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General Accounting Office  
Washington, D.C. 20548

Resources, Community, and  
Economic Development Division

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June 28, 1996

The Honorable Christopher S. Bond  
Chairman  
The Honorable Dale Bumpers  
Ranking Minority Member  
Committee on Small Business  
United States Senate

The Honorable Jan Meyers  
Chair  
The Honorable John J. LaFalce  
Ranking Minority Member  
Committee on Small Business  
House of Representatives

The 1992 amendments to the Small Business Investment Act of 1958, as amended (P.L. 102-366), required us to issue a report to your committees that reviewed the Small Business Investment Company (SBIC) program for the period from September 1992 through September 1995. Specifically, the act required that we report on (1) the number of SBICs licensed and the number transferred to liquidation; (2) the amount of government funding received by each licensee and the types of funding instruments used; (3) the sizes, geographic locations, and other characteristics of SBICs; (4) the extent to which SBICs have used funding from each instrument to make small business loans and/or equity investments; and (5) the trends in the use of each type of investment instrument.

We have already completed an extensive body of work on the SBIC program that reviewed the issues specified in the legislation as well as other issues. Our reviews have resulted in recommendations to the Small Business Administration (SBA) for improving its oversight of the program and reducing federal losses. As agreed with your offices, we believe that our recent reports and testimonies on the SBIC program, taken as a whole, have fulfilled the reporting requirement. We have issued the following products:

- Small Business Administration: Status of Small Business Investment Companies (GAO/T-RCED-95-145, Mar. 28, 1995) provided the House

Committee on Small Business with information on SBA's licensing, liquidation functions, and oversight and examination as well as the implementation of the Three Percent Preferred Stock Repurchase program.

- Small Business: Information on SBA's Small Business Investment Company Programs (GAO/RCED-95-146FS, May 12, 1995) provided the House Committee on Small Business with information on the performance of the SBIC and Specialized SBIC (SSBIC) programs from 1990 through 1994, including (1) the number of SBICs and SSBICs licensed and the number transferred to liquidation; (2) the amount of government funding received by each SBIC and SSBIC, the types of funding instrument used, and the geographic location of each; (3) the extent to which funding has been used to make small business loans and/or equity investments; (4) the trends in their numbers, funding, losses, capitalization, size, and liquidations, as well as the rate of participation by SSBICs in the stock repurchase program; and (5) the educational background and work experience of the SBA personnel responsible for managing the program.
- Small Business: SBA's Preferred Stock Repurchase Program (GAO/RCED-95-249FS, Aug. 18, 1995) provided the House Committee on Small Business with information on each SSBIC participating in the stock repurchase program, including (1) the repurchase price paid, unpaid dividends forgiven or allowed to be amortized, and method used to finance the repurchase; (2) each SSBIC's private capital, SBA financing, and capital impairment at the time of the stock purchase; and (3) each SSBIC's investments in small businesses over the last 5 years and the value of the investment portfolio at the time of the SSBIC's most recent report to SBA.
- Small Business Administration: Better Oversight of SBIC Programs Could Reduce Federal Losses (GAO/T-RCED-95-285, Sept. 28, 1995) provided the House Committee on Small Business with information on (1) SBA's actions and initiatives taken to improve the recovery of federal funds from liquidations of SBICs and SSBICs, (2) weaknesses in SBA's oversight and management that continue to contribute to losses from liquidations, (3) SBA's implementation of the stock repurchase program, and (4) the organizational placement of SBA's function for examining SBICs and SSBICs. This product also includes several recommendations to the Administrator, SBA, and a matter for congressional consideration that we believe will improve certain areas of the programs we reviewed.

In addition, our Office of Special Investigations issued three products on prohibited practices of specific SBICs and SSBICs. These products are as follows:

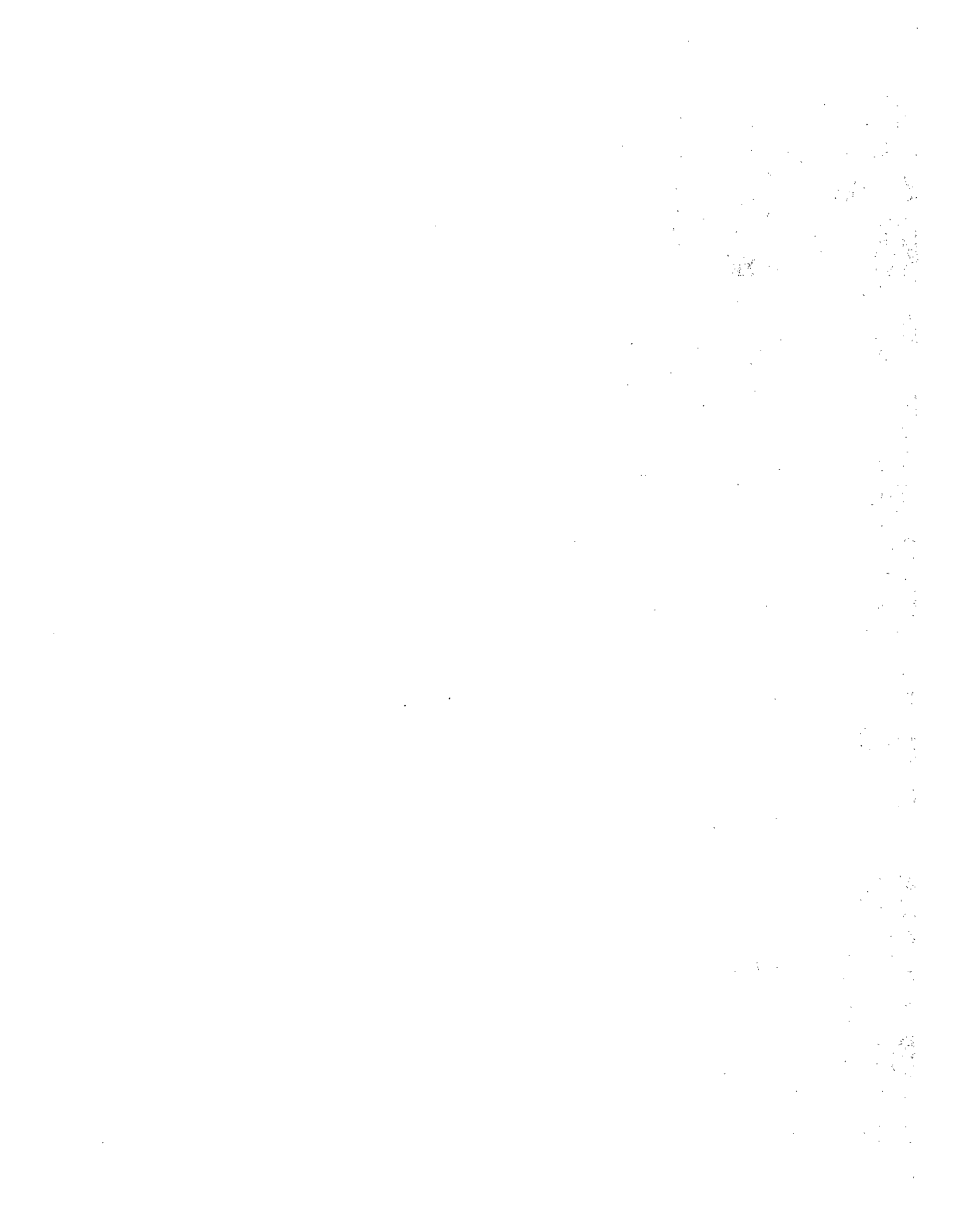
- Small Business Administration: Inadequate Oversight of Capital Management Services, Inc. - an SSBIC (GAO/T-OSI-95-19, Aug. 7, 1995).

- Small Business Administration: Prohibited Practices and Inadequate Oversight in SBIC and SSBIC Programs (GAO/T-OSI-95-16, Sept. 28, 1995).
- Small Business Administration: SBA Monitoring Problems Identified in Case Studies of 12 SBICs and SSBICs (GAO/OSI-96-3, Apr. 3, 1996).



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