



U.S. Small Business  
Administration

**Statement of Joseph Shepard**  
**Associate Administrator**  
**Office of Investment and Innovation**  
**U.S. Small Business Administration**

**before the**  
**House Committee on Small Business**

**Hearing on “SBA Management Review: Small Business  
Investment Company Program”**

**September 26, 2019**

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**Associate Administrator**  
**U.S. Small Business Administration**

Chairwoman Velázquez, Ranking Member Chabot and members of the committee, thank you for inviting me here today to this hearing on, “SBA Management Review: Small Business Investment Company Program”.

I am the Associate Administrator for the Office of Investment and Innovation at the SBA. I am honored to be at the SBA and to be here today with all of you.

Prior to the SBA, my business career has included leadership positions in consulting, investment banking, venture capital, private equity, and investment fund management for such organizations as KPMG, Texas Pacific Capital, Principal Financial Securities, Banc One Capital Markets, as well as a previous tenure in public service at the SBA.

The SBA’s Office of Investment and Innovation has oversight responsibilities for three different programs, the Small Business Innovation Research (SBIR) program, the Small Business Technology Transfer (STTR) program, and the Small Business Investment Company (SBIC) program.

The SBA’s Office of Investment was created by Congress through the Small Business Investment Act of 1958 to supplement private equity capital and long-term loan funds that were not available in adequate supply to small businesses.

The Office of Investment has managed the program for 61 years, during which a vibrant private equity industry has developed in the United States. The SBA does not provide capital directly to small businesses through the SBIC program. Instead, SBA provides taxpayer-backed, SBA-guarantees to SBICs that are licensed by the SBA. SBA provides 100% guarantees up to \$175 million to a single SBIC, and up to \$350 million to multiple SBICs under common control. SBICs use these SBA-guarantees and privately raised funds to independently provide capital to qualifying small businesses.

During the past 18 years, the SBIC program has grown significantly, and in FY 2018, surpassed \$30 billion in capital. The SBA-guaranteed portion of that amount increased 1.8 times from \$7.9 billion as of 09/30/2010 to \$14.2 billion as of 12/31/2016. Since my arrival in 2017, I have led improvement efforts to ensure the technology, examinations process, and risk management practices are appropriate for a program of this size and complexity. Many of these improvements have been generational in nature. The following is a summary of these activities, which are intended to improve the efficiency and effectiveness of the program.

Technology plays a key role in improving effectiveness and efficiency. During my tenure, I’ve focused on opportunities to leverage technological improvements to modernize the SBIC program’s information technology infrastructure to streamline processes, increase security, and facilitate information sharing throughout the SBIC life cycle.

In September 2018, SBA awarded a contract for a state-of-the-art software system to assist SBA with managing and monitoring the SBIC program. SBA is currently focused on implementation and customization of this new system. Additionally, the legacy SBIC WEB system, which collects SBIC and SBIC portfolio company financial data, is being moved to the cloud to improve data entry and processing times. It will also be replaced by the new system.

In regard to examinations of SBICs, the Small Business Investment Act has a requirement that all SBICs are to be examined at least every 2 years. Examinations are critical to the oversight of the SBIC program and assist SBA with confirming that SBIC recipients of SBA-guaranteed leverage are complying with SBA regulations.

However, the number of SBIC examinations conducted by SBA had been declining since FY 2015 and examinations were taking twice as long as they took in FY 2013. This combination resulted in a steady decline in the number of SBIC examinations. As a result, SBA began FY 2017 with approximately 178 of all 313 SBICs (56.9%) in statutory compliance.

To remedy this situation, I implemented an immediate response to the problem through an intense focus on examinations. I'm pleased to announce that by July 2018 statutory compliance improved to 100%. SBA also recently concluded a program evaluation of the examinations process and will be reviewing the recommendations for implementation. Furthermore, SBA is adding examinations as an operating metric to monitor compliance performance in the future.

Finally, SBA is continuing to implement elements of the Office of Management and Budget's Circular Number A-129 regarding policies and procedures for managing Federal credit programs. In accordance with the Federal Credit Reform Act, SBA is improving cost estimation tools to better forecast program performance and is also building additional risk management capacity for the SBIC program.

In conclusion, thank you for your support of the Small Business Administration and the SBIC program. I look forward to working with this Committee to support America's small businesses.