

Small Business Investment Companies: An Investment Option for Banks

**SBIC Informational Session
FRB Boston**

By

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Boston

April 7, 2015

About the OCC



- Created as a bureau of the U.S. Department of the Treasury by the National Currency Act of **February 25, 1863**.
- The OCC's primary mission is to **charter, regulate, and supervise all national banks and federal savings associations (FSAs)**. The OCC also supervise the federal branches and agencies of foreign banks.
- Our goal is to ensure that our supervised institutions operate in a **safe and sound manner** and in compliance with laws requiring fair treatment of their customers and **fair access to credit and financial products**.
- Headquartered in Washington, D.C., the OCC has four district offices plus an office in London to supervise the international activities of national banks.



Financial Institutions Charters



FDIC Insured Institutions (Commercial & Savings) as of 3/12/2015*

	Total Number	% Number	Total Assets	% Assets	Total Deposits	% Deposits
FDIC-Supervised	4,100	64%	\$2,646,115	17%	\$2,058,798	18%
OCC-Supervised	1,495	23%	\$10,652,527	68%	\$7,901,163	67%
FRB-Supervised	851	13%	\$2,255,017	15%	\$1,803,923	15%
Total	6,446	100%	\$15,553,659	100%	\$11,763,884	100%

* Financial Data as of 12/31/2014 (in millions) and excludes the ten US branches of foreign banks

Source: FDIC



The OCC Community Affairs



- Community Affairs conducts **outreach** and **develops publications** to support the OCC's goals
- For the **outreach** function we have 14 District Community Affairs Officers spread over four regions
- For the **Policy** function, we have staff based in HQ developing publications, serving on interagency working groups, and supporting the outreach group



CA Policy Group



- The Policy group publishes community development information on best practices and investment opportunities
 - **Example: SBICs: An Investment Option for Banks**
- The group compiles resource directories on a range of community development topics
 - **Example: Small Business Resource Directory**
- Our resources can be accessed from the Community Affairs homepage on **www.occ.gov**



SBIC Investment Authority



National Banks and Federal Savings Associations (FSAs) may make investments in SBICs using one or more of the authorities described below:

- **Small Business Investment Act (1958):** National banks and FSAs may invest up to 5% of capital and surplus in SBICs (15 USC § 682[b])
- **National Banks:**
Public welfare investment authority for national banks (12 CFR 24)
- **Federal Savings Associations:**
De Minimis Investments – 12 CFR 160.36
Investment in Service Corporations and Lower-Tier Entities for
Community Development Investments – 12 CFR 159



Capital Considerations for SBICs



- **Standardized Approach:** SBICs are assigned capital using the simple risk-weight approach (SRWA) for equity exposures
 - 100% risk weight for SBIC equity exposures representing less than 10% of Total Capital (non-significant equity exposures)
 - 300% or 400% risk weight for equity exposures that are equal to or greater than 10% of Total Capital, depending on whether or not the equity exposure is a publicly traded equity
- **Advanced Approach:** the SRWA may be used. In addition, subject to prior written approval by the OCC, an advanced approaches institution may calculate the risk-weighted asset amount for SBIC equity exposures using an internal models approach (IMA)



Volcker Rule



- The final Volcker regulations prohibit any banking entity from
 - a) engaging in proprietary trading or
 - b) acquiring or retaining an ownership interest in or having certain relationships with a hedge fund or private equity fund (“covered fund”)
- A covered fund includes an issuer that would be an investment company but for sections 3(c)(1) or 3(c)(7) of the Investment Company Act.
- The final Volcker regulations exclude from the definition of covered fund an issuer that is an SBIC or that has received from the SBA notice to proceed to qualify for a license as an SBIC, which notice or license has not been revoked.



SBIC Investments Under CRA



- SBIC investments are qualified community development investments under CRA
 - Section 12(t)(4) of the Interagency Questions and Answers
- **Assessment Area (AA) Issues:**
 - Banks may receive CRA consideration if the SBIC's market area can be considered a broader statewide or regional area that includes the institution's AA
 - The bank's AA(s) need not receive an immediate or direct benefit from the SBIC's investments, provided that the purpose, mandate, or function of the SBIC includes serving geographies or individuals located within the institution's AA
- **Other Considerations:** Innovation, complexity, and responsiveness are taken into consideration when evaluating a large institution's investment in SBICs.



SBIC Investment Under CRA (cont.)



Investment Timing Treatment

- **Current period** CRA consideration for the entire funded and unfunded commitment amount, if the bank's commitment to invest in an SBIC is
 - Unconditional and legally binding, and
 - Is included on the bank's balance sheet in accordance with Generally Accepted Accounting Principles (GAAP)
 - Section .23(e)-2 of the Interagency CRA Qs&As.
- **Prior Period** investments include investment commitments in SBICs that received full credit in the prior period that remain unfunded.

Small Bank Treatment

- A small bank can request that examiners review its performance in making qualified investments, such as SBICs, to enhance a satisfactory rating.
 - Performance in making qualified investments may not be used to lower a rating.
 - Cannot raise a “needs to improve” or “substantial noncompliance” rating.



Resources



- **Federal Register /Vol. 78, No. 224 /Wednesday, November 20, 2013 /Notices**
<http://www.gpo.gov/fdsys/pkg/FR-2013-11-20/pdf/2013-27738.pdf>
- **OCC, CA Publications, Insights Reports, Small Business Investment Companies: An Investment Option for Bank**
<http://www.occ.gov/topics/community-affairs/publications/insights/insights-sbic.pdf>
- **OCC, Community Affairs, Small Business Resource Directory**
<http://www.occ.gov/topics/community-affairs/resource-directories/small-business/index-small-business.html>
- **SBA's SBIC Program Website**
<http://www.sba.gov/category/lender-navigation/sba-loan-programs/sbic-program-0>
- **Small Business Investor Alliance (SBIA)**
<http://www.sbia.org/>





Thank You!

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