

rived, directly or indirectly, from any Federal source, including the Administration: *Provided*, That no unfunded commitment from an institutional investor may be used for the purpose of meeting the minimum amount of private capital required by this chapter or as the basis for the Administration to issue obligations to provide financing; and”.

Pars. (10) to (16). Pub. L. 104-208, §208(a)(3), added pars. (10) to (16) and struck out former par. (10) which read as follows: “the term ‘leverage’ includes debentures purchased or guaranteed by the Administration, participating securities purchased or guaranteed by the Administration, or preferred securities issued by companies licensed under section 681(d) of this title and which have been purchased by the Administration.”

1992—Pars. (9), (10). Pub. L. 102-366 added pars. (9) and (10).

1976—Par. (8). Pub. L. 94-305 added par. (8).

1972—Par. (3). Pub. L. 92-595 substituted “section 681” for “section 681(c)”.

Par. (7). Pub. L. 92-595 substituted “section 681” for “section 681(c)”.

1961—Par. (3). Pub. L. 87-341, §2(1), inserted “licensee” and substituted “company approved by the Administration to operate under the provisions of this chapter and issued a license as provided in section 681(c) of this title” for “small business investment company organized as provided in subchapter III of this chapter, including (except for purposes of sections 681 and 687(f) of this title) a State-chartered investment company which has obtained the approval of the Administrator to operate under the provisions of this chapter as provided in section 688 of this title and a company converted into a small business investment company under section 691 of this title”.

Par. (7). Pub. L. 87-341, §2(2), added par. (7).

1960—Par. (4). Pub. L. 86-502 substituted definition of “State” for definition of “United States”.

Statutory Notes and Related Subsidiaries

EFFECTIVE DATE OF 2007 AMENDMENT

Amendment by Pub. L. 110-140 effective on the date that is 1 day after Dec. 19, 2007, see section 1601 of Pub. L. 110-140, set out as an Effective Date note under section 1824 of Title 2, The Congress.

EFFECTIVE DATE OF 1997 AMENDMENT

Amendment by Pub. L. 105-135 effective Oct. 1, 1997, see section 3 of Pub. L. 105-135, set out as a note under section 631 of this title.

EFFECT OF SMALL BUSINESS EQUITY ENHANCEMENT ACT OF 1992 ON SECURITIES LAWS

Nothing in amendment by Pub. L. 102-366 to be construed to affect applicability of securities laws or to otherwise supersede or limit jurisdiction of Securities and Exchange Commission, see section 418 of Pub. L. 102-366, set out as a note under section 661 of this title.

SUBCHAPTER II—SMALL BUSINESS INVESTMENT DIVISION OF SMALL BUSINESS ADMINISTRATION

§ 671. Establishment; Associate Administrator; appointment and compensation

There is hereby established in the Small Business Administration a division to be known as the Small Business Investment Division. The Division shall be headed by an Associate Administrator who shall be appointed by the Administrator, and shall receive compensation at the rate provided by law for other Associate Administrators of the Small Business Administration.

(Pub. L. 85-699, title II, §201, Aug. 21, 1958, 72 Stat. 690; Pub. L. 89-117, title III, §316(b), Aug.

10, 1965, 79 Stat. 484; Pub. L. 89-779, §2, Nov. 6, 1966, 80 Stat. 1359.)

Editorial Notes

AMENDMENTS

1966—Pub. L. 89-779 substituted “Associated Administrator” for “Deputy Administrator” as the head of the Small Business Investment Division of the Small Business Administration, substituted the rate provided by law for other Associate Administrators of the Small Business Administration for the rate provided by law for the other Deputy Administrators of the Small Business Administration as the standard of compensation for the head of the Small Business Investment Division, and struck out provisions spelling out the proper exercise of the powers conferred on the Administration and on the Administrator through the Small Business Investment Division and the Division head. See section 687(f) of this title.

1965—Pub. L. 89-117 provided that the powers conferred by subchapters IV-A and V of this chapter shall be exercised through such divisions, sections, or other personnel as the Administrator in his discretion determines.

§ 672. Repealed. Pub. L. 87-341, § 11(h)(1), Oct. 3, 1961, 75 Stat. 757

Section, Pub. L. 85-699, title II, §202(b), Aug. 21, 1958, 72 Stat. 691, authorized appropriations for business expenses.

SUBCHAPTER III—INVESTMENT DIVISION PROGRAMS

PART A—SMALL BUSINESS INVESTMENT COMPANIES

§ 681. Organization

(a) Incorporation and charter under State law, period of succession; area of operations

A small business investment company shall be an incorporated body, a limited liability company, or a limited partnership organized and chartered or otherwise existing under State law solely for the purpose of performing the functions and conducting the activities contemplated under this subchapter, which, if incorporated, has succession for a period of not less than thirty years unless sooner dissolved by its shareholders, and if a limited partnership, has succession for a period of not less than ten years, and possesses the powers reasonably necessary to perform such functions and conduct such activities. The area in which the company is to conduct its operations, and the establishment of branch offices or agencies (if authorized by the articles), shall be subject to the approval of the Administration.

(b) Articles of incorporation; approval

The articles of any small business investment company shall specify in general terms the objects for which the company is formed, the name assumed by such company, the area or areas in which its operations are to be carried on, the place where its principal office is to be located, and the amount and classes of its shares of capital stock. Such articles may contain any other provisions not inconsistent with this chapter that the company may see fit to adopt for the regulation of its business and the conduct of its affairs. Such articles and any amendments

thereto adopted from time to time shall be subject to the approval of the Administration.

(c) Issuance of license

(1) Submission of application

Each applicant for a license to operate as a small business investment company under this chapter shall submit to the Administrator an application, in a form and including such documentation as may be prescribed by the Administrator.

(2) Procedures

(A) Status

Not later than 90 days after the initial receipt by the Administrator of an application under this subsection, the Administrator shall provide the applicant with a written report detailing the status of the application and any requirements remaining for completion of the application.

(B) Approval or disapproval

Within a reasonable time after receiving a completed application submitted in accordance with this subsection and in accordance with such requirements as the Administrator may prescribe by regulation, the Administrator shall—

- (i) approve the application and issue a license for such operation to the applicant if the requirements of this section are satisfied; or
- (ii) disapprove the application and notify the applicant in writing of the disapproval.

(3) Matters considered

In reviewing and processing any application under this subsection, the Administrator—

- (A) shall determine whether—
 - (i) the applicant meets the requirements of subsections (a) and (c) of section 682 of this title; and
 - (ii) the management of the applicant is qualified and has the knowledge, experience, and capability necessary to comply with this chapter;

- (B) shall take into consideration—

- (i) the need for and availability of financing for small business concerns in the geographic area in which the applicant is to commence business;
 - (ii) the general business reputation of the owners and management of the applicant; and
 - (iii) the probability of successful operations of the applicant, including adequate profitability and financial soundness;

(C) shall not take into consideration any projected shortage or unavailability of leverage; and

(D) shall give first priority to an applicant that is located in an underlicensed State with below median financing, as determined by the Administrator.

(4) Exception

(A) In general

Notwithstanding any other provision of this chapter, the Administrator may, in the discretion of the Administrator and based on

a showing of special circumstances and good cause, approve an application and issue a license under this subsection with respect to any applicant that—

- (i) has private capital of not less than \$3,000,000;
- (ii) would otherwise be issued a license under this subsection, except that the applicant does not satisfy the requirements of section 682(a) of this title; and
- (iii) has a viable business plan reasonably projecting profitable operations and a reasonable timetable for achieving a level of private capital that satisfies the requirements of section 682(a) of this title.

(B) Leverage

An applicant licensed pursuant to the exception provided in this paragraph shall not be eligible to receive leverage as a licensee until the applicant satisfies the requirements of section 682(a) of this title, unless the applicant—

- (i) is located in a State that—
 - (I) is not served by a licensee; or
 - (II) is an underlicensed State; and
- (ii) agrees to be limited to 1 tier of leverage available under section 682(b) of this title, until the applicant meets the requirements of section 682(a) of this title.

(d) Repealed. Pub. L. 104-208, div. D, title II, § 208(b)(3)(A), Sept. 30, 1996, 110 Stat. 3009-742

(e) Fees

(1) In general

The Administration may prescribe fees to be paid by each applicant for a license to operate as a small business investment company under this chapter.

(2) Use of amounts

Fees collected under this subsection—

- (A) shall be deposited in the account for salaries and expenses of the Administration; and
- (B) are authorized to be appropriated solely to cover the costs of licensing examinations.

(Pub. L. 85-699, title III, §301, Aug. 21, 1958, 72 Stat. 691; Pub. L. 86-502, §4, June 11, 1960, 74 Stat. 196; Pub. L. 87-341, §11(a), (b), Oct. 3, 1961, 75 Stat. 756; Pub. L. 90-104, title II, §202, Oct. 11, 1967, 81 Stat. 269; Pub. L. 92-595, §2(b), Oct. 27, 1972, 86 Stat. 1314; Pub. L. 94-305, title I, §106(b)-(d), June 4, 1976, 90 Stat. 666; Pub. L. 95-507, title I, §104, Oct. 24, 1978, 92 Stat. 1758; Pub. L. 100-590, title I, §105, Nov. 3, 1988, 102 Stat. 2993; Pub. L. 104-208, div. D, title II, §208(b)(1)-(3)(A), Sept. 30, 1996, 110 Stat. 3009-741, 3009-742; Pub. L. 105-135, title II, §§212, 214, Dec. 2, 1997, 111 Stat. 2601; Pub. L. 115-333, §2(2), Dec. 19, 2018, 132 Stat. 4488.)

Editorial Notes

REFERENCES IN TEXT

For definition of “this chapter”, referred to in subs. (b), (c), and (e), see References in Text note set out under section 661 of this title.

AMENDMENTS

2018—Subsec. (c)(3)(D). Pub. L. 115-333, §2(2)(A), added subpar. (D).

Subsec. (c)(4)(B)(i). Pub. L. 115-333, §2(2)(B)(ii), (iii), redesignated cl. (ii) as (i) and amended it generally. Prior to amendment, cl. read as follows: “is located in a State that is not served by a licensee; and”.

Pub. L. 115-333, §2(2)(B)(i), struck out cl. (i) which read as follows: “files an application for a license not later than 180 days after December 2, 1997;”.

Subsec. (c)(4)(B)(ii), (iii). Pub. L. 115-333, §2(2)(B)(ii), redesignated cls. (ii) and (iii) as (i) and (ii), respectively.

1997—Subsec. (c)(4)(B). Pub. L. 105-135, §212, amended heading and text of subpar. (B) generally. Prior to amendment, text read as follows: “An applicant licensed pursuant to the exception provided in this paragraph shall not be eligible to receive leverage as a licensee until the applicant satisfies the requirements of section 682(a) of this title.”

Subsec. (e). Pub. L. 105-135, §214, added subsec. (e).

1996—Subsec. (a). Pub. L. 104-208, §208(b)(1), substituted “body, a limited liability company, or” for “body or” in first sentence.

Subsec. (c). Pub. L. 104-208, §208(b)(2), inserted heading and amended text of subsec. (c) generally. Prior to amendment, subsec. (c) read as follows: “The articles and amendments thereto shall be forwarded to the Administration for consideration and approval or disapproval. In determining whether to approve such a company’s articles and permit it to operate under the provisions of this chapter, the Administration shall give due regard, among other things, to the need and availability for the financing of small business concerns in the geographic area in which the proposed company is to commence business, the general business reputation and character of the proposed owners and management of the company, and the probability of successful operations of such company including adequate profitability and financial soundness. After consideration of all relevant factors, if it approves the company’s articles, the Administration may in its discretion approve the company to operate under the provisions of this chapter and issue the company a license for such operation.”

Subsec. (d). Pub. L. 104-208, §208(b)(3)(A), struck out subsec. (d) which read as follows: “Notwithstanding any other provision of this chapter, a small business investment company, the investment policy of which is that its investments will be made solely in small business concerns which will contribute to a well-balanced national economy by facilitating ownership in such concerns by persons whose participation in the free enterprise system is hampered because of social or economic disadvantages may be organized and chartered under State business or nonprofit corporation statutes, or formed as a limited partnership, and may be licensed by the Administration to operate under the provisions of this chapter.”

1988—Subsec. (a). Pub. L. 100-590 substituted “, if incorporated, has succession for a period of not less than thirty years unless sooner dissolved by its shareholders, and if a limited partnership, has succession for a period of not less than ten years,” for “has succession for a period of not less than thirty years unless sooner dissolved by its shareholders or partners”.

1978—Subsec. (d). Pub. L. 95-507 authorized small business investment companies to form as limited partnerships.

1976—Subsec. (a). Pub. L. 94-305, §106(b), inserted reference to limited partnership and reference to partners, struck out “of incorporation” after “by the articles”, and inserted “or otherwise existing” after “chartered”.

Subsec. (b). Pub. L. 94-305, §106(c), struck out “of incorporation” after “The articles”.

Subsec. (c). Pub. L. 94-305, §106(d), struck out “of incorporation” after “articles” wherever appearing.

1972—Subsec. (d). Pub. L. 92-595 added subsec. (d).

1967—Subsec. (c). Pub. L. 90-104 provided for consideration of availability of financing, the geographic area,

the business reputation, ownership factor, and probability of successful operations of company including adequate profitability and financial soundness and eliminated from consideration the number of such companies previously organized in the United States and the volume of their operations.

1961—Subsec. (a). Pub. L. 87-341, §11(a), provided that small business investment companies shall be incorporated, organized and chartered under State law, with a minimum succession period of thirty years unless sooner dissolved by its activities and functions, its area of operation shall be subject to the Administration’s approval, and deleted provisions setting the minimum number of incorporators at 10, no company shall be chartered by the Administration unless it determined that none could be chartered under the laws of the State and operate in accordance with this chapter, and that no such company shall be chartered by the Administration under this section after June 30, 1961.

Subsec. (c). Pub. L. 87-341, §11(b)(1), (2), substituted “such a company’s articles of incorporation and permit it to operate under the provisions of this chapter” for “the establishment of such a company and its proposed articles of incorporation”, and provided that if the Administration approves the company to operate under the provisions of this chapter, it may issue the company a license for such operation.

Subsec. (d). Pub. L. 87-341, §11(b)(3), repealed subsec. (d) which specified the general powers of a company formed under this section.

Subsec. (e). Pub. L. 87-341, §11(b)(3), repealed subsec. (e) which provided for a board of directors for a company formed under this section.

1960—Subsec. (d)(9) to (11). Pub. L. 86-502 repealed par. (9) which empowered companies to act as depositories or fiscal agents of the United States, and redesignated pars. (10) and (11) as (9) and (10), respectively.

Statutory Notes and Related Subsidiaries

EFFECTIVE DATE OF 1997 AMENDMENT

Amendment by Pub. L. 105-135 effective Oct. 1, 1997, see section 3 of Pub. L. 105-135, set out as a note under section 631 of this title.

EFFECTIVE DATE OF 1967 AMENDMENT

Pub. L. 90-104, title II, §211, Oct. 11, 1967, 81 Stat. 272, provided that: “The effective date of this title [amending this section and sections 682 to 684, 686, 687, 687b, and 692 of this title] shall be ninety days after enactment [Oct. 11, 1967], except that, with respect to section 207 [amending section 686 of this title], it shall be January 1, 1968.”

SAVINGS PROVISION

Pub. L. 104-208, div. D, title II, §208(b)(3)(B), Sept. 30, 1996, 110 Stat. 3009-742, provided that: “The repeal under subparagraph (A) [repealing subsec. (d) of this section] shall not be construed to require the Administrator to cancel, revoke, withdraw, or modify any license issued under section 301(d) of the Small Business Investment Act of 1958 [subsec. (d) of this section] before the date of enactment of this Act [Sept. 30, 1996].”

REGULATORY REVIEW

Pub. L. 102-366, title IV, §408(d), Sept. 4, 1992, 106 Stat. 1017, directed Small Business Administration, not later than 90 days after Sept. 4, 1992, to complete a review of regulations intended to provide for safety and soundness of small business investment companies which obtain financing from the Administration under provisions of the Small Business Investment Act of 1958, 15 U.S.C. 661 et seq., and to exempt from such regulations, or to separately regulate, companies which do not obtain financing from the Administration.

REPORTS TO CONGRESS

Pub. L. 102-366, title IV, §408(e), Sept. 4, 1992, 106 Stat. 1017, directed Administration, within 180 days after

Sept. 4, 1992, to report on actions taken pursuant to section 408(d) of Pub. L. 102-366, formerly set out above, to the Committees on Small Business of the Senate and the House of Representatives, including the rationale for its actions.

Pub. L. 102-366, title IV, §417(b), Sept. 4, 1992, 106 Stat. 1019, provided that not later than 4 years after Sept. 4, 1992, the Comptroller General was to transmit to Congress a report that reviewed the Small Business Investment Company program established under the Small Business Investment Act of 1958 (15 U.S.C. 661 et seq.) for the 3-year period following Sept. 4, 1992, with respect to each item listed in section 687(g)(3) of this title.

§ 682. Capital requirements

(a) Amount

(1) In general

Except as provided in paragraph (2), the private capital of each licensee shall be not less than—

(A) \$5,000,000; or

(B) \$10,000,000, with respect to each licensee authorized or seeking authority to issue participating securities to be purchased or guaranteed by the Administration under this chapter.

(2) Exception

The Administrator may, in the discretion of the Administrator and based on a showing of special circumstances and good cause, permit the private capital of a licensee authorized or seeking authorization to issue participating securities to be purchased or guaranteed by the Administration to be less than \$10,000,000, but not less than \$5,000,000, if the Administrator determines that such action would not create or otherwise contribute to an unreasonable risk of default or loss to the Federal Government.

(3) Adequacy

In addition to the requirements of paragraph (1), the Administrator shall—

(A) determine whether the private capital of each licensee is adequate to assure a reasonable prospect that the licensee will be operated soundly and profitably, and managed actively and prudently in accordance with its articles; and

(B) determine that the licensee will be able¹ both prior to licensing and prior to approving any request for financing, to make periodic payments on any debt of the company which is interest bearing and shall take into consideration the income which the company anticipates on its contemplated investments, the experience of the company's owners and managers, the history of the company as an entity, if any, and the company's financial resources.

(4) Exemption from capital requirements

The Administrator may, in the discretion of the Administrator, approve leverage for any licensee licensed under subsection (c) or (d) of section 681 of this title before September 30, 1996, that does not meet the capital requirements of paragraph (1), if—

(A) the licensee certifies in writing that not less than 50 percent of the aggregate dollar amount of its financings after September 30, 1996, will be provided to smaller enterprises; and

(B) the Administrator determines that such action would not create or otherwise contribute to an unreasonable risk of default or loss to the United States Government.

(b) Financial institution investments

(1) Certain banks

Notwithstanding the provisions of section 1845(a)(1)² of title 12, any national bank, or any member bank of the Federal Reserve System or nonmember insured bank to the extent permitted under applicable State law, may invest in any 1 or more small business investment companies, or in any entity established to invest solely in small business investment companies, except that in no event shall the total amount of such investments of any such bank exceed 5 percent of the capital and surplus of the bank.

(2) Certain savings associations

Notwithstanding any other provision of law, any Federal savings association may invest in any one or more small business investment companies, or in any entity established to invest solely in small business investment companies, except that in no event may the total amount of such investments by any such Federal savings association exceed 5 percent of the capital and surplus of the Federal savings association.

(c) Diversification of ownership

The Administrator shall ensure that the management of each licensee licensed after September 30, 1996, is sufficiently diversified from and unaffiliated with the ownership of the licensee in a manner that ensures independence and objectivity in the financial management and oversight of the investments and operations of the licensee.

(Pub. L. 85-699, title III, §302, Aug. 21, 1958, 72 Stat. 692; Pub. L. 86-502, §5, June 11, 1960, 74 Stat. 196; Pub. L. 87-341, §3, Oct. 3, 1961, 75 Stat. 752; Pub. L. 88-273, §2, Feb. 28, 1964, 78 Stat. 146; Pub. L. 90-104, title II, §§203(a), 204, Oct. 11, 1967, 81 Stat. 269, 270; Pub. L. 94-305, title I, §§106(e), 107, June 4, 1976, 90 Stat. 666; Pub. L. 95-89, title II, §210, Aug. 4, 1977, 91 Stat. 558; Pub. L. 95-507, title I, §105, Oct. 24, 1978, 92 Stat. 1758; Pub. L. 102-366, title IV, §§406(a), 409, Sept. 4, 1992, 106 Stat. 1015, 1017; Pub. L. 104-208, div. D, title II, §208(c), Sept. 30, 1996, 110 Stat. 3009-742; Pub. L. 105-135, title II, §215(a), Dec. 2, 1997, 111 Stat. 2601; Pub. L. 106-554, §1(a)(9) [title IV, §403], Dec. 21, 2000, 114 Stat. 2763, 2763A-690.)

Editorial Notes

REFERENCES IN TEXT

For definition of “this chapter”, referred to in subsec. (a)(1)(B), see References in Text note set out under section 661 of this title.

Subsection (d) of section 681 of this title, referred to in subsec. (a)(4), was repealed by Pub. L. 104-208, div. D, title II, §208(b)(3)(A), Sept. 30, 1996, 110 Stat. 3009-742.

¹ So in original. Probably should be followed by a comma.

² See References in Text note below.