

Small Business Admin. Puts 118 SBIC Funds On The Block

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English

The U.S. Small Business Administration's Office of Investments has tapped secondary intermediary NYPPEX Private Markets to help it find takers for some 118 funds financed through the Small Business Investment Company program, according to the Office of Investments.

The move is part of an effort to accelerate the liquidation process of SBA stakes in the funds and recoup some or all of the \$1.3 billion in outstanding SBA leverage issued to the vehicles.

"We have a fiduciary duty to the American taxpayer to get the best recovery rate that we can," according to a spokesman for the SBA. "We're thrilled to be moving down that path more quickly."

Greenwich, Conn.-based NYPPEX plans to begin the sale process sometime before year's end and expects it to continue through 2009, according to a person familiar with the firm.

The SBA manages two types of Small Business Investment Company programs: a mezzanine debt program, which continues to fund new licenses; and a participating securities program, which the administration effectively suspended in late 2004. However, it continued to honor commitments to firms licensed before that date through September of this year. Firms that received licenses through the participating securities program could borrow \$2 from the SBA for every \$1 raised from private investors.

Although the participating securities program is effectively dead, a bill has been introduced in the U.S. Senate that would reactivate a separate SBA program earmarked for equity funds that invest in underdeveloped regions of the U.S., particularly rural areas.

The group of funds for sale represents partnerships that for one reason or another were unable to honor their debt to the SBA and went into receivership. As of Sept. 30, they included 51 funds from the debt program and 67 funds from the participating securities program, although the SBA didn't name any specific managers. He did say that the debt funds tend to tilt toward buyout-like strategies while the participating securities funds tend to have more of a venture emphasis.

The portfolio for sale doesn't include the 348 active SBIC funds that haven't gone into any kind of liquidation as of Sept. 30. That group includes 149 participating securities funds, 129 debt funds and 70 SBICs that are either bank-owned or part of a specialized program. All told, those funds represent some \$8.6 billion of outstanding leverage and SBA commitments, according to

the SBA.

The SBA has been selling its stakes piecemeal for the past few years, although mainly in small chunks involving individual funds. For example, in 2006, Boston-based fund-of-funds manager HarbourVest Partners LLC picked up a \$20 million SBA stake in Open Prairie Ventures I LP, a \$40 million early-stage pool raised in 2000.

During the fiscal year ending Sept. 30, the SBA recovered some \$335 million from liquidations of its stakes, according to the SBA.

Shepard added that in many cases the SBA plans to work with the general partners managing the funds to find other investors willing to buy its stake or perhaps allow GPs to wind down the funds. However, he didn't rule out the possibility that in some cases, an entire fund might have to be liquidated, as the SBA's stake comes ahead of those of private limited partners.

Although the SBA hopes to speed up the liquidation process, Shepard quickly adds that it's in no rush to sell if the price isn't right.

"We have a fiduciary duty to the American taxpayer and we're not going to take 10 cents on the dollar," according to the SBA spokesman. "If it means that we have to wait, then we can wait."

Reach NYPPEX at 203-422-5000.

<http://www.sba.gov>

It hired secondary intermediary NYPPEX Private Markets to help speed up the liquidation process.

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