



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

Memorandum

Date: December 20, 2006

To: Participating Securities SBICs

From: Jaime Guzmán-Fournier
Associate Administrator for Investment

Subject: The basis for determining that an SBIC in Restricted Operations due to Capital Impairment has cured its Capital Impairment to "SBA's satisfaction"

The purpose of this memorandum is to describe the circumstances under which SBA will consider a Restricted Operations Condition due to a condition of Capital Impairment under Section 107.1820 (e)(3) of the Regulations cured to its satisfaction.

Upon the occurrence of a condition of Capital Impairment under Section 107.1820(e)(3) of the Regulations, SBA grants the licensee not less than fifteen days to cure the condition of Capital Impairment before placing the licensee into Restricted Operations and exercising the remedies available to SBA under 107.1820(f) of the Regulations. Section 107.1820(f) makes clear that a licensee is subject to the Restricted Operations remedies "Upon the occurrence of any Restricted Operations Condition, and until such condition(s) are cured to SBA's satisfaction within a time period determined by SBA ..."

Subject to SBA's written approval, a Restricted Operations Condition due to a condition of Capital Impairment can be cured to SBA's satisfaction if the licensee demonstrates that it has been below its maximum allowable impairment percentage for two full calendar quarters, as evidenced by the SBA Form 468 for each of those quarters; provided that neither the licensee nor SBA is aware of any facts or circumstances that could materially adversely affect the impairment percentage in the future.

If you have questions or concerns pertaining to this memorandum, please contact your SBA financial analyst.