businesses as defined under the SBA's SBIC program. The business must meet either the SBA's size standard for the industry in which it is primarily engaged or have a maximum net worth of no more than $18 million and average after-tax net income for the preceding two years of not more than $6 million.[43] All of the company's subsidiaries, parent companies, and affiliates are considered in the size standard determination.[44]

In addition, at the close of each NMVC company's fiscal year, at least 80% of the company's total financings (in total dollars) and 80% of the total number of concerns in that company's portfolio must be small businesses that, at the time of the financing, had their principal offices located in a low-income area (low-income enterprises).[45] NMVC companies that fail to reach these required percentages at the end of any fiscal year must be in compliance by the end of the following fiscal year. They are not eligible for additional leverage from the SBA until such time as they reach the required percentages.[46]

A low-income area is defined in the act as any census tract, or equivalent county division as defined by the Bureau of the Census, that meets any of the following criteria:

- a poverty rate of 20% or more;

[40] 13 C.F.R. §108.630.

[41] Ibid.

[42] 13 C.F.R. §108.640.

[43] When the NMVC program started, to be deemed small, a business had to meet either the SBA's size standard for the industry in which it was primarily engaged, or had a maximum net worth of no more than $6 million and average after-tax net income for the preceding two years of not more than $2 million.

[44] 13 C.F.R. §121.301(c)(1) and 13 C.F.R. §121.301(c)(2). NMVC companies are not permitted to invest in passive businesses or real estate businesses, or to invest in project financings, farm land purchases, the financing of NMVC companies or SBICs, or projects that will be used substantially for a foreign operation or when more than 49% of the employees or tangible assets of the small business are located outside of the United States. See 13 C.F.R. §108.720.

[45] 13 C.F.R. §108.710.

[46] Ibid.

- if located in a metropolitan area, at least 50% of its households have an income that is below 60% of the area median gross income;
- if not located in a metropolitan area, has a median household income that does not exceed 80% of the statewide median household income;
- is located within a HUBZone;
- is located in an urban empowerment zone or urban enterprise community as designated by the Department of Housing and Urban Development; or
- is located in a rural empowerment zone or rural enterprise community as designated by the Department of Agriculture.

NMVC Leverage

NMVC companies invest funds that they have raised themselves (regulatory capital) in small businesses and, in addition, can receive up to 150% of that amount from the SBA, subject to the availability of funds. NMVC companies follow essentially the same process for obtaining SBA funding as prescribed under the SBIC program. The SBA's funding (leverage) comes from the sale of 10-year securities (debentures) to third parties, which are backed by the full faith and credit of the United States.[47] Because the SBA guarantees the timely payment of the principal and interest due on the securities, the SBA is able to obtain favorable interest rates. NMVC companies are responsible for meeting the terms and conditions set forth in the debenture.

NMVC debentures are deferred interest debentures issued at a discount (less than face value) equal to the first five years' interest to eliminate the need for NMVC companies to make interest payments during that period. As a result, NMVC companies make no payments on the debenture for five years from the date of issuance, plus the length of time between the issue date and the next March 1 or September 1, whichever comes first.[48] The SBA refers to this period of time as the "stub" period and employs its use so that all NMVC debentures have common prepayment and maturity dates of either March 1 or September 1.[49] NMVC companies make semi-annual interest payment on the face amount of the debenture during years 6 to 10, and are responsible for paying the debenture's principal amount when the debenture reaches its maturity date.

NMVC companies receive funding (leverage) from the SBA in a two-step process. First, they submit a request to the SBA for a conditional commitment to reserve a specific amount of leverage for future use.[50] This request authorizes the SBA to sell the requested debenture amount to a third party at an interest rate approved by the SBA or to pool the requested debenture amount with other requests, providing each request with the same maturity date, interest rates, and

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[47] P.L. 106-554 authorizes the SBA to sale debentures with a maturity of up to 15 years. The SBA has opted to sell debentures with a maturity of up to 10 years.

[48] The SBA does not charge a fee for the issuance of debentures by a NMVC company. See 13 C.F.R. §108.1130. In contrast, the SBA is authorized to charge SBICs a 3% origination fee for each debenture and participating security issued (1% at commitment and 2% at draw), an annual fee (not to exceed 1.38% for debentures and 1.46% for participating securities) on the leverage drawn which is fixed at the time of the leverage commitment, and other administrative and underwriting fees which are adjusted annually. See 13 CFR §107.1130; and 13 CFR §107.1210.

[49] U.S. Small Business Administration, "Debenture Calculator," at http://www.sba.gov/content/debenture-calculator.

[50] 13 C.F.R. §108.1230; and 13 C.F.R. §108.1240.

conditions. The NMVC companies then apply to the SBA to draw against the SBA's leverage commitment. These requests may come at any time during the term of the SBA's leverage commitment.[51]

Although the SBA is authorized to pool NMVC debentures, the Federal Home Loan Bank of Chicago (FHLB) has an agreement with the SBA to purchase all NMVC debentures and hold them until maturity. The interest rate on the debentures is determined by FHLB using a spread over the FHLB's cost of funds as determined on each draw date.[52]

The SBA does not allow NMVC companies to prepay their draws for a period of 12 months (plus the stub period) after issuance. Prepayments are allowed after that waiting period, but only on March 1 or September 1 of each year. The cost of prepayment is the present value of the NMVC debenture on the semi-annual date chosen for prepayment.[53]

After receiving funds, NMVC companies make equity investments in small businesses of their choice. Equity investments typically are in the form of common or preferred stock, and sometimes in subordinated debt with equity features (provided that the debt is not amortized and provides for interest payments contingent upon and limited to the extent of earnings) or in limited partnership interests, options, warrants, and similar equity investment instruments.[54]

Operational Assistance Training Grants

The SBA awards grants to NMVC companies and to SSBICs to provide free operational assistance training to small businesses financed, or expected to be financed, under the program.[55] The grants have a dollar-to-dollar matching requirement and cannot be used for general and administrative expenses, including overhead.[56] Matching resources may be in the form of (1) cash; (2) in-kind contributions; (3) binding commitments for cash or in-kind contributions that are payable or available over a multiyear period acceptable to the SBA, but not to exceed 10 years; or (4) an annuity, purchased with funds other than regulatory capital, from an insurance company acceptable to the SBA that may be payable over a multiyear period acceptable to the SBA, but not to exceed 10 years.[57]

NMVC companies and SSBICs are eligible for an operational assistance training grant award equal to the amount of matching resources the company has raised, subject to the availability of

[51] 13 C.F.R. §108.1230.

[52] U.S. Small Business Administration, "Debenture Calculator," at http://www.sba.gov/content/debenture-calculator; and Federal Home Loan Bank of Chicago, "New Markets Debenture Calculator," Chicago, Illinois, at http://www.fhlbc.com/sba/newmarketcalculatorpage.htm. The interest rate was 5.494% on June 6, 2012.

[53] U.S. Small Business Administration, "Debenture Calculator," at http://www.sba.gov/content/debenture-calculator; and 13 C.F.R. §108.1610.

[54] Subordinated debt (also known as subordinated debenture or junior debt) ranks after other debts should a company fall into liquidation or bankruptcy. Because subordinated debt is repayable after other debts have been paid, they are considered to carry a higher level of risk to the lender.

[55] The SBA disbursed operational assistance training grants over a 4.5 year period. See U.S. Small Business Administration, Office of New Markets Venture Capital, "New Markets Venture Capital (MNVC) Program," June 2010, p. 7, at http://www.slideshare.net/Freddy56/new-markets-venture-capital-nmvc-program.

[56] 13 C.F.R. §108.2010; and 13 C.F.R. §108.2030.

[57] 13 C.F.R. §108.2040.

funds.[58] NMVC companies must use at least 80% of both the grant funds awarded by the SBA and its matching resources to provide free operational assistance training to small businesses located in a low-income area. SSBICs must use both the grant funds awarded by the SBA and its matching resources to provide free operational assistance training to small businesses "in connection with a low-income investment made by the SSBIC with regulatory capital raised after September 21, 2000."[59] Operational assistance includes management, marketing, and other technical assistance training that assists a small business with its development.[60]

Program Statistics

As shown in **Table 1**, NMVC companies received operational assistance training grant awards in FY2002 and FY2003, and started making equity investments in small businesses in FY2002. As mentioned previously, the six NMVC companies, which continue to participate in the program, initially raised $48 million in private capital and were subsequently provided $72 million in leverage.[61]

Since the program's inception through January 30, 2013, NMVC companies have invested more than $76.3 million in 67 different small businesses. The program reached its peak, in terms of the amount of financings, in FY2007, investing nearly $16.3 million in 35 different small businesses that year. Since then, the amount of financings has declined as the program's initial investments expire and NMVC companies engage only in additional follow-on financings with the small businesses in their portfolios.

[58] 13 C.F.R. §108.2030.

[59] 13 C.F.R. §108.2010.

[60] 13 C.F.R. §108.10. Some examples of operational assistance training include writing or assisting in the preparation of a business plan, legal assistance relating to business formation or reorganization (but not litigation), recruitment of executives, creation of Internet capability, engineering or other technical services to create or enhance production or distribution of products or services, creation of marketing materials, creation of customized accounting or information systems, and active participation in negotiation with financial institutions (debt). See Adena Ventures, L.P., "Operational Assistance," Athens, Ohio, at http://www.adenaventures.com/serviceprograms/opsassist.aspx.

[61] The Community Development Venture Capital Alliance, "The New Markets Venture Capital Program," Washington, DC, pp. 6, 18, at http://www.community-wealth.org/_pdfs/articles-publications/cdfis/paper-cdvca.pdf; and U.S. Small Business Administration, Office of Congressional and Legislative Affairs, "Correspondence with the author," June 5, 2012.

Table 1. New Markets Venture Capital Program Statistics, FY2002-FY2013

Fiscal Year	Operational Assistance Training Grant Awards	NMVC Financings	Number of Small Businesses Financed
2002	$3,750,000	$500,000	1
2003	$10,650,000	$2,694,164	6
2004	$0	$9,667,145	19
2005	$0	$8,603,678	22
2006	$0	$16,279,591	35
2007	$0	$14,015,821	32
2008	$0	$13,351,779	36
2009	$0	$4,241,016	24
2010	$0	$3,424,407	16
2011	$0	$2,506,576	18
2012	$0	$541,785	6
2013 (to January 30)	$0	$498,693	3
Total	$14,400,000	$76,324,655	67[a]

Source: U.S. Small Business Administration, Congressional Budget Justification, various years; U.S. Small Business Administration, Performance and Accountability Report, various years; U.S. Small Business Administration, Office of Congressional and Legislative Affairs, "Correspondence with the author," January 30, 2013.

a. The total number of small businesses financed is fewer than the sum of small businesses financed each year because NMVC companies may make multiple financings into any one of their "portfolio companies" over the life of the fund.

Congressional Issues

As mentioned previously, the NMVC program has not received any additional funding since 2001. Opposition to the program within Congress began to gain momentum when President George W. Bush recommended in his FY2002 budget request that the NMVC program be eliminated, arguing that the program is relatively expensive and duplicative of other federal programs.[62]

> The Administration supports the objectives of the New Markets Venture Capital (NMVC) program but believes those objectives can be achieved more efficiently and at a lower cost through other existing programs. Several vehicles and incentives to direct investment into economically distressed communities already exist. Communities targeted by NMVC have access to a wide range of private for-profit and economic development programs, including the federally supported community development financial institutions administered through

[62] U.S. Small Business Administration, "FY 2002 Budget Request and Performance Plan," p. 15, at http://archive.sba.gov/idc/groups/public/documents/sba_homepage/serv_abt_budget_5.pdf.

> the Department of Treasury. In addition, SBA's SBIC program, which has 412 licensed venture capital companies with total capital resources amounting to $17.7 billion, is implementing incentives to encourage investment in economically distressed areas.
>
> The NMVC program is also expensive relative to the impact that it is expected to have. The total cost of the program in FY2001 is $52 million, not including administrative cost of running the program. Since the program is expected to generate $150-$200 million of investment activity, it will yield only $3.00-$4.00 of investment for every taxpayer dollar spent. In comparison, under the Small Business Investment Company (SBIC) program, there is no cost associated with the debenture portion of the program.[63]

Others argued that the NMVC program's targeted clientele of small businesses located in economically distressed areas is inherently too risky for government involvement. In their view, NMVC companies are "designed and chartered to operate (as profit-making firms) in a market niche that mainstream venture capital firms will not touch."[64]

The program's advocates argued that the NMVC program is necessary precisely because mainstream venture capital firms generally avoided investments in small businesses located in economically distressed areas. In their view, the NMVC program is an essential part of a larger federal effort, which includes tax incentives, to fill a market niche in private sector venture capital investments and, in the process, help to revitalize areas experiencing long-term economic difficulties. They also objected to the Bush Administration's argument that the program is duplicative of other federal programs. In their view, the NMVC program is targeted at a clientele that is not being adequately served by other federal programs.[65]

The Bush Administration continued to recommend the program's elimination in each of its subsequent budget requests. As mentioned previously, during congressional consideration of the FY2003 budget the unobligated balances of $10.5 million for NMVC debenture subsidies and $13.75 million for operational assistance training grants were rescinded.[66]

Since then, more than 30 bills have been introduced to amend the NMVC program, including bills to

- reduce the amount of capital NMVC companies must raise to become eligible for operational assistance training grants,

[63] U.S. Congress, Senate Committee on Small Business and Entrepreneurship, *SBA's Funding Priorities for Fiscal Year 2002*, 107th Cong., 1st sess., May 1, 2002, S.Hrg. 107-237 (Washington: GPO, 2002), p. 45.

[64] Timothy Bates, "Government as Venture Capital Catalyst: Pitfalls and Promising Approaches," *Economic Development Quarterly*, vol. 16, no. 49 (2002): 58, at http://www.uk.sagepub.com/chaston/Chaston%20Web%20readings%20chapters%201-12/Chapter%204%20-%2045%20Bates.pdf.

[65] U.S. Congress, Senate Committee on Small Business, *The President's Fiscal Year 2000 Budget Request for the Small Business Administration*, 106th Cong., 1st sess., March 16, 1999, S.Hrg. 106-118 (Washington: GPO, 1999), pp. 125, 126; U.S. Congress, Senate Committee on Small Business and Entrepreneurship, *SBA's Funding Priorities for Fiscal Year 2002*, 107th Cong., 1st sess., May 1, 2001, S.Hrg. 107-237 (Washington: GPO, 2002), pp. 14, 15, 20, 26, 91-93; U.S. Congress, House Committee on Small Business, *Small Business Investment Expansion Act of 2007* , report to accompany H.R. 3567, 110th Cong., 1st sess., September 25, 2007, H.Rept. 110-110 (Washington: GPO, 2007), pp. 5, 6; and U.S. Congress, Senate Committee on Small Business and Entrepreneurship, *Small Business Venture Capital Act of 2007'* , 110th Cong., 1st sess., October 16, 2007, S.Rept. 110-199 (Washington: GPO, 2007), pp. 5, 6, 9-11.

[66] P.L. 108-7, the Consolidated Appropriations Resolution, 2003; and U.S. Congress, Committee of Conference, *Making Further Continuing Appropriations for the Fiscal Year 2003, and for Other Purposes*, report to accompany H.J.Res. 2, 108th Cong., 1st sess., February 13, 2003, H.Rept. 108-10 (Washington: GPO, 2003), p. 787.

- eliminate the matching requirement for operational assistance training grants,
- create an Office of New Markets Venture Capital within the SBA,
- require the SBA to provide conditionally approved NMVC companies a full two years to meet all program requirements,
- provide increased financing to small manufacturers, and
- amend the program's definition for low-income area to correspond with the definition used by the New Market Tax Credits program (§45D(e) of the Internal Revenue Code of 1986) (26 U.S.C. 45D(e)).

Many of these bills also include provisions to provide the NMVC program additional funding.[67]

Legislative Efforts to Provide Additional NMVC Funding

As shown in **Table A-1** in the **Appendix**, during the 108th Congress, two bills were introduced, one in the House and one in the Senate, to provide the NMVC program "such subsidy budget authority as may be necessary to guarantee $75 million of debentures" and $15 million for operational assistance training grants over FY2004 and FY2005.[68] Neither bill was enacted.[69]

During the 109th Congress, an amendment was offered during the House during floor debate on H.R. 2862, the Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006, to provide "$30 million in debenture guarantees and $5 million for operational assistance grants to fund the creation of a fresh round of New Market Venture Capital companies … paid for by using funds from the Small Business Administration's salary and expense account."[70] The amendment failed by voice vote.[71] Also, a bill introduced in the House would have authorized an expansion of the NMVC program to include the selection of an NMVC company whose primary objective was the economic development of small businesses located in Hurricane Katrina-

[67] During the 111th Congress, P.L. 111-240, the Small Business Jobs Act of 2010, Sec. 1115. New Markets Venture Capital Company Investment Limitations, included the following language: "Except to the extent approved by the Administrator, a covered New Markets Venture Capital company may not acquire or issue commitments for securities under this title for any single enterprise in an aggregate amount equal to more than 10 percent of the sum of—''(A) the regulatory capital of the covered New Markets Venture Capital company; and ''(B) the total amount of leverage projected in the participation agreement of the covered New Markets Venture Capital.''

[68] H.R. 2802, the Small Business Reauthorization and Manufacturing Revitalization Act of 2003, was introduced by Representative Donald Manzullo on July 21, 2003. It would have provided the NMVC program the additional funding over FY2004 and FY2005. S. 1886, the MADE in America Act, was introduced by Senator Tom Daschle on behalf of Senator John Kerry on November 18, 2003. It would have provided the NMVC program the additional funding over FY2005 and FY2006.

[69] H.R. 2802, the Small Business Reauthorization and Manufacturing Revitalization Act of 2003, was reported by the House Committee on Small Business on October 21, 2003; and placed on the Union Calendar on March 8, 2004. The House took no further action on the bill. S. 1886, the MADE in America Act, was referred to the Senate Committee on Small Business and Entrepreneurship. No further action took place on the bill.

[70] Representative Gwen Moore, "Consideration of H.R. 2862, the Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006," House debate, *Congressional Record*, vol. 151, part 79 (June 15, 2005), p. H 4511.

[71] Ibid., p. H4512.

affected areas. The bill would have authorized "such subsidy budget authority as may be necessary to guarantee…$50 million of debentures issued by the Gulf Region New Markets Venture Capital Company…and $10 million for grants to the Gulf Region New Markets Venture Capital Company."[72] Another House bill would have provided the NMVC program "such subsidy budget authority as may be necessary to guarantee $100 million of debentures and $25 million for operational assistance training grants for FY2006 through FY2008."[73] Neither bill was enacted.[74]

During the 110th Congress, four bills were introduced, two in the House and two in the Senate, to provide the NMVC program additional funding. One of the House bills would have provided the NMVC program such subsidy budget authority as may be necessary to guarantee $100 million of debentures and $25 million for operational assistance training grants for FY2007 through FY2009.[75] The other House bill would have provided the NMVC program such subsidy budget authority as may be necessary to guarantee $30 million of debentures and $5 million for operational assistance training grants for FY2008 through FY2010.[76] The two Senate bills would have provided the NMVC program $20 million for operational assistance training grants.[77] None of these bills was enacted.

During the 111th Congress, two bills were introduced in the House to provide the NMVC program additional funding. One of the bills would have provided the NMVC program such subsidy budget authority as may be necessary to guarantee $100 million of debentures and $25 million for operational assistance training grants for FY2009 through FY2011.[78] The other bill would have provided the NMVC program such subsidy budget authority as may be necessary to guarantee

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[72] H.R. 4234, the Small Business Gulf Coast Revitalization Act of 2005, Sec. 104. Gulf Region New Markets Venture Capital Company. The bill was introduced by Representative Nydia Velázquez on November 5, 2005.

[73] H.R. 4303, the Securing Equity for the Economic Development of Low Income Areas Act of 2005, was introduced by Representative Gwen Moore on November 10, 2005.

[74] H.R. 4303, the Securing Equity for the Economic Development of Low Income Areas Act of 2005, was referred to the House Committee on Small Business. The House took no further action on the bill. H.R. 4234, the Small Business Gulf Coast Revitalization Act of 2005, was referred to the House Committee on Small Business. The House took no further action on the bill.

[75] H.R. 1719, the Securing Equity for the Economic Development of Low Income Areas Act of 2007, was introduced by Representative Gwen Moore on March 27, 2007. The bill was referred to the House Committee on Small Business. The House took no further action on the bill.

[76] H.R. 3567, the Small Business Investment Expansion Act of 2007, was introduced by Representative Jason Altmire on September 18, 2007. The bill was referred to the House Committee on Small Business and reported on September 25, 2007. The House passed it on September 27, 2007, by a vote of 325-72. The bill was received in the Senate on September 28, 2007, and referred to the Senate Committee on Small Business and Entrepreneurship. The Senate took no further action on the bill.

[77] S. 1663, the Securing Equity for the Economic Development of Low Income Areas Act of 2007, was introduced by Senator John Kerry on June 19, 2007 and referred to the Senate Committee on Small Business and Entrepreneurship. The additional funding for operational assistance training grants would have been available over FY2007 through FY2010. The bill was incorporated into S. 1662, the Small Business Venture Capital Act of 2007, which addressed the Small Business Administration's SBIC program. That bill, as amended, was reported by the Senate Committee on Small Business and Entrepreneurship on October 16, 2007. The Senate took no further action on the bill. S. 2920, the SBA Reauthorization and Improvement Act of 2008, was introduced by Senator John Kerry on April 24, 2008. The additional funding for operational assistance training grants would have been available over FY2008 through FY2010. The bill was placed on the Senate Legislative Calendar under General Orders under Read the First Time on September 24, 2008 and was placed on the Senate Legislative Calendar under General Orders under Read the Second Time on September 28, 2008. The Senate took no further action on the bill.

[78] H.R. 1491, the Securing Equity for the Economic Development of Low Income Areas Act of 2009, was introduced by Representative Gwen Moore on March 12, 2009, and referred to the House Committee on Small Business. The House took no further action on the bill.

$100 million of debentures and $20 million for operational assistance training grants for FY2010 through FY2011.[79]

During the 112th Congress, one bill was introduced to provide additional funding for the NMVC program. H.R. 2872, the Job Creation and Urban Revitalization Act of 2011, was introduced by Representative Nydia Velázquez on September 8, 2011. The bill would have provided the NMVC program such subsidy budget authority as may be necessary to guarantee $75 million of debentures and $15 million for operational assistance training grants for FY2012 through FY2013. The bill was referred to the House Committee on Small Business on September 8, 2011. No further action was taken on the bill.

Related SBIC Program Developments

P.L. 111-5, the American Recovery and Reinvestment Act of 2009 (ARRA), included provisions designed to encourage SBIC investments in low-income areas. The act allows an SBIC licensed on or after October 1, 2009, to elect to have a maximum leverage amount of $175 million, instead of $150 million, if the SBIC has invested at least 50% of its financings in low-income geographic areas, as defined under the NMVC program, and certified that at least 50% of its future investments will be in low-income geographic areas.[80] ARRA also increased the maximum amount of leverage available for two or more licenses under common control to $250 million from $225 million if these requirements are met.

In addition, on April 7, 2011, the SBA announced a $1 billion impact investment SBIC initiative (up to $150 million in leverage in FY2012, and up to $200 million in leverage per fiscal year thereafter until the limit is reached). Under this initiative, SBA-licensed impact investment debenture SBICs are required to invest at least 50% of their financings "which target areas of critical national priority including underserved markets and communities facing barriers to access to credit and capital."[81] To receive an impact investment, a small business must meet at least one of the following criteria: (1) it must be located in, or have at least 35% of its full-time employees, at the time of the initial investment, residing in a low or moderate income area as defined in 13 CFR Section 107.50;[82] or be located in an economically distressed area as defined by Section

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79 H.R. 3722, the Enhanced New Markets and Expanded Investment in Renewable Energy for Small Manufacturers Act of 2009, was introduced by Representative Ann Kirkpatrick on October 6, 2009, and referred to the House Committee on Small Business. The bill's provisions were incorporated into H.R. 3854, the Small Business Financing and Investment Act of 2009, which was introduced by Representative Kurt Schrader on October 20, 2009. That bill was reported by the House Committee on Small Business on October 26, 2009, and passed by the House, by a vote of 389-32, on October 29, 2009. The bill was received in the Senate and referred to the Senate Committee on Small Business and Entrepreneurship on November 2, 2009. The Senate took no further action on the bill.

80 13 CFR §107.1150.

81 U.S. Small Business Administration, "Impact Investment Initiative," at http://www.sba.gov/content/small-business-investment-company-sbic-impact-investment-initiative-2. For further analysis and information concerning the SBA's impact investment initiative see CRS Report R41456, *SBA Small Business Investment Company Program*, by Robert Jay Dilger.

82 A low or moderate income area (LMI Zone) means any area located within a HUBZone (as defined in 13 CFR 126.103), an Urban Empowerment Zone or Urban Enterprise Community (as designated by the Secretary of the Department of Housing and Urban Development), a Rural Empowerment Zone or Rural Enterprise Community (as designated by the Secretary of the Department of Agriculture), an area of Low Income or Moderate Income (as recognized by the Federal Financial Institutions Examination Council), or a county with Persistent Poverty (as classified by the Economic Research Service of the Department of Agriculture). See 13 CFR §107.50.

3011 of the Public Works and Economic Development Act of 1965, as amended (per capita income of 80% or less of the national average or an unemployment rate that is, for the most recent 24-month period for which data are available, at least 1% greater than the national average unemployment rate); or (2) be in an industrial sector that the SBA has identified as a national priority (currently clean energy and education).

Concluding Observations

The NMVC program continues to operate, but the amount and number of its financings remain lower than anticipated by its original sponsors and below levels desired by its advocates. In recent years, the amount of SBIC program investments in low-to-moderate income areas has generally increased—from $372.7 million in FY2009 (20.1% of total SBIC financing), to $444.5 million in FY2010 (21.1% of total SBIC financing), peaking at $687.1 million in FY2011 (24.3% of total SBIC financing), and then declining to $471.5 million in FY2012 (14.6% of total SBIC financings).[83] Although the amount of SBIC investments in low-to-moderate income areas declined from FY2011 to FY2012, the amount invested in those areas in FY2012 was higher than the amount invested in those areas in both FY2009 and FY2010. In addition, the SBA's LMI and impact investment initiatives are designed to encourage SBIC investments in low-to-moderate income areas.

It could be argued that the increased levels of SBIC investments in low-to-moderate income areas in recent years, coupled with the SBA's efforts to encourage SBIC investments in low-to-moderate income areas, may diminish the need for the NMVC program. NMVC advocates disagree. In FY2011, SBICs provided 553 financings amounting to $687.1 million to small businesses located in a low-to-moderate income area, an average investment of $1.24 million.[84] In FY2012, SBICs provided 356 financings amounting to $471.5 million to small businesses located in a low-to-moderate income area, an average investment of $1.32 million.[85] NMVC advocates argue, as Senator Bond did when the NMVC program was proposed, that the NMVC program targets small businesses seeking much smaller investments.[86]

The debate over the NMVC program's future, particularly whether the program should be provided additional funding, is, in many ways, reflective of broader disagreements about the role of government, and the SBA, in private enterprise. Some believe that the federal government, and the SBA, should take an active role in assisting small businesses to access capital—through the provision of loan guarantees, equity financing, and management training—to assist the economic recovery. In their view, the SBA's programs fill a market niche by providing loans to small

[83] U.S. Small Business Administration, "All SBIC Program Licensees: Financing to Small Businesses Reported Between October 2008 and September 2009"; U.S. Small Business Administration, "All SBIC Program Licensees: Financing to Small Businesses Reported Between October 2009 and September 2010"; U.S. Small Business Administration, "All SBIC Program Licensees: Financing to Small Businesses Reported Between October 2010 and September 2011"; and U.S. Small Business Administration, "All SBIC Program Licensees: Financing to Small Businesses Reported Between October 2011 and September 2012."

[84] U.S. Small Business Administration, "All SBIC Program Licensees: Financing to Small Businesses Reported Between October 2010 and September 2011."

[85] U.S. Small Business Administration, "All SBIC Program Licensees: Financing to Small Businesses Reported Between October 2011 and September 2012."

[86] U.S. Congress, Senate Committee on Small Business, *Community Development and Venture Capital Act of 1999*, report to accompany S. 1594, 106th Cong., 2nd sess., August 25, 2000, S.Rept. 106-383 (Washington: GPO, 2000), p. 3.

businesses unable to get credit elsewhere, equity financings to small businesses often overlooked by private investors, and training for new and aspiring entrepreneurs unable to find affordable training elsewhere. They assert that increasing funding for the NMVC program is an investment that will create jobs by making capital available to entrepreneurs unable to find it in the private marketplace.

Others worry about the long-term adverse economic effects of the federal deficit. Instead of advocating increased funding for federal spending programs, they advocate business tax reduction, reform of financial credit market regulation, and federal fiscal restraint as the best means to assist small businesses, generate economic growth, and create jobs. They are particularly interested in achieving greater government efficiency by eliminating federal spending programs, such as the NMVC program, which they perceive are duplicative of others.

Appendix. Legislative Efforts to Provide Additional Funding for the NMVC Program

Table A-1. Legislative Efforts to Provide Additional NMVC Funding

Congress	Legislation and Sponsor	Funding Necessary to Support NMVC Debenture Guarantee of	Funding for Operational Assistance Training Grants	Legislative Action
108th	H.R. 2802, the Small Business Reauthorization and Manufacturing Revitalization Act of 2003 (Representative Donald Manzullo)	$75 million	$15 million	Introduced on July 21, 2003, and referred to the House Committee on Small Business; reported by the House Committee on Small Business on October 21, 2003; and placed on the Union Calendar on March 8, 2004. No further action.
	S. 1886, the MADE in America Act (by Senator Tom Daschle on behalf of Senator John Kerry)	$75 million	$15 million	Introduced on November 18, 2003, and referred to the Senate Committee on Small Business and Entrepreneurship. No further action.
109th	H.Amdt. 268, to H.R. 2862, the Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006, to provide the NMVC program $30 million in debenture guarantees and $5 million for operational assistance (Representative Gwen Moore)	$30 million	$5 million	Offered on June 15, 2005. Failed by voice vote.
	H.R. 4234, the Small Business Gulf Coast Revitalization Act of 2005 (Representative Nydia Velázquez)	$50 million	$10 million	Introduced on November 5, 2005, and referred to the House Committee on Small Business. No further action.
	H.R. 4303, the Securing Equity for the Economic Development of Low Income Areas Act of 2005 (Representative Gwen Moore)	$100 million	$25 million	Introduced on November 10, 2005, and referred to the House Committee on Small Business. No further action.

Congress	Legislation and Sponsor	Funding Necessary to Support NMVC Debenture Guarantee of	Funding for Operational Assistance Training Grants	Legislative Action
110th	H.R. 1719, the Securing Equity for the Economic Development of Low Income Areas Act of 2007 (Representative Gwen Moore)	$100 million	$25 million	Introduced on March 27, 2007, and referred to the House Committee on Small Business. No further action.
	H.R. 3567, the Small Business Investment Expansion Act of 2007 (Representative Jason Altmire)	$30 million	$5 million	Introduced on September 18, 2007, and referred to the House Committee on Small Business; reported by the House Committee on Small Business on September 25, 2007; passed by the House on September 27, 2007, by a vote of 325-72; received in the Senate on September 28, 2007, and referred to the Senate Committee on Small Business and Entrepreneurship. No further action.
	S. 1663, the Securing Equity for the Economic Development of Low Income Areas Act of 2007 (Senator John Kerry)	NA	$20 million	Introduced on June 19, 2007, and referred to the Senate Committee on Small Business and Entrepreneurship; incorporated into S. 1662, the Small Business Venture Capital Act of 2007, which addressed the Small Business Administration's SBIC program; that bill, as amended, was reported by the Senate Committee on Small Business and Entrepreneurship on October 16, 2007. No further action.
	S. 2920, the SBA Reauthorization and Improvement Act of 2008 (Senator John Kerry)	NA	$20 million	Introduced on April 24, 2008, and placed on the Senate Legislative Calendar under General Orders under Read the First Time on September 24, 2008; placed on the Senate Legislative Calendar under General Orders under Read the Second Time on September 28, 2008. No further action.

Congress	Legislation and Sponsor	Funding Necessary to Support NMVC Debenture Guarantee of	Funding for Operational Assistance Training Grants	Legislative Action
111th	H.R. 1491, the Securing Equity for the Economic Development of Low Income Areas Act of 2009 (Representative Gwen Moore)	$100 million	$25 million	Introduced on March 12, 2009, and referred to the House Committee on Small Business. No further action.
	H.R. 3722, the Enhanced New Markets and Expanded Investment in Renewable Energy for Small Manufacturers Act of 2009 (Representative Ann Kirkpatrick)	$100 million	$20 million	Introduced on October 6, 2009, and referred to the House Committee on Small Business; incorporated into H.R. 3854, the Small Business Financing and Investment Act of 2009, introduced by Representative Kurt Schrader on October 20, 2009; that bill was reported by the House Committee on Small Business on October 26, 2009, and passed by the House, by a vote of 389-32, on October 29, 2009; received in the Senate and referred to the Senate Committee on Small Business and Entrepreneurship on November 2, 2009. No further action.
112th	H.R. 2872, the Job Creation and Urban Revitalization Act of 2011 (Representative Nydia Velázquez)	$75 million	$15 million	Introduced on September 8, 2011, and referred to the House Committee on Small Business. No further action.

Source: Legislative Information Service database, CRS.

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