

# SBIC loans gain traction among small financing firms

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By Archana Shankar - Analysis

BANGALORE (Reuters) - Constrained by the squeeze in the credit markets, smaller finance companies looking to ramp up their portfolio investments are now queuing up for cheap capital in the form of government-guaranteed long-term loans.

Popularly known as business development companies (BDCs), these finance firms make debt and equity investments in small- and middle-sized companies and have been struggling to raise capital in the face of the global financial crisis.

This has made them consider the U.S. government's Small Business Investment Co (SBIC) program to improve liquidity and take advantage of the conducive investment environment and the limited competition in the space.

That is a sharp turn from the times of the credit bubble, when the year-long wait for an SBIC loan, limited to a maximum of \$137 million, had little appeal for these companies. They could simply shop for a one-year, \$300 million revolving credit facility from a bank -- at lower rates and in a couple of weeks.

Lining up for the final approval under the program are Fifth Street Finance Corp (FSC.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), Gladstone Capital Corp (GLAD.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) and TICC Capital Corp (TICC.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), while PennantPark Investment Corp (PNNT.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) and Kohlberg Capital Corp (KCAP.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) are weighing their options.

The U.S. government's program provides 10-year, fixed-rate loans with no covenants and has seen an increased interest from BDCs after the borrowing limit was raised to \$225 million in the beginning of this year.

The higher ceiling has made the smaller BDCs more than willing to go through the wait of 12 months or more.

To qualify as BDCs, such firms have to maintain assets equal to at least 200 percent of their debt. However, an SBIC loan is not counted while calculating a company's asset coverage ratio.

"One structural benefit for BDCs with SBIC debt is that it generally does not count toward the 200 percent asset coverage test requirement under the BDC regulations," said Todd Reppert, president of Main Street Capital Corp, which has already tapped the program.

## NO COVENANT WOES

A major attraction of the SBIC license for smaller BDCs is that they do not come with as many conditions attached as most bank loans.

Larger rivals of these companies, such as American Capital Ltd (ACAS.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) and Allied Capital Corp

(ALD.N:[Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) are struggling with covenant breaches and are negotiating with their lenders for waivers.

"The good news is there is no way one can potentially lose that credit facility, like some of the other BDCs faced with their revolving credit facilities. Short of fraud there is not really much you can do to lose it: there are no covenants," Analyst Greg Mason of Stifel Nicolaus said.

American Capital, which was removed from the Standard & Poor's 500 index .SPX in February, had defaulted on \$2.3 billion of unsecured credit arrangements as of March 31, while Allied has "agreed in principle" with its lenders to restructure its debt agreements.

"The SBIC debt does not have covenants per se, but there are many financial and other requirements included in the SBIC regulations that govern the activities of SBIC funds," Reppert said.

(Additional reporting by Sweta Singh; Editing by Unnikrishnan Nair)