



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

March 24, 2014

The Honorable Thomas Carper
United States Senate
Washington, DC 20510

Dear Senator Carper:

Acting Administrator Markowitz has asked me to respond to your recent inquiry regarding minority participation in SBA's Small Business Investment Company (SBIC) Program and the SBIC license application of Diamond Ventures Funds, LP (Diamond).

Let me start with a very personal note. I myself am a minority, and was born and raised in San Juan, Puerto Rico. I want you to know that I take this letter extremely seriously and that I have seen first-hand the issues that surround not only capital formation but also fund management and investments by and towards businesses owned or controlled by traditionally underrepresented groups. Additionally, my deputy, the next most senior manager in the Office of Investment and Innovation (OII) is a woman of Indian heritage.

The SBA recognizes the importance of licensing SBICs that will assist small businesses in underserved markets, including SBICs managed by qualified minority investment professionals. SBA's OII has made significant outreach efforts to investment communities of color and women over the past several years. Since 2009, OII's Associate Administrator (AA) and/or some of its top managers have been featured speakers at many investment conferences sponsored by women and minorities, including the following:

- National Association of Investment Companies (NAIC) Annual Summit
- New America Alliance (NAA) – Wall Street Summit
- National Women's Business Council (NWBC) – Women's Business Month
- Harvard Business School Latino Alumni Association (HBSLAA) Annual Meeting
- National Interagency Community Reinvestment Conference
- Minority Manager Consortium
- Grosvenor Emerging Manager Conference
- Association of Asian American Investment Managers (AAAIM) Annual Conference
- Initiative for a Competitive Inner City (ICIC)
- US Social Investment Forum
- Five Fund Forum
- United States Hispanic Chamber of Commerce (USHCC)
- SEO Alternative Investments Conference
- Plan Sponsor Consortium
- Women's Private Equity Summit
- Women's Alternative Investment Summit
- Community Development Venture Capital Association (CDVCA) Conference
- Social Capital Markets Conference (SOCAP)

OII has used featured speaker and other such networking roles as a platform to encourage minority-run funds to consider applying for an SBIC license. For example, as

a direct result of the participation of the then-Administrator and then-AA in NAIC's 39th annual meeting in 2009, NAIC began to actively promote the SBIC program among its members and featured the SBIC program in several issues of its trade magazine, the *Journal of EDM Finance*. Several NAIC members have since inquired about and applied for an SBIC license.

In 2012, SBA recruited the immediate past president & CEO of NAIC, Samuel J. Boyd, Jr., to join OII in the newly created role of Chief Investment Officer and Director of Program Development. In this capacity, Mr. Boyd, who is an African American, manages the team of investment officers who evaluate all new Management Assessment Questionnaires (MAQs) submitted by prospective SBIC fund managers. Mr. Boyd is a voting member of both the Investment Committee and the Divisional Licensing Committee. He is also responsible for all of OII's outreach efforts to potential fund managers and investors and is a regular presenter at women and minority focused investment events. Mr. Boyd and his staff regularly engage women and minority investment managers to encourage them to consider the SBIC Program. As a result of these efforts, principals of more than a dozen minority and women-run funds have personally visited OII, undergone a preliminary qualifications assessment, and/or applied for an SBIC license.

The SBA does not formally collect information on the demographics of SBIC fund managers. However, of the 287 licensed SBICs in operation, SBA is aware of seven (2.4%) that have one or more African American principals. The SBA does maintain statistics on financings provided through the SBIC Program to "Competitive Opportunity Gap" businesses, defined as businesses that are owned by minorities, women, or veterans. For fiscal years 2012 and 2013 combined, these businesses received 4.5% of the total dollars invested by SBICs. We expect this percentage to increase as a result of outreach efforts described above.

With respect to Diamond, OII conducted a thorough review of Diamond's application in accordance with standard licensing procedures. Diamond was given every opportunity to address SBA's concerns. On December 16, 2013, the application was presented to the Agency SBIC Licensing Committee, which determined that Diamond had not met the qualifications for an SBIC license. The SBA notified Diamond of this outcome by email following the meeting and sent Diamond a detailed letter explaining the Committee's decision on December 18, 2013. Because of the potential for further litigation, we cannot discuss this case except to note that the Agency had legitimate non-discriminatory reasons for turning down the application.

We appreciate your support of SBA and the Delaware small business community. If you and your staff have any additional questions, please contact Mr. Nicholas Coutsos, Assistant Administrator for the Office of Congressional and Legislative Affairs, at (202) 205-6700.

Sincerely,

Javier Saade
Associate Administrator for Investment and Innovation