

(d) What is the average balance and settlement of credit lines extended to SBICs?

(e) Based on SBA's view that short-term borrowings pose a lower credit risk, what restrictions, if any, should SBA consider placing on the length of time a balance may remain outstanding on an unsecured line?

(f) Should SBA permit such facilities only during time periods of an SBIC's lifecycle when the risk to SBA is lower, for example during the early years of the SBIC's life or before additional leverage is drawn? If so, what considerations should SBA take into account in determining the timing and duration of these periods?

(g) Are there certain provisions in unsecured loan agreements that SBA should be especially concerned about with respect to credit risk (e.g., remedies available to a lender such as specific performance or injunctive relief) and how should SBA deal with those provisions?

(h) What type of credit risk policies would be most effective in managing SBA's credit risk with respect to unsecured lines of credit?

2. *Determination of Equity Capital Investments (ECI) in the calculation of an SBIC's maximum allowable Capital Impairment Percentage (CIP)*. 13 CFR 107.1830(c) defines the maximum allowable CIP for a leveraged SBIC that is not an Early Stage SBIC. If an SBIC exceeds its maximum allowable CIP, it constitutes a condition of Capital Impairment, which is an event of default under the terms of its leverage. 13 CFR 107.1810(f)(5). An SBIC's maximum allowable CIP depends on two variables: (1) the percentage at cost of ECI in the SBIC's portfolio, and (2) the ratio of outstanding leverage to Leverageable Capital.

Under 13 CFR 107.50, ECI generally means investments in a small business in the form of common or preferred stock, limited partnership interests, options, warrants, or similar equity instruments, including subordinated debt with equity features if such debt provides only for interest payments contingent upon and limited to the extent of earnings. Further, Leverageable Capital means, as more fully described in 13 CFR 107.50, paid-in capital of an SBIC.

SBA's regulations permit a higher maximum allowable CIP when the percentage of ECI in an SBIC's portfolio is higher in recognition that equity-type investment strategies are inherently riskier and frequently require a longer holding period relative to debt investments before a successful exit can be achieved.

SBA has observed over the last few years that SBICs seeking to avoid Capital Impairment have converted non-ECI investments to ECI solely for the purpose of attaining an increase in maximum allowable CIP. For example, an SBIC can convert a loan into equity, which would cause the investment to then qualify as ECI. Depending on the circumstances of the SBIC, the converted security could cause the SBIC's maximum allowable CIP to increase and artificially forestall the SBIC from having a condition of Capital Impairment, which creates risk to taxpayers.

SBA has also observed the deteriorating performance of portfolio companies held in a particular SBIC can likewise result in an SBIC's maximum allowable CIP increasing. Using the example in the prior paragraph, the loan could have been converted to equity as a result of a distressed restructuring of the company. In either case, the increased ECI was not the result of the SBIC making an ECI investment from the outset, but instead converting non-ECI based on the impairment status of the SBIC or the deteriorated status of a small concern.

SBA aims to prevent conversions specifically and solely intended to artificially increase maximum allowable CIP, because such conversions result in the SBIC having a reduced collateral position in the portfolio company at a time when that collateral may be critical for SBA to obtain a recovery from the SBIC. However, in considering any policy changes to managing its credit risk with respect to ECI, SBA does not seek to create unnecessary burdens for SBICs who may convert an investment to ECI for business reasons unrelated to solely avoiding Capital Impairment (e.g., the exercise of conversion rights prior to a planned IPO). Accordingly, the Agency welcomes comments from the public on how to achieve this objective. Comments may be general in nature and/or answer the following questions:

(a) Other than the examples provided in this notice, what transactions or circumstances can result in an original non-ECI becoming qualified as an ECI?

(b) What specific factors should SBA consider in determining that investments are disqualified as ECI for the purposes of calculating an SBIC's maximum allowable CIP?

(c) Without creating an undue reporting burden on SBICs, how can SBA differentiate between investments converted for legitimate business reasons and those converted for other reasons, including solely to inflate total ECI in the SBIC's portfolio?

Authority: 15 U.S.C. 681.

Javier Saade,

Associate Administrator for Investment and Innovation.

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SMALL BUSINESS ADMINISTRATION

[Disaster Declaration #14334 and #14335]

Texas Disaster Number TX-00447

AGENCY: U.S. Small Business Administration.

ACTION: Amendment 4.

SUMMARY: This is an amendment of the Presidential declaration of a major disaster for the State of Texas (FEMA-4223-DR), dated 05/29/2015.

Incident: Severe Storms, Tornadoes, Straight-Line Winds and Flooding.

Incident Period: 05/04/2015 through 06/19/2015.

Effective Date: 06/24/2015.

Physical Loan Application Deadline Date: 07/28/2015.

EIDL Loan Application Deadline Date: 02/29/2016.

ADDRESSES: Submit completed loan applications to: U.S. Small Business Administration Processing and Disbursement Center, 14925 Kingsport Road, Fort Worth, TX 76155.

FOR FURTHER INFORMATION CONTACT: Alan Escobar, Office of Disaster Assistance, U.S. Small Business Administration, 409 3rd Street SW., Suite 6050, Washington, DC 20416.

SUPPLEMENTARY INFORMATION: The notice of the Presidential disaster declaration for the State of TEXAS, dated 05/29/2015 is hereby amended to include the following areas as adversely affected by the disaster:

Primary Counties: (Physical Damage and Economic Injury Loans): Fayette.

Contiguous Counties: (Economic Injury Loans Only):

Texas; Colorado; Lavaca; Washington.

All other information in the original declaration remains unchanged.

(Catalog of Federal Domestic Assistance Numbers 59002 and 59008)

James E. Rivera,

Associate Administrator for Disaster Assistance.

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