

Commerce Street Capital, LLC

Small Business Investment Company Program



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Small Business Investment Company (SBIC) Program

- Public-private partnership started in 1958 as a job creation program focused on providing growth capital to U.S. small businesses.
- Provided more than \$60 billion in debt and equity to 107,000 U.S. small businesses.
 - Callaway Golf, Costco, Federal Express, Whole Foods and many others received funding from SBICs.
- Small businesses are defined as tangible net worth of less than \$18 million and average of \$6 million in net income over two prior years or based on number of employees.
 - Cannot invest in project finance, real estate, financial intermediaries or sectors deemed contrary to public interest.
- Program is administered by Small Business Administration's Investment Division.
 - Licensing process includes FBI background checks, due diligence, interviews with the SBA and business plan.

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Small Business Investment Company (SBIC) Program

- Types of funds (299 licenses at end of FY 2011):
 - Debtenture
 - Unlevered – usually bank-owned
 - Impact Investing – new program
 - Early Stage – new program
 - Participating Securities (ended in 2008)
- Capital used for growth, expansion, acquisition and refinancing.
- In 2011, 26% of funds that applied were women or minority managed.

SBIC Investment Authority

- National banks and federal savings associations (FSA) may invest up to 5% of capital and surplus in SBICs (15 USC § 682(b)).
- SBICs are eligible public welfare investments
 - Public welfare authority for national banks (12 CFR 24)
 - *De minimus* public welfare investment authority for FSAs (12 CFR 160.36)
- FSAs also authorized to invest in service corporations engaged in a broad range of preapproved activities, including SBICs (12 CFR 159)

Source: OCC's presentation *SBICs: An Investment Option for Banks* 2/15/12, slide 69 of presentation made by Barry Wides.

SBIC Investments Under CRA

- SBIC investments are qualified community development investments under CRA
 - Section 12(i)(4) of the Interagency Questions and Answers
- Assessment Area Issues—
 - CRA consideration is available if the SBIC plans to invest in a broader statewide or regional area that includes the institution's assessment area.
 - Assessment area(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 assessment area.
- Dollar amount, innovativeness, complexity, and responsiveness are taken into consideration when evaluating an institution's investment in SBICs.
- Consideration Methods:
 - Firm information in fund's prospectus
 - Best efforts by fund manager
 - Specific earmarks in assessment areas

Source: OCC's presentation *SBICs: An Investment Option for Banks* 2/15/12, slide 71 of presentation made by Barry Wides.

Evaluating an SBIC as an Investment

- Target market
 - Does the fund include the bank's assessment areas in its target market? Is there an opportunity to provide banking services to portfolio companies?
- Management
 - Who is on the Investment Committee? How long have they worked together? How much is team investing personally?
- Track record
 - Is performance acceptable for risk? Can they replicate the returns?
- Process
 - How are investment opportunities sourced? What is the process for investment decisions?
- Monitoring
 - Is the fund staffed to deal with problems? How have they handled investments that did not perform? What type of reporting can investors expect?
- Legal
 - Understand terms of fund. Review Private Placement Memorandum, Limited Partnership Agreement, Subscription Agreement and past audits.

Firm's Expertise

Commerce Street Capital is a premier advisory and asset management firm serving and investing in financial services companies across the United States. The firm has three primary business lines:



Investment Banking

Commerce Street Capital works primarily with small to medium size financial institutions in developing, analyzing and executing both strategic and capital markets transactions.



Fund Management

A natural extension of our expertise in banking and financial institutions, our private equity and private investment funds invest in bank and bank-related assets.



Bank Capital

Commerce Street Capital is a national leader in advising and assisting in raising capital for financial institutions. During the last 20 years, the Firm's principals have raised over \$1.4 billion for 133 institutions.

Firm's SBIC Experience

Capital Southwest Corporation (Dallas, TX)

- One of the oldest SBICs in the country (1961) which was funded by community banks
- Jim Gardner served as Director.

M-Venture (Dallas, TX)

- Bank-owned SBIC (M Bank) that later became Bank One Mezzanine
- Jim Gardner served as Director.

Independent Bankers Capital Fund (Dallas, TX)

- Leveraged SBIC with 43 community bank LPs for \$23.1 million in private capital
- Jim Gardner served as Director.
- SAMCO (CSC's predecessor) was placement agent.

Aldine Capital Fund (Chicago, IL)

- Leveraged SBIC that engaged Performance Trust Capital Partners, LLC as placement agent.
- Eric Rosiak helped raise capital from 11 community banks.

Valesco Commerce Street Capital (Dallas, TX)

- Unlevered SBIC with 53 community bank LPs for \$68.85 million in private capital
- Jim Gardner and Bobby Hashaway serve as Directors.
- Eric Rosiak lead capital raise targeting community banks and high net worth individuals.

Case Study – Valesco Commerce Street Capital, LP

- Partnered with fundless sponsor group to raise \$68.85 million in private capital for an unlevered SBIC targeting community banks in South-Central U.S.
- CSC assisted with fund formation, developed marketing materials and strategy and navigated regulatory environment.
 - Licensing
 - PPM, presentation, and executive summary
 - CRA guidance and conversations with regulators
- Direct contact with over 400 community banks through call campaigns and visits resulting in commitments from 53 community banks.
- Leveraged relationships through CSC’s Investment Banking and Bank Capital groups.
- Jim Gardner (Chairman) and Bobby Hashaway serve on the Board of Directors.

Commerce Street Capital

ERIC ROSIAK
Managing Director

Mr. Rosiak is a Managing Director on the Fund Management team. Prior to Commerce Street Capital, LLC, he held positions with Performance Trust Capital Partners, LLC, Ocean Tomo, LLC and Bank of America Corporation. Mr. Rosiak:

- Raised capital for Aldine Capital Fund, a leveraged SBIC with \$108 mm AUM, from 11 financial institutions and Valesco Commerce Street Capital, an unlevered SBIC with \$68.85 mm AUM, from 53 financial institutions.
- Analyzed financial institutions to source M&A opportunities, including three completed transactions totaling over \$116 mm, performed due diligence and created fairness opinions.
- Participated in the placement of trust preferred securities for five financial institutions totaling over \$111 mm.
- Received a BS degree in Accountancy and a MS degree in Accounting from the University of Illinois at Urbana-Champaign.
- Member of Class 54 for the Southwestern Graduate School of Banking at Southern Methodist University.
- Licensed as a Certified Public Accountant and holds multiple securities licenses.
