



NEW MARKETS VENTURE CAPITAL (NMVC) PROGRAM

Frequently Asked Questions (FAQs)

Periodically Updated and Modified

- **GENERAL**
- **SELECTION PROCESS**
- **APPLICATION, FORMATION & OPERATION**
- **OPERATIONAL ASSISTANCE GRANTS**
- **NEW MARKETS TAX CREDIT**

GENERAL

What is the New Markets Venture Capital Program?

The New Markets Venture Capital (NMVC) program is modeled after the Small Business Administration's extremely successful Small Business Investment Company (SBIC) program but has a specific mission of economic development in low-income (LI) areas. Through a combination of equity-type financing and intensive operational assistance to smaller businesses located in LI areas, the program seeks to assist local entrepreneurs, create quality employment opportunities for residents and build wealth within these communities. SBA intends to achieve these public policy objectives through financial assistance to newly formed NMVC companies and to existing Specialized Small Business Investment Companies (SSBICs). (see also [link to NMVC program overview](#))

What is a New Markets Venture Capital company?

A New Markets Venture Capital (NMVC) company is a privately managed, newly formed, for-profit investment company formed for the purpose of providing equity-type capital and hands-on operational assistance to smaller businesses located in specific rural and urban areas.

SBA will select NMVC companies as participants in the NMVC program through a competitive selection process. Successful applicants will enter into participation agreements with SBA.

What are the benefits of forming an NMVC company?

1. **SBA Financial Assistance.** SBA will supplement an NMVC company's own capital through guarantees of debentures to be issued by the company in a face amount of up to 1.5 times its capital. The debentures will have a term of up to 10 years from the date of draw-down and be issued at a discount. Interest for years 1-5 is paid up front in the form of the discount, interest only is payable for years 6-10, and principal is due at the end of year 10. SBA will arrange "just-in-time" funding for the debentures under procedures similar to those utilized in the SBIC program. The debentures are expected to be priced at a current market rate for comparable U.S. Government Treasury securities plus a premium. The debentures are expected to be pre-payable without penalty after one year. There are no SBA fees associated with the debenture.

Example: An NMVC company with \$10 million of contributed capital would be eligible to issue debentures with a face amount of \$15 million. If a 6.49 percent interest rate prevailed when the debentures were issued, the company would receive net proceeds of \$10.62 million for the \$15 million of debentures. No payments would be required for the first 5 years. Commencing with the sixth year, the NMVC company would pay interest on the \$15 million at a 6.49 percent rate compounded semi-annually, and the entire \$15 million of principal would be due at maturity.

2. **SBA Operational Assistance Grants.** SBA also will match the resources that the NMVC company has raised for operational assistance (whether in cash or in-kind) with an equivalent grant payable over 4.75 years. The NMVC company must use the grant funds and matching resources to provide marketing, management and other operational assistance to the businesses in which it invests or intends to invest.

What are the benefits to the investor?

A potential investor can benefit in at least the following four ways through its investment into an NMVC company or SSBIC participating in the NMVC program:

1. **Giving back to one's community:** The NMVC program is designed to target the needs of the community in which the NMVC company or SSBIC operates. State and local economic and/or community development entities, local financial institutions (including thrifts), utility companies, business leaders and philanthropists can pool resources into one fund for maximum investing in their local economies. High profile investors also can benefit from the added visibility of their participation in an NMVC fund for marketing and outreach purposes.
2. **Tax credits:** Investors may be eligible to receive a New Markets Tax Credit, which the U.S. Department of Treasury will allocate through an annual competitive process. (See [NMTC Issues link](#)) NMVC companies and SSBICs can apply for the tax credit, which they then can pass on to their investors.
3. **Community Reinvestment Act (CRA):** Financial institutions that invest in NMVC firms or SSBICs may be eligible for CRA credit. Such institutions would be required to follow rules governing equity investments by Federal financial institutions.
4. **A reasonable rate of return:** NMVC companies will be for-profit entities that will seek to provide returns to investors. Although there can be no guarantee of success,

producing an attractive return on investment will be one of the NMVC Company's objectives. The appropriate use of operational assistance grants should enhance these returns.

What are the benefits to a small business?

Small businesses located in the LI areas can receive:

1. No-cost operational assistance, for example: accounting, business, or marketing plans and engineering assistance.
2. Long-term risk capital.
3. Proactive investor with a stake in growing the business.

The type, terms and conditions of individual investments will be up to NMVC companies and SSBICs, within guidelines set by the regulations governing the program. SBA will monitor this compliance through examinations and other oversight mechanisms.

What is the difference between the purposes of the NMVC program and those of the Specialized Small Business Investment Company (SSBIC) program?

NMVC companies target entire communities for business investments while SSBICs seek business investments in small businesses owned by individuals that are socially or economically disadvantaged. NMVC firms focus on the geographic location rather than on the ownership of small businesses. However, SSBICs are eligible to apply for grant funds under the NMVC program to provide operational assistance to businesses located in LI areas, if such SSBICs plan to raise additional capital and use it to make developmental venture capital investments in such businesses.

What are LI areas?

LI areas are defined by statute, and include geographic areas that fall within the following descriptions:

- census tracts or equivalent county divisions with a poverty rate of 20 percent or more;
- census tracts or equivalent county divisions located within a metropolitan area, and that qualify for the Low Income Housing Tax Credit (i.e., in which 50 percent or more of the households have an income below 60 percent of the area median gross income);
- census tracts or equivalent county divisions not located within a metropolitan area, and which have a median household income that does not exceed 80 percent of the statewide median household income;
- a HUBZone;
- an Urban Empowerment Zone (EZ) or Urban Enterprise Community (EC); or
- a Rural EZ or Rural EC.

How many rural vs. urban locations is SBA targeting?

SBA is not targeting a specific number of areas, either rural or urban. This diversity will be dictated largely by applications submitted and selected by SBA.

How can one participate in the NMVC program?

SBA currently is soliciting applications from potential NMVC companies and existing SSBICs that believe they have the required management experience and can raise the necessary capital and operational assistance resources. Rules and regulations for the program, and application forms and related exhibits can be found at <http://www.sba.gov/INV/venture.html>, or obtained by calling (202) 205-6510 (this is not a toll-free number).

SELECTION PROCESS

How will SBA select NMVC company applicants for the NMVC program?

SBA will select applicants for designation as NMVC companies in a two-step process:

1. *Conditional Approval.* The selection for conditional approval will be based upon the merits of the application, how the application compares to other applications covering the same or proximate LI areas, and the objective of achieving nationwide and both rural and urban impact of the program.
2. *Final Approval.* SBA will consider for final approval all conditionally approved NMVC companies that, by deadlines established by SBA, raise the required amounts of regulatory capital and grant matching resources, complete legal documentation satisfactory to SBA, enter into a participation agreement, and meet all regulatory requirements.

For more information on SBA's implementation of the NMVC program, see ([link to roadmap](#)). For the criteria and weighting scale to be used by application reviewers, see ([link to NMVC Evaluation Scale](#)) for NMVC company applicants and ([link to SSBIC Evaluation Scale](#)) for SSBIC applicants.

Why such a short time frame for the application and selection process?

Current funding for the operational assistance grant component of the NMVC program expires on September 30, 2001. Operational assistance grants must be obligated by that date to finally approved NMVC company and SSBIC applicants. SBA is forced to work within tight time constraints to properly review and select applicants before obligating any funds.

APPLICATION, FORMATION & OPERATION

How do you apply for participation in the NMVC program?

Interested applicants should review the rules and regulations for the program and fill out the necessary application forms and related exhibits, which can be found at <http://www.sba.gov/INV/venture.html>, or obtained by calling (202) 205-6510 (this is not a toll-free number).

Are there any fees associated with an application?

NMVC company and SSBIC applicants must pay a one-time grant issuance fee of **\$5,000**, due in advance at the time of application submission. SBA will refund the fee to applicants not selected.

What are the qualifications to apply for designation as a NMVC company?

In order to be eligible to apply for designation as an NMVC company, an applicant must:

- Be a new for-profit entity formed after December 21, 2000. It may be organized as a partnership, a limited liability company, or a corporation. It may be a newly formed subsidiary of an existing for-profit, non-profit, or governmental entity.
- Have a management team with demonstrated experience in community development finance and/or relevant venture capital finance.
- Have a primary mission of economic development of one or more LI areas.
- Have specific LI areas identified in which it intends to direct its activities.
- Have management and ownership diversity.
- Have investment capital (minimum \$5 million) from sources other than an agency of the Federal government.
- Have grant matching resources equal to at least 30 percent of its capital from sources other than SBA.

What are the qualifications for SSBICs to apply for NMVC operational assistance grants?

In order to be eligible to apply, an SSBIC must:

- Intend to raise new capital after December 21, 2000.
- Intend to raise grant matching resources equal to at least 30 percent of its newly raised capital from any source other than SBA.
- Have a viable plan for how it intends to use the requested grant funds to provide operational assistance to smaller enterprises located in LI areas.

Which individuals or entities associated with an NMVC company applicant must submit information?

Together with the application for NMVC company designation, certain individuals and/or entities associated with the applicant must submit to SBA certain items of information, as specified in Exhibit B of the Exhibits to New Markets Venture Capital Application, SBA Form 2185. The following individuals and/or entities must submit a fingerprint card (Form FD-258) and a Statement of Personal History (SBA Form 2185, Exhibit C):

- officers and directors of a corporate NMVC company applicant
- general partners of a partnership NMVC company applicant
- managers of an LLC NMVC company applicant
- any individual who has "Control" or who is a "Control Person" (see 13 CFR 108.50) of the NMVC company applicant
- the 3 ranking managers of any entity that has "Control" or that is a "Control Person" (see 13 CFR 108.50) of the NMVC company applicant
- any individual who owns or controls, directly or indirectly, 33% or more of the outstanding securities of the NMVC company applicant
- the 3 ranking managers of any entity that owns or controls, directly or indirectly, 33% or more of the outstanding securities of the NMVC company applicant
- members of the NMVC company applicant's investment committee
- any individual whose role in the NMVC company applicant is highly influential (for example, principals, SBA liaison, officers and employees of the applicant's investment advisor with day-to-day management responsibility and/or signing authority for the applicant)

The following individuals and/or entities also must submit a Legal Proceedings Questionnaire (SBA Form 2185, Exhibit D):

- officers and directors of a corporate NMVC company applicant
- general partners of a partnership NMVC company applicant
- managers of an LLC NMVC company applicant
- any individual who has "Control" or who is a "Control Person" (see 13 CFR 108.50) of the NMVC company applicant
- the 3 ranking managers of any entity that has "Control" or that is a "Control Person" (see 13 CFR 108.50) of the NMVC company applicant
- any individual whose role in the NMVC company applicant is highly influential (for example, principals, SBA liaison, officers and employees of the applicant's investment advisor with day-to-day management responsibility and/or signing authority for the applicant)

Where do I find the fingerprint cards referenced in the application?

The form referenced, FD-258, is a standard form that law enforcement agencies and other agencies of the Federal government use for fingerprinting. Cards should be available from any organization that does fingerprinting in its course of business, such as a Department of Motor Vehicles, police station, or Federal Bureau of Investigation office. The FD-258 also is available from SBA's Investment Division. You can e-mail

your request, complete with name, address, and number of cards needed, to sbic@sba.gov.

Do the proposed LI areas have to be contiguous?

No. However, there should be some common sense approach to the areas proposed (for example, defined by city or state boundaries, or regionally defined through common economic factors). Applicants should be as specific as possible in their reasoning for directing their activities to the specific group of LI areas they propose. Applicants should address the management team's ability and the costs necessary to properly service investments in the proposed areas in the context of the overall economic viability of the fund.

Should the 2000 Census or the 1990 Census data be used to determine LI areas?

In their applications, NMVC company and SSBIC applicants must identify particular LI areas in which they intend to focus their activities. SBA requires that applicants use the most current data available when determining whether areas qualify as LI areas under one or more of the statutory definitions. Many of the statutory definitions rely upon data generated by the U.S. Bureau of the Census. The Bureau of the Census currently is releasing information on the 2000 Census. However, not all data is available for all areas, and data may not be available for each data element of the various definitions of LI areas. For those LI area definitions where data from the 2000 Census is not yet available, applicants may use data from the 1990 Census. In addition, applicants must use data from the same Census when compiling the various data elements for a particular LI area definition.

Example: You are trying to compile the data elements for the LI area definition of "census tracts not located within a metropolitan area, and which have a median household income that does not exceed 80 percent of the statewide median household income." You find information from the 2000 Census on median household income for the census tract. However, information from the 2000 Census on statewide median household income is not yet available. Under these circumstances, use the data from the 1990 Census for both data elements.

Once SBA selects an applicant for the NMVC program and the NMVC company or SSBIC begins making investments, the company will be required to verify whether a business in which it plans to invest is located in an LI area (as of the date the financing is made). When doing so, the company must use the most current information then available, and retain in its files documentation to support its verification.

Must low-income individuals fill jobs created by low-income investments made by NMVC companies and SSBICs?

No. There are no requirements concerning the jobs that must be created by those investments. However, one of the purposes of the NMVC program is to encourage NMVC companies and SSBICs to make investments that, among other things, will result

in sustainable jobs for residents of low-income communities. As part of its selection process, SBA will evaluate the potential economic and community development impact of an applicant's proposed investment and operational assistance activities on LI areas.

Is there any requirement that the capital invested in an NMVC company come from investors located in the same geographic area in which the NMVC company is located or where the NMVC company intends to focus its activities?

No, there is no requirement concerning the geographic source of capital or of matching resources for operational assistance grant funds.

Can banking institutions invest capital in an NMVC company or SSBIC, and if so, would those investments be eligible under the requirements of the Community Reinvestment Act (CRA)?

The NMVC legislation authorizes national banks, member banks of the Federal Reserve System, insured nonmember banks, and Federal savings associations to invest in NMVC companies. Federally insured institutions that are required to meet CRA standards currently can receive CRA credit for investments in SSBICs. SBA believes that bank regulatory agencies will regard the NMVC program's focus as consistent with the purposes of the CRA and will allow investments in NMVC companies by financial institutions to be eligible for CRA credit.

Is there a limit on the management fees a NMVC company may charge?

SBA has not established a limit on management fees. SBA will review the amount of fees an applicant proposes to charge and determine whether it considers them reasonable in view of the applicant's business plan.

If an applicant proposes an NMVC company under a particular structure, such as an LLC, but after submission of an application, needs to change to another structure, such as an LP, would SBA then deny admission to the program at the conditional or final approval stage?

No. SBA understands that investors may dictate the structure of a fund. However, NMVC applicants must have a committed, legal structure in place no later than 30 days after being designated as conditionally approved.

Does the NMVC company management team have to have prior SBIC experience?

No. SBA will evaluate the quality of the management team's prior investment experience regardless of when and where it was obtained.

Can the partners of an NMVC company also apply for an SBIC license?

Yes, side-by-side funds would be permissible, but the management team of each would have to be able to focus on the investment and administrative demands of each of the respective funds to ensure that the public policy objectives of each program are met. SBA would consider any such application for an SBIC license separately, under existing procedures, policies, and regulations governing the SBIC program. SBA's selection of an NMVC company managed by a particular group of partners will have no effect on whether or not SBA grants an SBIC license to an applicant managed by that same group of partners.

What limitations are imposed on an NMVC company's investment activities?

At least 80% of the businesses in which an NMVC company makes investments must be smaller enterprises located in LI areas and must have received equity capital investments. In addition, 80% of the investments an NMVC company makes (in total dollars) must be equity capital investments in smaller enterprises located in LI areas.

A "smaller enterprise," as defined in 13 CFR 108.50, is a small business concern that:

- has \$6 million net worth and an average after-tax income not exceeding \$2 million for the preceding 2 years, or
- meets SBA's size standards based on revenue or employment criteria.

"Equity capital investments," as defined in 13 CFR 108.50, are investments in the forms of:

- common or preferred stock
- limited partnership interests
- options, warrants, or similar equity instruments
- subordinated debt with equity features as long as the debt is not amortized and provides for interest payments contingent upon and limited to the extent of earnings

A smaller enterprise located in an LI area is a concern whose "principal office" is located in an LI area.

- The "principal office" of a small business concern, as defined in 13 CFR 108.50, is that office of the portfolio company, as of the date the investment is made, where the greatest number of the concern's employees at any one location perform their work. When determining the principal office of businesses in the service and construction industries, exclude from consideration the concern's employees who perform the majority of their work at job-site locations.

What limitations are imposed on an SSBIC's investment activities?

An SSBIC receiving an operational assistance grant must use 100% of its increase in regulatory capital, raised in connection with its application for that grant, to make equity capital investments in smaller enterprises located in LI areas.

Can a current venture capital fund be rolled over into an NMVC company?

No. An NMVC company must be a new entity formed after December 21, 2000. Cash from previously formed funds may be contributed to the NMVC company, but non-cash assets may not be contributed and be considered capital.

May an NMVC company applicant or an SSBIC applicant raise more or less regulatory capital and/or grant matching resources than originally requested in its application?

NMVC company applicants and SSBIC applicants are allowed to raise only the amounts of regulatory capital and grant matching resources proposed in their applications. SBA will be selecting applicants for conditional approval based on SBA's consideration of the applications as submitted, including the amounts of regulatory capital and grant matching resources stated in the application. Applicants will not be allowed, in effect, to change their applications after initial submission, by changing the amounts of regulatory capital and grant matching resources they raise. If an applicant raises more or less regulatory capital or grant matching resources than stated in its application, SBA will not finally approve that applicant.

The NMVC regulations do not preclude applicants from using additional capital it wishes to raise for a separate fund, which could be a co-investor, side-by-side fund, and/or SBIC.

How does SBA provide leverage once a NMVC company decides to make an investment?

NMVC companies will draw down leverage in the same fashion as an SBIC would through a mechanism referred to as "just-in-time" funding. Bimonthly, SBA will consider applications submitted by NMVC companies for draw. If SBA approves a company's draw application, the company then can obtain funds upon 24 hours advance notice to SBA. SBA will require the NMVC firm to use its private capital in tandem with leverage.

Can an NMVC company invest in a passive business?

NMVC regulations generally do not allow NMVC companies to make investments in passive businesses or pass-through investments. SBA may approve a pass-through of investment proceeds to a subsidiary under certain circumstances.

OPERATIONAL ASSISTANCE GRANTS

Is there a separate application process for NMVC companies to apply for operational assistance grants?

No. However, NMVC company applicants will be required to provide budget information and related documentation reflecting the anticipated expenditures of the grant funds. Applicants that SBA accepts for processing will receive the necessary forms and guidance, which applicants then must submit by a deadline established by SBA. (For more information, see [link to OA grant guidance doc](#)).

Can potential investors provide additional capital for the purpose of meeting an NMVC company applicant's or an SSBIC applicant's required match for operational assistance grants?

SBA's regulations provide that a portion of private capital may be designated as matching resources if such funds are used to purchase an annuity or are otherwise segregated in a manner acceptable to SBA. Investors should be made aware that monies designated for operational assistance will not be invested in small businesses for a return.

Who are the acceptable types of operational assistance grant matching resources?

NMVC company and SSBIC applicants are allowed to raise the required matching resources for operational assistance grants in the form of in-kind contributions, cash contributions, binding commitments for cash or in-kind contributions, and annuities, payable over no more than 5 years, from any source other than SBA. Any matching resources not in the form of cash must be documented.

Are cash resources preferable to in-kind contributions?

Cash resources are important, because the NMVC legislation requires that at least 50% of the overall operational assistance grant matching resources be in the form of cash or commitments for cash. However, applicants may raise up to 50% of their required grant matching resources in the form of in-kind contributions. These resources can take the form of services contributed by other entities focusing on economic and community development in LI areas (for example, institutions of higher education, job training facilities, and local and state government agencies).

Does SBA prefer to see certain types of operational assistance proposed in the application?

SBA will not give preference to any particular types of operational assistance. SBA expects different areas of the country and different investment objectives to need

different types of operational assistance, and it is up to the applicant to describe in detail its understanding of those needs.

What are acceptable and unacceptable uses of operational assistance grant funds?

As a general rule, anything that could be attributable to the normal costs associated with running a concern would be an inappropriate use of operational assistance grant resources. For instance, if a concern in which an NMVC company invests or expects to invest needs the professional assistance of an accountant to set up a suitable accounting system, the NMVC company could pay for that short-term need with grant funds. However, maintaining the accounting system once it is in place would become the financial responsibility of the concern, and the NMVC company could not use grant funds to pay for that long-term need.

Does SBA view association with incubators as an appropriate use of operational assistance grant money?

Incubators may be a viable option for assisting young businesses with growth potential through the NMVC program. SBA will review both the proposed uses of the grant money and the structure of the relationship between the NMVC company and the entity housing or sponsoring the incubator. Applicants should be as specific as possible regarding the roles to be assigned when proposing to work with incubators, keeping in mind acceptable uses of operational assistance grant funds.

NEW MARKETS TAX CREDIT

Are companies that SBA selects as NMVC companies automatically eligible for New Markets Tax Credits?

No. The U.S. Department of Treasury (Treasury) has statutory authority to certify entities as Community Development Entities ("CDE") and to allocate New Markets Tax Credits to such entities. Treasury plans to conduct an annual competitive process for allocating the New Markets Tax Credits to eligible CDEs. For further information, visit the Treasury web site at <http://www.treas.gov/cdfi> or call (202) 622-8662.

Are SSBICs automatically eligible for New Markets Tax Credits?

By law, SSBICs are presumed to be CDEs. CDEs automatically are eligible to apply for the New Markets Tax Credits. However, all CDEs must go through a competitive application process to receive an allocation from Treasury of those tax credits.

Version date: May 16, 2001

Disclaimer: Please note that this document is not an official policy statement about the NMVC program. SBA continues to develop its policies and procedures for the NMVC program. Accordingly, these FAQs are subject to change and are not binding on any SBA decision.