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SBA AMENDMENTS OF 1962

GOVERNMENT

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HEARING
 BEFORE A
 SUBCOMMITTEE OF THE
 COMMITTEE ON BANKING AND CURRENCY
 UNITED STATES SENATE
 EIGHTY-SEVENTH CONGRESS
 SECOND SESSION
 ON
S. 2970
 A BILL TO AMEND THE SMALL BUSINESS ACT



APRIL 12, 1962

Printed for the use of the
Committee on Banking and Currency



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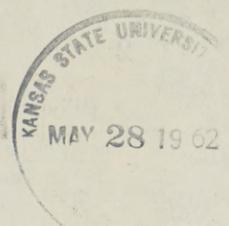
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CONTENTS

	Page
S. 2970-----	2
Statement of—	
Horne, John E., Administrator; accompanied by Keith L. Hanna, Assistant Administrator (Controller); Logan Hendricks, Acting Deputy Administrator (Financial Assistance); Jerome S. Plapinger, Deputy General Counsel; and Lawrence S. Casazza, Acting Deputy Administrator (Investment Division), Small Business Adminis- tration-----	9
Letters, statements, etc., submitted for the record by—	
American Bankers Association: Letter on S. 2970-----	48
Chamber of Commerce of the United States: Letter on S. 2970-----	47
General Accounting Office: Report on S. 2970-----	7
Kennedy, John F., President of the United States: Letter sub- mitting proposed legislation-----	4
Small Business Administration:	
Analysis of proposed legislation-----	5
Report on S. 2970-----	8
Interest payments to Treasury compared with interest computed under S. 2970-----	37
Letter on authorization needs and exhibits-----	39
Treasury Department: Report on S. 2970-----	6

CONTENTS

1	Introduction	1
2	Chapter I	10
3	Chapter II	25
4	Chapter III	40
5	Chapter IV	55
6	Chapter V	70
7	Chapter VI	85
8	Chapter VII	100
9	Chapter VIII	115
10	Chapter IX	130
11	Chapter X	145
12	Chapter XI	160
13	Chapter XII	175
14	Chapter XIII	190
15	Chapter XIV	205
16	Chapter XV	220
17	Chapter XVI	235
18	Chapter XVII	250
19	Chapter XVIII	265
20	Chapter XIX	280
21	Chapter XX	295
22	Chapter XXI	310
23	Chapter XXII	325
24	Chapter XXIII	340
25	Chapter XXIV	355
26	Chapter XXV	370
27	Chapter XXVI	385
28	Chapter XXVII	400
29	Chapter XXVIII	415
30	Chapter XXIX	430
31	Chapter XXX	445
32	Chapter XXXI	460
33	Chapter XXXII	475
34	Chapter XXXIII	490
35	Chapter XXXIV	505
36	Chapter XXXV	520
37	Chapter XXXVI	535
38	Chapter XXXVII	550
39	Chapter XXXVIII	565
40	Chapter XXXIX	580
41	Chapter XL	595
42	Chapter XLI	610
43	Chapter XLII	625
44	Chapter XLIII	640
45	Chapter XLIV	655
46	Chapter XLV	670
47	Chapter XLVI	685
48	Chapter XLVII	700
49	Chapter XLVIII	715
50	Chapter XLIX	730
51	Chapter L	745
52	Chapter LI	760
53	Chapter LII	775
54	Chapter LIII	790
55	Chapter LIV	805
56	Chapter LV	820
57	Chapter LVI	835
58	Chapter LVII	850
59	Chapter LVIII	865
60	Chapter LIX	880
61	Chapter LX	895
62	Chapter LXI	910
63	Chapter LXII	925
64	Chapter LXIII	940
65	Chapter LXIV	955
66	Chapter LXV	970
67	Chapter LXVI	985
68	Chapter LXVII	1000
69	Chapter LXVIII	1015
70	Chapter LXIX	1030
71	Chapter LXX	1045
72	Chapter LXXI	1060
73	Chapter LXXII	1075
74	Chapter LXXIII	1090
75	Chapter LXXIV	1105
76	Chapter LXXV	1120
77	Chapter LXXVI	1135
78	Chapter LXXVII	1150
79	Chapter LXXVIII	1165
80	Chapter LXXIX	1180
81	Chapter LXXX	1195
82	Chapter LXXXI	1210
83	Chapter LXXXII	1225
84	Chapter LXXXIII	1240
85	Chapter LXXXIV	1255
86	Chapter LXXXV	1270
87	Chapter LXXXVI	1285
88	Chapter LXXXVII	1300
89	Chapter LXXXVIII	1315
90	Chapter LXXXIX	1330
91	Chapter LXXXX	1345
92	Chapter LXXXXI	1360
93	Chapter LXXXXII	1375
94	Chapter LXXXXIII	1390
95	Chapter LXXXXIV	1405
96	Chapter LXXXXV	1420
97	Chapter LXXXXVI	1435
98	Chapter LXXXXVII	1450
99	Chapter LXXXXVIII	1465
100	Chapter LXXXXIX	1480
101	Chapter LXXXXX	1495
102	Chapter LXXXXXI	1510
103	Chapter LXXXXXII	1525
104	Chapter LXXXXXIII	1540
105	Chapter LXXXXXIV	1555
106	Chapter LXXXXXV	1570
107	Chapter LXXXXXVI	1585
108	Chapter LXXXXXVII	1600
109	Chapter LXXXXXVIII	1615
110	Chapter LXXXXXIX	1630
111	Chapter LXXXXXX	1645
112	Chapter LXXXXXXI	1660
113	Chapter LXXXXXXII	1675
114	Chapter LXXXXXXIII	1690
115	Chapter LXXXXXXIV	1705
116	Chapter LXXXXXXV	1720
117	Chapter LXXXXXXVI	1735
118	Chapter LXXXXXXVII	1750
119	Chapter LXXXXXXVIII	1765
120	Chapter LXXXXXXIX	1780
121	Chapter LXXXXXXX	1795
122	Chapter LXXXXXXXI	1810
123	Chapter LXXXXXXXII	1825
124	Chapter LXXXXXXXIII	1840
125	Chapter LXXXXXXXIV	1855
126	Chapter LXXXXXXXV	1870
127	Chapter LXXXXXXXVI	1885
128	Chapter LXXXXXXXVII	1900
129	Chapter LXXXXXXXVIII	1915
130	Chapter LXXXXXXXIX	1930
131	Chapter LXXXXXXXX	1945
132	Chapter LXXXXXXXXI	1960
133	Chapter LXXXXXXXII	1975
134	Chapter LXXXXXXXIII	1990
135	Chapter LXXXXXXXIV	2005
136	Chapter LXXXXXXXV	2020
137	Chapter LXXXXXXXVI	2035
138	Chapter LXXXXXXXVII	2050
139	Chapter LXXXXXXXVIII	2065
140	Chapter LXXXXXXXIX	2080
141	Chapter LXXXXXXXX	2095
142	Chapter LXXXXXXXXI	2110
143	Chapter LXXXXXXXII	2125
144	Chapter LXXXXXXXIII	2140
145	Chapter LXXXXXXXIV	2155
146	Chapter LXXXXXXXV	2170
147	Chapter LXXXXXXXVI	2185
148	Chapter LXXXXXXXVII	2200
149	Chapter LXXXXXXXVIII	2215
150	Chapter LXXXXXXXIX	2230
151	Chapter LXXXXXXXX	2245
152	Chapter LXXXXXXXXI	2260
153	Chapter LXXXXXXXII	2275
154	Chapter LXXXXXXXIII	2290
155	Chapter LXXXXXXXIV	2305
156	Chapter LXXXXXXXV	2320
157	Chapter LXXXXXXXVI	2335
158	Chapter LXXXXXXXVII	2350
159	Chapter LXXXXXXXVIII	2365
160	Chapter LXXXXXXXIX	2380
161	Chapter LXXXXXXXX	2395
162	Chapter LXXXXXXXXI	2410
163	Chapter LXXXXXXXII	2425
164	Chapter LXXXXXXXIII	2440
165	Chapter LXXXXXXXIV	2455
166	Chapter LXXXXXXXV	2470
167	Chapter LXXXXXXXVI	2485
168	Chapter LXXXXXXXVII	2500
169	Chapter LXXXXXXXVIII	2515
170	Chapter LXXXXXXXIX	2530
171	Chapter LXXXXXXXX	2545
172	Chapter LXXXXXXXXI	2560
173	Chapter LXXXXXXXII	2575
174	Chapter LXXXXXXXIII	2590
175	Chapter LXXXXXXXIV	2605
176	Chapter LXXXXXXXV	2620
177	Chapter LXXXXXXXVI	2635
178	Chapter LXXXXXXXVII	2650
179	Chapter LXXXXXXXVIII	2665
180	Chapter LXXXXXXXIX	2680
181	Chapter LXXXXXXXX	2695
182	Chapter LXXXXXXXXI	2710
183	Chapter LXXXXXXXII	2725
184	Chapter LXXXXXXXIII	2740
185	Chapter LXXXXXXXIV	2755
186	Chapter LXXXXXXXV	2770
187	Chapter LXXXXXXXVI	2785
188	Chapter LXXXXXXXVII	2800
189	Chapter LXXXXXXXVIII	2815
190	Chapter LXXXXXXXIX	2830
191	Chapter LXXXXXXXX	2845
192	Chapter LXXXXXXXXI	2860
193	Chapter LXXXXXXXII	2875
194	Chapter LXXXXXXXIII	2890
195	Chapter LXXXXXXXIV	2905
196	Chapter LXXXXXXXV	2920
197	Chapter LXXXXXXXVI	2935
198	Chapter LXXXXXXXVII	2950
199	Chapter LXXXXXXXVIII	2965
200	Chapter LXXXXXXXIX	2980
201	Chapter LXXXXXXXX	2995
202	Chapter LXXXXXXXXI	3010
203	Chapter LXXXXXXXII	3025
204	Chapter LXXXXXXXIII	3040
205	Chapter LXXXXXXXIV	3055
206	Chapter LXXXXXXXV	3070
207	Chapter LXXXXXXXVI	3085
208	Chapter LXXXXXXXVII	3100
209	Chapter LXXXXXXXVIII	3115
210	Chapter LXXXXXXXIX	3130
211	Chapter LXXXXXXXX	3145
212	Chapter LXXXXXXXXI	3160
213	Chapter LXXXXXXXII	3175
214	Chapter LXXXXXXXIII	3190
215	Chapter LXXXXXXXIV	3205
216	Chapter LXXXXXXXV	3220
217	Chapter LXXXXXXXVI	3235
218	Chapter LXXXXXXXVII	3250
219	Chapter LXXXXXXXVIII	3265
220	Chapter LXXXXXXXIX	3280
221	Chapter LXXXXXXXX	3295
222	Chapter LXXXXXXXXI	3310
223	Chapter LXXXXXXXII	3325
224	Chapter LXXXXXXXIII	3340
225	Chapter LXXXXXXXIV	3355
226	Chapter LXXXXXXXV	3370
227	Chapter LXXXXXXXVI	3385
228	Chapter LXXXXXXXVII	3400
229	Chapter LXXXXXXXVIII	3415
230	Chapter LXXXXXXXIX	3430
231	Chapter LXXXXXXXX	3445
232	Chapter LXXXXXXXXI	3460
233	Chapter LXXXXXXXII	3475
234	Chapter LXXXXXXXIII	3490
235	Chapter LXXXXXXXIV	3505
236	Chapter LXXXXXXXV	3520
237	Chapter LXXXXXXXVI	3535
238	Chapter LXXXXXXXVII	3550
239	Chapter LXXXXXXXVIII	3565
240	Chapter LXXXXXXXIX	3580
241	Chapter LXXXXXXXX	3595
242	Chapter LXXXXXXXXI	3610
243	Chapter LXXXXXXXII	3625
244	Chapter LXXXXXXXIII	3640
245	Chapter LXXXXXXXIV	3655
246	Chapter LXXXXXXXV	3670
247	Chapter LXXXXXXXVI	3685
248	Chapter LXXXXXXXVII	3700
249	Chapter LXXXXXXXVIII	3715
250	Chapter LXXXXXXXIX	3730
251	Chapter LXXXXXXXX	3745
252	Chapter LXXXXXXXXI	3760
253	Chapter LXXXXXXXII	3775
254	Chapter LXXXXXXXIII	3790
255	Chapter LXXXXXXXIV	3805
256	Chapter LXXXXXXXV	3820
257	Chapter LXXXXXXXVI	3835
258	Chapter LXXXXXXXVII	3850
259	Chapter LXXXXXXXVIII	3865
260	Chapter LXXXXXXXIX	3880
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266	Chapter LXXXXXXXV	3970
267	Chapter LXXXXXXXVI	3985
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279	Chapter LXXXXXXXVIII	4165
280	Chapter LXXXXXXXIX	4180
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284	Chapter LXXXXXXXIII	4240
285	Chapter LXXXXXXXIV	4255
286	Chapter LXXXXXXXV	4270
287	Chapter LXXXXXXXVI	4285
288	Chapter LXXXXXXXVII	4300
289	Chapter LXXXXXXXVIII	4315
290	Chapter LXXXXXXXIX	4330
291	Chapter LXXXXXXXX	4345
292	Chapter LXXXXXXXXI	4360
293	Chapter LXXXXXXXII	4375
294	Chapter LXXXXXXXIII	4390
295	Chapter LXXXXXXXIV	4405
296	Chapter LXXXXXXXV	4420
297	Chapter LXXXXXXXVI	4435
298	Chapter LXXXXXXXVII	4450
299	Chapter LXXXXXXXVIII	4465
300	Chapter LXXXXXXXIX	4480
301	Chapter LXXXXXXXX	4495
302	Chapter LXXXXXXXXI	4510
303	Chapter LXXXXXXXII	4525
304	Chapter LXXXXXXXIII	4540
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307	Chapter LXXXXXXXVI	4585
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309	Chapter LXXXXXXXVIII	4615
310	Chapter LXXXXXXXIX	4630
311	Chapter LXXXXXXXX	4645
312	Chapter LXXXXXXXXI	4660
313	Chapter LXXXXXXXII	4675
314	Chapter LXXXXXXXIII	4690
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316	Chapter LXXXXXXXV	4720
317	Chapter LXXXXXXXVI	4735
318	Chapter LXXXXXXXVII	4750
319	Chapter LXXXXXXXVIII	4765
320	Chapter LXXXXXXXIX	4780
321	Chapter LXXXXXXXX	4795
322	Chapter LXXXXXXXXI	4810
323	Chapter LXXXXXXXII	4825
324	Chapter LXXXXXXXIII	4840
325	Chapter LXXXXXXXIV	4855
326	Chapter LXXXXXXXV	4870
327	Chapter LXXXXXXXVI	4885
328	Chapter LXXXXXXXVII	4900
329	Chapter LXXXXXXXVIII	4915
330	Chapter LXXXXXXXIX	4930
331	Chapter LXXXXXXXX	4945
332	Chapter LXXXXXXXXI	4960
333	Chapter LXXXXXXXII	4975
334	Chapter LXXXXXXXIII	4990
335	Chapter LXXXXXXXIV	5005
336	Chapter LXXXXXXXV	5020
337	Chapter LXXXXXXXVI	5035
338	Chapter LXXXXXXXVII	5050
339	Chapter LXXXXXXXVIII	5065
340	Chapter LXXXXXXXIX	5080
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342	Chapter LXXXXXXXXI	5110
343	Chapter LXXXXXXXII	5125
344	Chapter LXXXXXXXIII	5140
345	Chapter LXXXXXXXIV	5155
346	Chapter LXXXXXXXV	5170
347	Chapter LXXXXXXXVI	5185
348	Chapter LXXXXXXXVII	5200
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350	Chapter LXXXXXXXIX	5230
351	Chapter LXXXXXXXX	5245
352	Chapter LXXXXXXXXI	5260
353	Chapter LXXXXXXXII	5275
354	Chapter LXXXXXXXIII	5290
355	Chapter LXXXXXXXIV	5305
356	Chapter LXXXXXXXV	5320
357	Chapter LXXXXXXXVI	5335
358	Chapter LXXXXXXXVII	5350
359	Chapter LXXXXXXXVIII	5365
360	Chapter LXXXXXXXIX	5380
361	Chapter LXXXXXXXX	5395
362	Chapter LXXXXXXXXI	5410
363	Chapter LXXXXXXXII	5425
364	Chapter LXXXXXXXIII	5440
365	Chapter LXXXXXXXIV	5455
366	Chapter LXXXXXXXV	5470
367	Chapter LXXXXXXXVI	5485
368	Chapter LXXXXXXXVII	5500
369	Chapter LXXXXXXXVIII	5515
370	Chapter LXXXXXXXIX	5530
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375	Chapter LXXXXXXXIV	5605
376	Chapter LXXXXXXXV	5620
377	Chapter LXXXXXXXVI	5635
378	Chapter LXXXXXXXVII	5650
379	Chapter LXXXXXXXVIII	5665
380	Chapter LXXXXXXXIX	5680
381	Chapter LXXXXXXXX	5695
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384	Chapter LXXXXXXXIII	5740
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387	Chapter LXXXXXXXVI	5785
388	Chapter LXXXXXXXVII	5800
389	Chapter LXXXXXXXVIII	5815
390	Chapter LXXXXXXXIX	5830
391	Chapter LXXXXXXXX	5845
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407	Chapter LXXXXXXXVI	6085
408	Chapter LXXXXXXXVII	6100
409	Chapter LXXXXXXXVIII	6115
410	Chapter LXXXXXXXIX	



SMALL BUSINESS ACT AMENDMENTS OF 1962

THURSDAY, APRIL 12, 1962

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
SUBCOMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The subcommittee met, pursuant to call of the chairman, in room 5302, New Senate Office Building, at 10:12 a.m., Senator William Proxmire, chairman of the subcommittee, presiding.

Present: Senators Proxmire, Sparkman, and Javits.

Senator PROXMIRE. The Small Business Subcommittee of the Banking and Currency Committee will come to order.

Today the Subcommittee on Small Business is holding hearings on S. 2970, a bill to amend the Small Business Act.

This is an administration-sponsored bill designed to amend section 4(c) of the Small Business Act in two ways. First, it would remove the dollar ceilings on the total amount authorized to be appropriated to the revolving fund and on the amounts which may be used by SBA for its various lending programs, i.e., regular business loans, disaster loans, and its program under the Small Business Investment Act of 1958.

Secondly, it would change the method by which the Treasury computes the interest rate that SBA pays to the Treasury for its disbursements from the revolving fund.

Without objection, I will insert a copy of the bill in the record, together with a copy of the letter from the President transmitting the bill to the President of the Senate, a copy of an analysis of the bill furnished by the Small Business Administration, and copies of letters from interested agencies, including the Comptroller General, commenting on the bill and a reply to the views of the Comptroller General by the Small Business Administration.

(The material referred to follows:)

87TH CONGRESS
2D SESSION

S. 2970

IN THE SENATE OF THE UNITED STATES

MARCH 12, 1962

Mr. ROBERTSON (for himself and Mr. SPARKMAN) (by request) introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

A BILL

To amend the Small Business Act.

- 1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That section 4 of the Small Business Act, approved July 18,
4 1958 (72 Stat. 384), as amended, is amended by striking
5 out subsection (c) and inserting in lieu thereof the following:
6 “(c) There is hereby established in the Treasury a
7 revolving fund, referred to in this section as ‘the fund’,
8 for the Administration’s use in financing the functions
9 performed under sections 7 (a), 7 (b), and 8 (a) and under
10 the Small Business Investment Act of 1958, as amended,
11 including the payment of administrative expenses in connec-

2

1 tion with such functions. All repayments of loans and de-
2 bentures, payments of interest, and other receipts arising out
3 of transactions financed from the fund shall be paid into the
4 fund. As capital thereof, appropriations are hereby author-
5 ized to be made to the fund, which appropriations shall re-
6 main available until expended. The Administration shall
7 pay into miscellaneous receipts of the Treasury, following
8 the close of each fiscal year, interest on the outstanding
9 cash disbursements from the fund, at rates determined by
10 the Secretary of the Treasury, taking into consideration the
11 current average yields on outstanding interest-bearing mar-
12 ketable public debt obligations of the United States of com-
13 parable maturities as calculated for the month of June
14 preceding such fiscal year.”

Following is the text of a letter from the President to the President of the Senate and the Speaker of the House of Representatives.

THE WHITE HOUSE

MARCH 5, 1962.

Hon. LYNDON B. JOHNSON,
President of the Senate,
Washington, D.C.

Hon. JOHN W. MCCORMACK,
Speaker of the House of Representatives,
Washington, D. C.

DEAR MR. PRESIDENT AND MR. SPEAKER: I am transmitting herewith for appropriate reference a bill to amend section 4(c) of the Small Business Act, as amended. This section deals with the revolving fund of the Small Business Administration, out of which are financed that agency's programs of financial assistance to the small business community.

This bill would place the fund on a more permanent basis and eliminate unnecessary duplication, by removing the statutory limitation on authorizations to appropriate to the fund and the separate limitations on the amounts of appropriated funds which may be utilized for each of the Small Business Administration's financial assistance programs. Utilization of funds for these programs would of course continue to be controlled by the Congress through the normal appropriation process, and the House and Senate Appropriations, Banking and Currency, and Small Business Committees would continue to exercise the same degree of cognizance as they do now regarding the operations of the Small Business Administration.

By making the Small Business Administration a permanent agency of the Government in 1958, the Congress wisely recognized the important role that this agency has played in assisting the small business sector of our economy, which comprises by far the greatest number of businesses in the United States and plays a key part in the economic life of our Nation. Under the current administration, that agency has vigorously expanded its assistance to the small business community by increasing significantly the number of small businesses assisted by its programs of business loans, loans to small business investment companies, and State and local development companies, procurement and technical assistance, and management assistance.

It is now time to remove the unnecessary statutory limitation on appropriations and on usage of appropriated funds which has resulted in uncertainty regarding the future of these programs and necessitated a double congressional review of funds.

In no respect would the proposed amendment diminish the controls which the Congress presently exercises over the size and character of the programs administered by the Small Business Administration, pursuant to the Small Business Act and the Small Business Investment Act of 1958. These two statutes and the operations of the agency are under frequent study in Congress. Since 1953, when the agency was established, amendments have been made to either or both of basic statutes in every year except two. Indeed, each has undergone numerous and substantial revisions. There is no reason to expect that this legislative activity with its attendant scrutiny of the agency's operations by the Banking and Currency Committees will diminish.

Moreover, the progress of the Small Business Administration in discharging its statutory duties is under the continuing observation of the Senate and House Small Business Committees. At least once a year each of these committees holds hearings at which the Administrator of the Small Business Administration testifies in detail concerning the operations of his agency. The resulting reports issued by the committees contain thorough reviews of the agency's programs and evaluations of its success in conducting them.

Finally, in the course of the budgetary process, the agency's activities are reviewed annually by the Appropriations Committees and the Congress to determine the amount of additional capital for the revolving fund which the agency will require to carry out its financial assistance programs.

However, the necessity for obtaining statutory authorization for additional appropriations virtually every year before Congress can appropriate funds in the regular appropriation act creates unnecessary duplication and confusion. During the last session of the Congress four separate statutes provided increased

authorizations to appropriate to the SBA revolving fund, in addition to the actual appropriations themselves contained in the regular appropriation act and a supplemental appropriation act. Sound budgetary procedures argue against this type of duplication and repetitive review over an agency which the Congress has declared to be a permanent one and over programs which serve such an important purpose in assisting our small business community.

The proposed legislation would also simplify the method of computing the interest payable from the revolving fund to the Treasury, and would effect a number of clarifications in the language of the act. A detailed analysis of the bill is attached.

It is my hope that the Congress will consider this proposal promptly and that the bill will be enacted into law.

Sincerely,

JOHN F. KENNEDY.

SMALL BUSINESS ADMINISTRATION

ANALYSIS OF THE BILL

The bill would amend section 4(c) of the Small Business Act, hereinafter referred to as the act, in two substantive respects. First, it would remove the dollar ceiling now limiting the total amount authorized to be appropriated to the fund and the respective dollar ceilings limiting the amount of such total which may be used by SBA for each of its financial assistance programs. Second, it would simplify the method of computing the interest which SBA pays into miscellaneous receipts of the Treasury, following the close of each fiscal year, on the outstanding cash disbursements from the revolving fund. In addition to these substantive amendments, the bill proposes a number of clarifications in the language of the section.

In connection with the first of the two substantive amendments it is to be noted that, in its present form, section 4(c) of the act limits the total amount of appropriations to the fund to \$1,200 million. The section further provides, in substance, that no more than \$725 million of this total can be used for the purposes of the business loan and prime contracts programs; that no more than \$150 million of such total can be used for the purposes of the disaster loan programs, including loans to small business concerns displaced by construction projects conducted by or with funds of the Federal Government; and that no more than \$325 million can be used for the purposes of the Small Business Investment Act of 1958, including the furnishing of financial assistance to small business investment companies and to State and local development companies.

The 1963 budget submitted to the Congress contemplates the elimination of these dollar ceilings. This budget program estimates \$80 million in additional appropriation for 1962 and \$300 million for 1963, which together with previous appropriations are \$100 million above the limitation of \$1,200 million now in the statute. The budget also estimates that the amount of business loans and reservations outstanding as of June 30, 1962, will be \$10 million in excess of the present \$725 million limitation on such loans. A further increase of \$200 million will be required for the fiscal year 1963. Equally clear is the necessity of removing the \$325 million limitation on activities under the Small Business Investment Act of 1958, since requirements for the fiscal year 1963 will be \$15.2 million in excess of this amount.

This bill, by removing the ceiling on appropriations and on program usage, would eliminate the necessity for amending the Small Business Act almost every time additional appropriations are required or program usage exceeds the statutory ceilings.

The desirability of the second substantive amendment effected by the bill can best be explained by a brief description of the manner in which the following provisions of section 4(c) of the act have been administered:

"Advances shall be made to the administration from the revolving fund when requested by the administration * * *. The administration shall pay into miscellaneous receipts of the Treasury, at the close of each fiscal year, interest on the net amount of the cash disbursements from such advances at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate of outstanding interest-bearing marketable public debt obligations of the United States of comparable maturities."

The evident purpose of these provisions is to tie the interest rate paid by SBA, on moneys disbursed by it, as closely as possible to the cost of these same funds to the Government. However, prior to July 1, 1960, the Secretary of the Treasury applied the current interest rate, yielded by the statutory formula, not only to disbursements made by SBA during the current year but also to funds disbursed in earlier years when the cost of money to the Government may have been substantially higher or lower. For example, SBA was required during the fiscal year 1960 to pay 4% percent on funds disbursed in the fiscal year 1959 when the applicable rate was only 2% percent.

In an effort to correct the situation, the Department of the Treasury, at the request of SBA, inaugurated a method of computing the rate each year on a weighted average basis, taking into consideration the rates in effect during prior years. Although this system has effected a substantial improvement, its value is limited by the mathematical complexities involved. Because of them, it was not until November 1961 that SBA could furnish the Department with the program data essential to a determination of the rate for the fiscal year 1962.

The bill would overcome the basic difficulty by eliminating the existing requirement of the statute that the Secretary compute each year a single rate applicable to all outstanding cash disbursements made by SBA. Instead of following this method the Secretary would, in June of each year, set the rate to be applied to all disbursements made during the succeeding fiscal year. This rate would remain applicable to such disbursements, regardless of any subsequent fluctuations in the borrowing costs of the Government, until the money is returned to the Treasury. Current collections would be applied in reduction of the oldest outstanding disbursements from the fund.

The proposed system of multiple rates promises to provide a more efficient method of computing interest charges which reflect the cost to the Government of moneys utilized by SBA. Moreover, the simplicity of the system would facilitate SBA's accounting and reporting operations.

As already indicated the bill would effect changes in section 4(c) of the act, in addition to the two amendments discussed above, which are not substantive in nature. Their purpose is merely to bring the provisions of the section into closer accord with the evident intent of Congress in enacting it and to eliminate language which does not reflect existing practice. In its present form, the section does not expressly provide for the establishment in the Treasury of a revolving fund for the use of SBA. Also absent from the section are express provisions that loan repayments and other receipts are to be paid into the fund and that appropriations made to the fund are to remain available until expended.

Such authority is, to be sure, so clearly implied in the terms of the section that an amendment for the sole purpose of spelling it out would not be appropriate. However, it is believed desirable, in connection with the proposed revision of the section for substantive reasons, to insert the described provisions. This would be accomplished by the bill. The bill would also emphasize that appropriations made to the fund constitute "capital" thereof.

Since only one account is required to be maintained in the Treasury, the bill would strike from the section all references to "advances" to SBA from the revolving fund. Finally, the bill contemplates that the interest payments of SBA are to be made "following" instead of "at" the close of each fiscal year. The purpose of this is to make allowance for the time which necessarily elapses before the amount due can be computed.

TREASURY DEPARTMENT,
Washington, April 6, 1962.

Hon. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on S. 2970, to amend the Small Business Act.

The bill would amend section 4(c) of the Small Business Act to (1) remove the dollar ceiling on the revolving fund established by the section; and (2) revise the method of computing the interest which the Small Business Administration pays to the Treasury on cash disbursements from the fund.

The proposed legislation was transmitted to the Senate by the President and the Department favors the enactment of the bill. As to the interest rate provisions of the bill, the Department collaborated in their preparation and there

follows an explanation of those provisions and how they would operate if the bill were enacted into law.

Under the proposed legislation, the Secretary of the Treasury would determine interest rates applicable to outstanding cash disbursements from the fund each fiscal year by taking into consideration the average yields on outstanding interest-bearing marketable public debt obligations of maturities comparable to those of the loans made by the Small Business Administration under its various programs. The rate would be calculated on the basis of yields prevailing in the month of June preceding the fiscal year. This method of determining interest rates is generally the same as that used in determining the interest rates to be charged on Treasury loans to Government agencies unless a different rate is specified by law. The proposed bill would thus make it possible to determine interest rates on a current yield basis on public debt obligations with maturities comparable to the maturities of loans made by the Small Business Administration, in lieu of the present procedure which is restrictive in that it provides for only a single interest rate which the Small Business Administration must apply to the disbursements made for all of its programs in reimbursing the Treasury.

The procedure would be for the Small Business Administration to advise the Treasury of the average maturity of the loans under each program it is administering. If the average maturities for all programs are approximately the same, only one rate of interest would be determined. If the average maturities are different for different loan programs, an interest rate would be determined for each program. The Treasury would advise the Small Business Administration of the appropriate interest rate or rates early in July of each year calculated on the basis of rates for the preceding month of June. Average market yield rates on public debt securities are calculated by the Treasury each month and furnishing such rates to the Small Business Administration would require no special effort. The interest rates furnished by the Treasury would be applied by the Small Business Administration to the amount of outstanding disbursements made for that fiscal year making future payments to the Treasury. The rates furnished each year would continue to apply to the disbursements for that year until full repayment of such disbursements is made to the Treasury. Interest rates previously determined for prior fiscal years, under the weighted average formula now in effect would continue to apply to the outstanding disbursements for those fiscal years until full repayment to the Treasury. For example, the rate for the fiscal year 1961 is 3½ percent and the rate for the fiscal year 1962 is 3¾ percent.

To summarize, separate interest rates instead of a single rate could be furnished by the Treasury to the Small Business Administration. Such rates would be more realistic in that they would be related to the maturities of the loans made under the various lending programs of the Small Business Administration and would thus reflect the cost of borrowing to the Treasury.

The Department has been advised by the Bureau of the Budget that there is no objection from the standpoint of the administration's program to the submission of this report to your committee.

Sincerely yours,

ROBERT H. KNIGHT, *General Counsel.*

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, March 20, 1962.

HON. A. WILLIS ROBERTSON,
*Chairman, Committee on Banking and Currency,
U.S. Senate.*

DEAR MR. CHAIRMAN: This is in response to your request of March 13, 1962, for a report on S. 2970, a bill to amend the Small Business Act.

The bill would amend section 4 of the Small Business Act, approved July 18, 1958, 72 Stat. 384, as amended, 15 United States Code 633, by substituting a new subsection (c) for the current provisions of that subsection relating to the financing of loans to small business concerns, disaster loans, procurement contracts and subcontracts to small business concerns, and function under the Small Business Investment Act of 1958. Subsection 4(c) of the 1958 act established a revolving fund and currently authorizes the Small Business Administration to obtain money from the Treasury of the United States for these purposes

not to exceed a total of \$1.2 billion outstanding at any one time. Limitations are also stated for the various purposes individually. The subsection authorizes not to exceed \$1.2 billion in appropriations to the revolving fund. The net effect of S. 2970, if enacted, would be the removal of these limitations. Other provisions of subsection 4(c) relating to use of funds for administrative expenses and the payment of interest by the Administration on net cash disbursements from advances from the Treasury are contained in substantially the same form.

While it is true that in the absence of the current limitations, the Congress will nevertheless retain overall control through the appropriation process of the amount of funds which will be available to the Small Business Administration for carrying out all of the functions involved, there would not be any assurance that these functions would be limited individually. In this connection it should be noted that there would not be any assurance that sufficient funds would be continually reserved to meet the emergency disaster loan purposes for which the fund is available. Moreover, neither the current legislation nor the proposed provisions of S. 2970 contain any requirement for subjecting the activities covered to periodic review by the Congress. In the absence of a request for additional funds by the Administration, there is no provision for assuring the continuing appraisal by the Congress of these programs. We have consistently taken the position that departures from the regular annual congressional reviews and affirmative action through the budgetary and appropriation processes constitute a lessening of congressional control which, in our opinion, should be permitted only on a clear showing that an activity cannot otherwise be successfully operated in the public interest.

We therefore recommend that the proposed legislation be revised to include provisions for what we consider to be minimum requirements for adequate congressional control. This could be accomplished by inserting the following or similar language before the period at line 6 on page 2 of the bill:

" : *Provided*, That amounts in the fund may be obligated for the purposes enumerated in sections 7(a), 7(b), and 8(a) and under the Small Business Investment Act of 1958, as amended, only when so provided in annual appropriation acts which are hereby authorized and within such limitations as may be included in annual appropriation acts."

Sincerely yours,

(S) JOSEPH CAMPBELL,
Comptroller General of the United States.

SMALL BUSINESS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C.

Hon. WILLIAM PROXMIRE,
U.S. Senate,
Washington, D.C.

DEAR SENATOR PROXMIRE: I have your letter of April 3, requesting my comments on the views expressed by the Comptroller General, in his letter of March 20, with respect to S. 2970.

The Comptroller General states that "neither the current legislation nor the proposed provisions of S. 2970 contains any requirement for subjecting the activities covered to periodic review by the Congress." He comments further that in the absence of a request for additional funds, there is no provision for assuring the continuing appraisal by the Congress. In drawing the latter conclusion, the Comptroller General overlooks the fact that the President, through the Bureau of the Budget, requires that all agencies having revolving funds submit business-type budgets annually and that such budgets are included in the annual budget submitted to the Congress. This furnishes the opportunity to the appropriation committees to review the planned operations of each such activity and to take such action as it considers necessary. Furthermore, these submissions are required irrespective of whether additional appropriations are requested.

There is another aspect with respect to SBA's annual budget which, apparently, was not considered. The procurement and technical assistance and the management and research assistance programs are financed by a direct appropriation which requires an annual submission. Further, the administrative expenses for the financial assistance and investment and development company

programs are funded by a transfer from the revolving fund to a combined salaries and expense account which includes the direct appropriations previously mentioned. This transfer also requires congressional approval and the amount is determined through the regular budget process.

The Comptroller General also comments that "there would not be any assurance that sufficient funds would be continually reserved to meet the emergency disaster loan purposes for which the fund is available." S. 2970 would in no way affect the reserves we keep for such purposes under existing law. The financial plan included in each budget presentation identifies the amounts estimated to be required for each of SBA's major programs. These amounts serve as target figures to be used in the years indicated and are adhered to unless there are significant changes in volume which warrant subsequent revision of the plan. Because of the impossibility of forecasting the incidence or the financial impact of disasters, a "token" amount of \$14 million customarily has been included in the budget estimate. In accordance with prudent financial management procedures, precautions are taken to assure that at least this amount is retained in the financial plan for disaster loans as long as required.

In addition to the above, of course, there are operational reviews of SBA made by the Small Business Committees of the House and the Senate and reviews made by the respective Banking and Currency Committees pertaining to both SBA operational and legislative matters.

In my opinion, the above requirements would assure that there would be no lessening of congressional control and I, therefore, recommend against adoption of the amendment suggested by the Comptroller General.

The Bureau of the Budget has advised that there is no objection to the submission of this report from the standpoint of the administration's program.

With kind regards, I am

Sincerely,

JOHN E. HORNE, *Administrator.*

Senator PROXMIRE. Today we will have testimony from Mr. John E. Horne, Administrator of the Small Business Administration.

Mr. Horne, we are delighted to have you with us, and I request that you identify the distinguished gentlemen who are at the witness table with you this morning.

STATEMENT OF JOHN E. HORNE, ADMINISTRATOR; ACCOMPANIED BY KEITH L. HANNA, ASSISTANT ADMINISTRATOR (CONTROLLER); LOGAN HENDRICKS, ACTING DEPUTY ADMINISTRATOR (FINANCIAL ASSISTANCE); JEROME S. PLAPINGER, DEPUTY GENERAL COUNSEL; AND LAWRENCE S. CASAZZA, ACTING DEPUTY ADMINISTRATOR (INVESTMENT DIVISION), SMALL BUSINESS ADMINISTRATION

Mr. HORNE. Thank you very much, Mr. Chairman.

To my immediate left is Lawrence Casazza, who is Acting Deputy Administrator of the Investment Division, which is responsible for the small business investment company program and the local and State development company programs.

To my immediate right is Keith Hanna, who is the controller of the agency.

Next to him is Logan Hendricks, who is acting this morning as Deputy Administrator of the Financial Assistance Division, under which our regular business loans, disaster loans, and displaced small business loans are administered.

To his right is Jerome Plapinger, who is Deputy General Counsel of the agency.

We all appreciate being here this morning, Mr. Chairman, and I am especially glad to have this opportunity to discuss with you the bill (S. 2970) to effect certain changes in the Small Business Act which are desired by the President. It is my hope that this subcommittee will give the measure favorable consideration.

As you pointed out, Mr. Chairman, S. 2970 would amend section 4(c) of the Small Business Act by removing the dollar ceiling now limiting the total amount authorized to be appropriated to the revolving fund and by removing the respective dollar ceilings limiting the amount of such total which may be used by SBA for each of its financial assistance programs. It would also simplify the method of computing the interest which SBA pays into miscellaneous receipts of the Treasury, following the close of each fiscal year, on the net amount of cash disbursements from the revolving fund. In addition, the bill proposes a number of clarifications in the language of the section.

In its present form, section 4(c) of the act limits the total amount of the fund to \$1,200 million. The section further provides, in substance, that no more than \$725 million of this total can be used for the purposes of the business loan and prime contracts programs; that no more than \$150 million of such total can be used for the purposes of the disaster loan programs, including loans to small business concerns displaced by construction projects conducted by or with funds of the Federal Government; and that no more than \$325 million can be used for the purposes of the Small Business Investment Act of 1958, including the furnishing of financial assistance to small business investment companies and to State and local development companies.

Four separate statutes were enacted, during the last session of Congress, increasing these authorizations to make appropriations to the revolving fund. This legislation was, of course, in addition to the actual appropriations contained in the regular appropriation act and in a supplemental appropriation act.

The 1963 budget, as submitted by the President, assumes that the amount of business loans and reservations outstanding as of June 30, 1962, will be \$10 million in excess of the \$725 million limitation on such loans.

A further increase of \$200 million will be required in this authorization for the fiscal year 1963.

Also an increase of \$16 million will be required in the \$325 million limitation governing the financing of small business investment companies and business development companies.

While the bill before the committee would avoid the necessity of repeated applications for increases in authorizations, it would in no respect diminish the controls which Congress presently exercises over the size and character of the programs administered by SBA pursuant to the Small Business Act and the Small Business Investment Act of 1958. These two statutes are under continuous study in Congress.

Since 1953, when SBA was established, amendments have been made to either or both of these statutes in every year except one. Indeed, each has undergone numerous and substantial revisions. There are a number of bills now pending that would further amend these statutes. Thus, it is unlikely that this legislative activity, with its attendant scrutiny of SBA's operations, will lessen.

In the course of the budget process, SBA's activities are reviewed annually by Congress to determine the amount of appropriations of additional capital for the revolving funds which the agency will need to meet the demands which probably will be made on the fund during the budget year. Thus, through the appropriations procedure, Congress can and does govern SBA's activities.

Moreover, the progress of SBA in discharging its statutory duties is under constant observation by the Senate Small Business Committee and the House Small Business Committee. At least once a year one of these committees holds hearings at which the Administrator of SBA testifies in detail concerning the operations of the agency. The resulting reports issued by the committees contain thorough reviews of SBA's programs and evaluations of its success in conducting them.

In all, SBA works under the watchful eyes of six congressional groups: The Senate Committee on Banking and Currency, the House Committee on Banking and Currency, the Senate Committee on Small Business, the House Committee on Small Business, the Senate Committee on Appropriations, and the House Committee on Appropriations. It is doubtful if any other agency of the Government is more closely supervised to assure that it operates in conformity with the intent of Congress.

By letter of April 3, 1962, the Comptroller General stated that—neither the current legislation nor the proposed provisions of S. 2970 contains any requirement for subjecting the activities covered to periodic review by the Congress.

He commented further that in the absence of a request for additional funds, there is no provision for assuring the continuing appraisal by the Congress.

In drawing the latter conclusion, the Comptroller General overlooks the fact that the President, through the Bureau of the Budget, requires that all agencies having revolving funds submit business-type budgets annually and that such budgets are included in the annual budget submitted to the Congress.

This furnishes the opportunity to the appropriation committees to review the planned operations of each such activity and to take such action as it considers necessary. Furthermore, these submissions are required irrespective of whether additional appropriations are requested.

There is another aspect with respect to SBA's annual budget which, apparently, was not considered by the Comptroller General. The procurement and technical assistance and the management and research assistance programs are financed by a direct appropriation which requires an annual submission.

Further, the administrative expenses for the financial assistance and investment and development company programs are funded by a transfer from the revolving fund to a combined salaries and expense account which includes the direct appropriations previously mentioned. This transfer also requires congressional approval, and the amount is determined through the regular budget process.

The Comptroller General also commented that "there would not be any assurance that sufficient funds would be continually reserved to meet the emergency disaster loan purposes for which the fund is available."

S. 2970 would in no way affect the reserves we keep for such purposes under existing law. The financial plan included in each budget presentation identifies the amounts estimated to be required for each of SBA's major programs. These amounts serve as target figures to be used in the years indicated and are adhered to unless there are significant changes in volume which warrant subsequent revision of the plan.

Because of the impossibility of forecasting the incidence or the financial impact of disasters, a "token" amount of \$14 million customarily has been included in the budget estimate. In accordance with prudent financial management procedures, precautions are taken to assure that at least this amount is retained in the financial plan for disaster loans as long as required.

Senator PROXMIRE. At this point, since you have been discussing lifting the authorization, we might pause and consider that in a little greater detail before we go on to the next part of your presentation.

Mr. HORNE. All right, sir.

Senator PROXMIRE. In the second paragraph of your statement, in the last three sentences you say :

The 1963 budget, as submitted by the President, assumes that the amount of business loans and reservations outstanding as of June 30, 1962, will be \$10 million in excess of the \$725 million limitation on such loans. A further increase of \$200 million will be required in this authorization for the fiscal year 1963. Also an increase of \$16 million will be required in the \$325 million limitation governing the financing of small business investment companies and business development companies.

This is just exactly why I think this proposal is a bad idea, because it is only when the Small Business Administration has to come before Congress and ask for an increased authorization that this committee has an opportunity to evaluate the basic law as it stands and to relate the amount that the Administration is requesting to the law.

For example, it may be the feeling of this committee that the SBA is expanding too rapidly, particularly under circumstances in which we have the prospect of an unbalanced budget and very serious defense problems and foreign policy commitments, and so forth.

Under these circumstances, it seems to me it is most desirable that this committee as well as the Appropriations Committee, should consider such a request, because only this committee is in a position to adapt it to the policies which the Congress intends to pursue.

Let me give you two quick examples.

We may feel, for example, that because SBA is asking for a \$200 million increase and expansion we ought to do something about the size of a loan; \$350,000 may be too much.

I notice the administration decided as a matter of policy to request SBA to reduce the size of the loan to \$200,000 except for defense-related industry. And it may be that the Congress may have the same view.

The Appropriations Committee, as I understand it, cannot provide any such limitation. All they can do is limit the amount. They have no right to write policy. Any Senator can make a point of order who wishes to do so, if anyone tries to write policy into an appropriation act.

As to the nature of the loan, we may decide that some of the loan purposes are not the kind of thing Congress would approve.

We already have provisions in the law at the present time, as you know, Mr. Horne, restricting the kind of loans you can make to liquor concerns and so forth, industries of that kind. I understand such loans are not permitted.

Mr. HORNE. That is proscribed by regulation.

Senator PROXMIRE. That is in your regulations; you are correct.

But that might become a matter of congressional intent if the Congress wished to make it that.

The Congress might decide to follow the policy that has been innovated by the administration of making the bigger loans only to defense-related industries.

My question is: Why should not, of all the committees you list, the two committees, this committee and its corresponding committee in the House, retain authority over the amount of money to be authorized, in view of the fact that it is only at this stage that we can relate the amount to the policies Congress intends the Administration to follow?

Mr. HORNE. The only answer I can give to the question, Mr. Chairman, is that which the President himself gave in his letter.

Senator PROXMIRE. Who gave?

Mr. HORNE. The President. And also that which I gave in my statement. That is, that practically every year we are before this committee for legislation one way or another. You have a constant opportunity there to review our activities.

We also are reviewed constantly by the House Banking and Currency Committee, by the Appropriations Committees of both Houses, and by the Small Business Committees of both Houses.

Seemingly, the President is of the opinion that there is adequate supervision of the agency even should the amount be lifted.

As regards a reduction of loans to \$200,000—

Senator PROXMIRE. Let me just follow up on that. You say there is all kinds of supervision. There are the Small Business and Appropriations Committees of the House and Senate you say. But I say that the Banking and Currency Committee of the Senate and the Banking and Currency Committee of the House are the only committees that have the ability to relate the amount of money to the policy that the Congress intends to follow. We have the opportunity to review from time to time what the Administration is doing.

But we will have given up any capacity to attempt to influence policy as to the amount of money that is authorized if we pass this bill.

Mr. HORNE. Except for the fact, Mr. Chairman, that we are constantly before you for legislation and, of course, can be before you any time you have legislation on which you want to hold hearings.

And, of course, whether or not you pass this bill, the Small Business Administration, like any other agency of Government, is subject to call by committees of Congress at any time.

Senator PROXMIRE. Yes. But the difficulty, of course, is that all the committees of Congress are extremely busy. We have all kinds of things in which we are deeply interested.

For instance, there are 10 members of this subcommittee and I am the only one here. And, of course, this is typical. This is not because the other Senators are not very interested in SBA—I am sure they are—but it is just because they have so many other duties.

Unless there is a regular reminder to the Congress that this is to come up, then you would not get the systematic, responsible kind of review which I think is absolutely essential.

You say the Appropriations Committee has a duplicating responsibility. Well, the Appropriations Committee is the most over-worked group of men in the Senate and in the House. The fact is that the SBA is only one part of the Commerce and Related Agencies Subcommittee of the Appropriations Committee. They have all kinds of other responsibilities. All they can do is to have a review of the relationship between what the SBA is requesting and the available authorization and pass on the amount.

It seems to me that if our committee is taken out of the act as to the amount of money that the SBA is able to spend, we are losing one of the most useful, perhaps the most useful, contributions that Congress can make to the Small Business Administration.

MR. HORNE. Mr. Chairman, perhaps the chairman would like to check on what is done in other agencies. That may be a point of information the committee might want to look into.

I do not know whether this agency is in a peculiar position so far as its authorization is concerned.

I am inclined to believe, however, that we are in a peculiar position in this regard, but I confess that I do not have the exact information on it.

Senator PROXMIRE. I have some information right here on that very point. Let me give that to you first and then you can speak to it.

It is my understanding that various Government loan funds do have an authorization ceiling. For example, the Development Loan Fund, has a total of \$1.2 billion authorized—a definite authorization.

The Defense Department Sale Credit on Military Supplies and Foreign Assistance Act of 1961 has no specific limit but an annual authorization for the whole, of which this is part.

The fisheries loan fund in Interior has a \$20 million authorization, plus interest. It is a revolving loan fund. The small reclamation project loans, \$100 million authority. Indian loans, \$10 million authorized.

These are all precedents. Those all are loan funds, just like the loan fund of SBA, which require regular authorizations.

MR. HORNE. Are these borrowed funds or are they appropriated funds?

Senator PROXMIRE. It is my understanding that these are borrowed funds as well as—

MR. HORNE. My observation would be too, Mr. Chairman, that undoubtedly we are not the only agency about which this may be true but I am rather of the opinion that there are not many such agencies of which this situation is true.

But then, of course, as the chairman knows, this is just a question of the President recommending one thing and I am supporting the President's position. If the Congress does something else, SBA adheres to that decision.

As far as reduction of loans is concerned which took place last December, this was a matter which was controlled by the lack of appropriations, not by the lack of authorization.

Senator PROXMIRE. I am sorry. What was that last?

Mr. HORNE. I say, Mr. Chairman, that the reduction in the loan ceiling, reduction in amount beyond which we would not accept a loan application, was a matter determined by appropriations, not by authorization.

The revolving fund was being depleted to the extent that we voluntarily reduced the loan ceiling to \$200,000, and this was a matter that was determined, as I say, by appropriations.

Senator PROXMIRE. I remember very distinctly last year we had a real battle in this committee. It was a very helpful, useful battle, and we all learned a lot from it. Some of us were interested in keeping the authorization for SBA down and others were interested in expanding it.

We had a very useful and enlightening discussion on that basis. We finally came up with a compromise figure.

We then went into conference with the House and had a further discussion.

All the discussion attempted to relate SBA policy to the amount of money available. We finally compromised on the figure which we have.

If we lifted this authorization allowance, then this committee would lose all of that regular, systematic review which is now required and which is now necessary; and which I think is thoroughly desirable.

Mr. HORNE. I would just say this, Mr. Chairman: I do not want to be placed in the position of disagreeing with the chairman so frequently, but we still would be before you on many occasions. You would give up the authority so far as the authorization is concerned, but I do not quite see that you would give up the possibility or the right or the opportunity to review this agency's operations.

I might add too, Mr. Chairman, I have just been advised that the President, as far as the fund for the housing for the elderly is concerned, is making the same recommendation he has made relative to the authorization for the Small Business Administration.

Senator PROXMIRE. Yes. The housing fund for the elderly is also a loan fund which does still require a \$125 million authorization limitation.

Mr. HORNE. Yes. As I say, he is making the same recommendation there that he is making in S. 2970 as regards the Small Business Administration.

Senator PROXMIRE. You prefer, just as all of us do, to be agreeable rather than to disagree, and I feel the same way about the President. He has requested a lot of authority which some of us in Congress feel should not be surrendered by the Congress. I think that this is related to that same kind of thing.

I think we should insist on maintaining our authorization responsibility, particularly with regard to the Small Business Administration, which I think in many respects has been doing a fine job. I have the greatest admiration for the skilled job you are doing and that your assistants are doing.

But at the same time I think that this is something that the Congress should watch very, very carefully. It can easily develop into a large-scale empire, and it can easily get into an area—at least some of us feel this is true—which competes with, conflicts with, the operations of our free credit system.

While there are provisions now in the law to safeguard against that, I think that it is a matter of degree as well as a matter of kind.

What I am getting at is that there is some danger if SBA grows too big, that its competition with banks may become really serious.

I am concerned particularly about the kind of requirement that you have now requiring a bank turnaround before an SBA loan is made. The bank turnaround is pretty automatic because the bank has a great deal to gain, the individual bank, for various reasons.

While this may not be serious as long as SBA is the kind of modest agency it is now, if SBA continues to grow at the immense rate at which it grew during most of this last year, this could become serious, and the Congress should watch it.

Perhaps Congress wants to go ahead and make this into a very, very large agency. But I think if we are going to do that we ought to do it deliberately, and we ought to consider what we are doing every single year. We ought to be reminded this is what we are doing. It should not be something that should be surrendered by the kind of appropriation process which makes it extremely difficult for Congress to relate its intent to the growth of an agency like the SBA which has all kind of political appeal, all kind of political muscle.

Mr. HORNE. May I say that, whatever Congress does, the Administrator of SBA will be glad to comply with it wholeheartedly and conscientiously as long as I am still there.

Senator PROXMIRE. I am sure that is true.

Mr. HORNE. I would like to comment though, if I may, briefly on one or two other statements you made.

I rather doubt that this agency is going to become an exceedingly large agency as long as it has to run the gamut of the Bureau of the Budget and the Appropriations Committees. I see no real indication that that is a very likely prospect.

I might add that sometimes I personally feel a great deal of frustration. This is of no concern to the chairman and nothing with which I should be bothering the chairman. But, on the one hand, this agency is constantly criticized because it is too Scrooge-like, because it is not making loans that ought to be made, and, on the other hand, we are criticized because we are building a bureaucracy.

I should like to point out in that connection, if I may, two or three things:

One is that last year we did double our output of services to the small business community.

I remember several members of this committee indicated, when I first appeared before it, and this has been true of other Members of Congress, that this agency was not moving rapidly enough, and that it ought to do more in behalf of the small businessman than it was doing.

I took the situation seriously and also agreed with it. We endeavored to do a better job. And in 1961, as I repeat, we just about doubled our output of services.

This was not only true in the case of loans, but this was true in a lot of other areas—in practically all of our areas, as a matter of fact.

We did it, Mr. Chairman, with a relatively small increase in personnel.

But I think when you take into consideration that SBA theoretically is supposed to represent about 4½ million small businesses and relate that to the activities of some other Government agencies—here again I am not being critical of what Congress is doing or what the Bureau of the Budget is doing or what the President is doing or what the agencies themselves are doing—when you relate our total net cost to the taxpayer in trying to service 4½ million small businesses, and I say theoretically, to some other agencies that have similar responsibilities in other areas, we are literally a drop in the bucket.

It is up to Congress, of course, to determine in which direction the agency goes. I look on this agency more as a handiwork of Congress than I do anything else, because the Congress has generally taken the lead to create this agency and guide it and determine its course.

I served on the Hill, and I am very anxious to cooperate with Members of Congress to the fullest degree that I can. Of course, being a member of the executive branch of the Government, as you know, I have to support and do support what the administration does.

But I might just point out one point in connection with our cost.

This fiscal year, 1963, if we get every penny that we have asked for in the 1963 budget, the net costs of this agency would be approximately \$32 million. That is for everything we do.

I think sometimes it is overlooked that, by and large, most of the money this agency uses is money that is loaned to small businesses, small businesses who otherwise would not get this help. Small businesses, because of these loans, are able to keep the doors open, are able to expand, and are able to contribute to the economy.

But that money is paid back and paid back with interest.

So far as competing with banks, this agency tries in every way possible to avoid competing with banks. We encourage bank participation.

I realize that sometimes a bank may, without thorough investigation, turn down a loan application and have the person come to us and we either make all the loan or he gets no financial assistance at all.

But, by and large, this is not the case, as evidenced by the fact that over 60 percent of the loans that the agency makes are made in participation with banks.

This is sometimes extremely helpful, particularly in rural or semi-rural areas where otherwise there would not be the financial assistance that is needed to help a particular business.

I was going to make one other point, Mr. Chairman. We are trying this year in our 1963 budget—we are asking for only \$400,000—to do research work for small business. There is another agency of Government that represents about the same number of people in another area of need as we represent in small business, but this agency is requesting \$170 million just for research.

This Government is spending this year probably around \$8 billion for research. I saw figures the other day that by the end of this decade the U.S. Government would be spending about \$17 billion annually for research work. So far as the small businessman is concerned, very little of this is going for his benefit.

So far as the Government letting contracts to the small businessman is concerned, the small businessman is getting only about 2.5 percent of what the Government spends for research.

In our program, which costs the Government some money directly, we are trying to get a larger share of this research contract letting into the hands of small business, and we are also trying to get a little sum—as I say, \$400,000—to enable this agency to do a research job on problems connected with small business to see somehow if we can reduce the number of failures taking place among small business, to see if we can enhance this segment of our economy, which, as the chairman so well knows and in which I am sure the chairman is also as interested as anybody else, has been going down constantly and gradually over the years.

Senator PROXMIRE. This is not any blunderbuss criticism of SBA at all. I think SBA, as I said, has done a very good job in many respects.

There is no question as far as getting Government contracts is concerned. If anything, I would like to see a much more vigorous program than the Congress has permitted SBA to have. SBA has had some limitations over which it had no control.

Mr. HORNE. If we are able to get the help, we will do it.

Senator PROXMIRE. I have been fighting hard. That is what I have been doing in this committee. That is one of the things we have been trying so hard to develop—the toughest kind of small business procurement program we can develop.

Mr. HORNE. We need assistance.

Senator PROXMIRE. Anything I can do to help you get it I will do. I have been doing that as the chairman of this subcommittee.

I think you are absolutely right on research. There is no question small business has not been getting the opportunity for research that it ought to get. I think SBA has been working hard and valiantly and deserves a lot of credit for what it has done in this respect.

There are three difficulties, as I see it:

The first difficulty, and perhaps the biggest, is one we cannot blame SBA for. It is Congressmen with great influence poking their noses into SBA.

The report I get is that often they will “demand” a loan be made. The loans that are made under these circumstances, it is my understanding, do not always turn out very well, often turn out to be a loss to the Government, and very frequently to be uneconomical and improper kinds of loans.

I know it is terribly hard for the Administrator to discuss that or to accept that kind of a statement from the chairman, because he is in a very different position over this.

But we all know what is going on. We have to be awfully naive in Washington not to know there is a terrific amount of pressure on the part of Members of the House and the Senate to get loans into their districts. This I think is very bad, because, as I say, No. 1, the loan may be bad, and, No. 2, it may simply be keeping a business alive which should not be alive; which is inefficient, which is badly managed, which is uneconomic, and so forth.

Then, in the second place, I notice in the listing of loans which the SBA makes that there are a number of loans, a very large number of loans, to motels, bowling alleys, and so forth.

I think motels and bowling alleys are fine. But I do not think they provide much employment. I do not think they can be considered really essential for our economy.

It seems to me that if any part of our economy should be able to stand on its own feet and not have to rely on a Government agency to provide loans to them, it ought to be in this area.

I find that many loans have been in that area. Incidentally, frequently some of these loans are very big loans, \$350,000 loans to a bowling alley or to a motel.

Finally I am not at all satisfied with the present procedures in getting a bank turndown.

Mr. HORNE. Getting what, sir?

Senator PROXMIRE. Getting a turndown from a bank before SBA makes a loan.

From what I have heard from bankers and from businessmen, this is pretty much automatic. If SBA did not exist, it would be possible in most cases, or at least in a very large number of cases, for the small business to get the bank loan. But since SBA does exist, the small business, which usually has a good relationship with its bank, would go in and go to the president of the bank or the cashier and say, "Joe, give me a turndown. I want to get an SBA loan."

You bet your life he will give them a turndown just like that. I have seen it happen in various parts of the country.

I do not know exactly how we can change or modify the law to improve that situation, but I think it is something we ought to look into and think about very seriously.

Mr. HORNE. Mr. Chairman, if I may, I would like to comment on one or two points. I will take the last point first.

So far as the bank turndown is concerned, I want to emphasize most of the loans we make are made in participation with banks.

Sometimes the bank has a position of liquidity or sometimes its portfolio is as full of small business loans as it feels it can take at this time.

Senator PROXMIRE. Mr. David Rockefeller of the Chase Bank, one of the two or three biggest banks in the world, as you know, tells me that it is his conviction that a great deal of this could be handled by correspondent banks.

In other words, if the local bank is too small to make even a relatively small loan to small business, its correspondent bank in Chicago or New York or its correspondent bank in whatever is the nearest big city could participate and provide the additional money. It would be delighted to do it under most circumstances as long as it has reserves available.

Mr. HORNE. Mr. Chairman, if that is true, there is nothing in the world that keeps a bank from doing it right now, because he has the chance on every application that is made. He has the chance to make the loan if he wants to take it.

Logan Hendricks has worked with this program of increasing bank participation tremendously and has been in this business of helping small businesses get financial assistance for a good many years, perhaps longer than he would want me to point out. I am going to ask him, if I may, Mr. Chairman, after I make one or two other points, to comment further on this. I think there may be some misunderstanding here about banks.

Seantor PROXMIRE. All right.

Mr. HORNE. I would like to point out also that I can tell you in all honesty I have had no Congressman or Senator ask me to make a loan. Now, I have had Congressmen or Senators get in touch with me and express an interest in behalf of a constituent, and, as you know better than I, sir, that is customary on the part of Congressmen and Senators. They hear from their constituents, and they refer their inquires to the appropriate agency in order primarily to get a reply.

Senator PROXMIRE. I have had top officials recently in your administration tell me privately and, of course, I am not going to reveal their identities, that this happens constantly, that Congressmen get in touch with them, that they insist that loans be made, and that loans are made. And that in the judgment of the people who have talked to me, who have been officials in your agency or are officials now in your agency, these loans are bad loans and should not be made.

Perhaps they do not talk to the head of SBA. I am sure, Mr. Horne, you are the kind of efficient top executive who does not pass on every loan made by SBA. You have to delegate this authority.

Mr. HORNE. Sometimes, Mr. Chairman, and I say this facetiously, based on the number of calls I get I think perhaps most of them must come to me, though I am sure some of them do not.

I will say this, Mr. Chairman, the staff is instructed not to make a loan recommendation unless they think the loan can be repaid. As a matter of fact, that is one reason sometimes why we are severely criticized for being too tight on loans.

The act is pretty specific on this. And, here again, judgment becomes important. But the act is specific that the agency not make a loan until we are reasonably sure the loan is going to be repaid.

Also it is true that as a body, not on an individual loan, however, Congressmen or Senators express the belief that SBA is justified in being a little bit less tightfisted than the average banker usually would be.

But the fact that our loan record is as good as it is is indicative that we are not making very many loans, whether there are pressures or not, that are turning out to be bad loans.

Our default ratio, our loss ratio, is relatively, I think, very good. It may not be quite as good as a banker's, but, on the whole, it is something that I do not think that the agency or Members of Congress need have any great fear of.

I shall be glad to say again, as I have said in the past, that when it comes to acting on loans we look at them from the standpoint of merit, from the standpoint of the ability to recover what the Government has invested, not from the standpoint of who may or may not be pressuring that a loan be made.

But I have a good many calls from staff members and a good many calls from Members of Congress inquiring about the status of a loan.

Senator PROXMIRE. I think that is perfectly all right.

Mr. HORNE. They are seeking information.

Senator PROXMIRE. Nobody can complain about that. It is when the contact goes beyond the inquiry stage.

Mr. HORNE. I should think that if there are exceptions to that general rule based on my conversation with my staff and based on my own experience, there are not very many of them.

I would like, if I may, to ask Logan Hendricks to comment further on the bank participation plan, because he works with it more on a day-by-day basis, Mr. Chairman, than I do.

Mr. HENDRICKS. Mr. Chairman, I do not mind disclosing the number of years I have had in this business. It has been about 30 years.

This matter of bank participation, of course, ever since the early days of our predecessor, the RFC, has been a factor. The RFC had a record that was just about opposite to ours. They perhaps carried on an average of two-thirds direct loans and about one-third bank participation loans. Our record is exactly the opposite. It runs approximately two-thirds bank participation loans and one-third direct loans.

We do have a procedure that in the smaller country banks a turnaround from the bank is necessary. It is true that if a man walks in to the banker and the banker issues a turndown letter over his signature, he may or may not cite a reason why he does not choose to participate. We cannot very well question the banker on his reasons.

A different position would be present, however, possibly, if this man already owed a bank a substantial amount of money which the banker wanted repaid out of the loan but, by the same token, would not come back in for a participation. This we term a "bailout."

We are extremely reluctant to commit our money in this direction unless we can see a definite advantage to the borrower in doing this.

For example, if by acceding to this the bank can perhaps, due to a narrow lending limit, grant him short-term credit in addition to the long-term credit that he seeks from us and thus rehabilitate this borrower to a considerable extent, then we think there is some justification perhaps for meeting the banker halfway.

In those cases, however, we would perhaps be quite insistent that we have some participation in the loan if the bank is to be paid a large amount.

If it is new exposure, if the man owes nothing to the bank, of course, we are bound largely by the bank's answer.

In a larger city, with a population over 200,000, we would, of course, require a turnaround from two banks. We feel that it is reasonable to believe the man could go to a second bank in a large city and receive attention.

In the small country town I think we must accept the fact that if he is dealing with the bank on the corner, for him to go to a bank down the street where he has never dealt means he is very apt, of course, to get a plain "No" on a loan, unless this bank down the street sees a chance to get his account. Then the second bank might be interested.

We feel quite strongly about this bank participation, and we have made every effort to develop it.

I would like to just mention, if the chairman will permit, a new plan that we initiated last September, and I presume the chairman is familiar with it.

This we call our simplified bank participation plan. We have heard over the years from bankers that our procedures were a little too involved in redtape, that it took too long to process, and that consequently it also took too long to receive a disbursement.

There was some merit in this criticism. If it were a good, clean, and strong credit, this complaint perhaps had more merit.

We concluded then that in a certain category of cases where the bank was participating and servicing the loan, our experience had been exceptionally good. Confining ourselves to this category of loans, we came to the conclusion that we could take a calculated risk, and streamline the forms down to a one-page application. We would abide to a substantial extent by the bank's opinion of the credit and, by the same token, that we would make disbursement available immediately.

Now, this would contemplate, and the underlying theory was, that this plan was to accommodate the stronger credits and not the weaker ones, again on the theory that the weaker credits also require more detail and more explanation.

I would like to give just one example out of our San Francisco region, which also handles the islands of Hawaii.

It was somewhat automatic for the banks in Hawaii to come in on a 10-percent participation as a minimum. When this plan was adopted and put into effect, the banks in the islands thought so much of its simplicity and liked it so well—and since this plan carries a minimum participation of 25 percent—they came in automatically almost under this plan for 25 percent. This has the effect of raising bank participation in those cases 15 percent across the board.

Senator PROXMIRE. You changed it from 10 to 25 percent as a minimum?

Mr. HENDRICKS. This is the minimum under this particular plan, but the minimum under the law, of course, is 10 percent.

Mr. HORNE. We continue the other plan, Mr. Chairman, if they want to go to the other plan, but they may also go to the 25-percent plan if they want to.

Mr. HENDRICKS. If they prefer this streamlined plan, we think, as a protective measure, they should take a little stronger position in the loan.

Most of them are glad to, because, again, it is to accommodate the stronger credits.

This is another indication of our effort to enhance bank participation.

We are talking with banking groups continually, individually and collectively, to explain our plan, and I think that this has had the effect of bringing the merits of bank participation forward, the advantage to a bank of supplementing its program, to the extent that we are able to maintain bank participation average or percentage of program at two-thirds.

I might add on the simplified plan our approvals, because they are stronger credits, are running close to around 90 percent, as contrasted with perhaps—

Senator PROXMIRE. What proportion of your participations are 10 percent?

Mr. HENDRICKS. The proportion of 10 percent participations would be—

Senator PROXMIRE. Of all your participations.

Mr. HENDRICKS. Perhaps I could answer the chairman this way: our average participation straight across the board, with all our

participation programs, is approximately 23 percent. This would indicate—

Senator PROXMIRE. That is better than I thought it would be. That is pretty good.

Mr. HENDRICKS. Sir?

Senator PROXMIRE. That is interesting. I did not realize it would be that high. That is reassuring.

Mr. HENDRICKS. Last year, in 1961, I see the actual figure is a shade lower than that, about 21 percent. It is 23.6 for 1962, the 8 months of the fiscal year 1962. So that is fairly close to the 23 percent I mentioned.

I would have to approximate my answer. The 10 percent participations would probably be under 30 percent, to hazard a guess, of all participations.

Senator PROXMIRE. The thing that concerns me most is this, and I invite the Administrator to challenge this if it is wrong. SBA probably makes a fraction of 1 percent of the loans made to small business in the country. I estimate that on the basis of, say, four to eight loans a month made in Wisconsin by SBA. If there are only 400 to 800 loans from other sources made in Wisconsin to small businesses I would be amazed.

Maybe it is more than that, but it is a very, very small fraction.

What concerns me is: Who gets these small business loans? Do not the small business loans usually go, since they go to only a fraction of 1 percent of all the small businesses in the country, to those who are politically aware, or who have a friend in Congress, or who have some sophistication in being able to use this service of SBA?

I am very enthusiastic about the SBA procurement program and about many other aspects of SBA which I think are splendid. But I am just wondering why in States like Massachusetts, for example, which is very heavily banked, which has banking facilities that should be ample, and in some other States the same way, SBA should be making loans which they say are sound and good when every small businessman I talk to tells me it requires a lot more collateral than the usual bank loan.

Mr. HORNE. Mr. Chairman, I just do not agree that the small businessman is giving you the correct information when he says we require constantly more collateral than the bankers do. Sometimes perhaps we do, because we use Government funds. But so far as the New England area is concerned—by the way, that is an area in which we have one of our best percentages of bank participation—

Senator PROXMIRE. I did not say the New England area. I said Massachusetts, specifically. I think there is quite a different situation in northern New England.

Mr. HORNE. I do not know the story in Massachusetts. I will be glad to get it for the committee. But I think most of the loans we make in Massachusetts are made in participation with banks.

I will be glad to get it for you, but my guess now is most of the loans we make in Massachusetts are made in participation with banks.

Senator PROXMIRE. What is wrong with our banking system there, which have reserves available, and obviously get less interest from investing in Government securities, that they cannot persuade the correspondent banks to put their money into these small business loans?

Mr. HORNE. I would not say anything is wrong with the banking system, Mr. Chairman, except to point out here again several things.

They have certain requirements they have to meet. They have to maintain a position of liquidity. They maintain a varied portfolio. We have only one portfolio; that is small businesses.

Also, banks just simply do not make loans in excess of usually 3 or 4 years. Some of them make loans up to 5 years. Every now and then you will find one that will make a loan up to 10 years.

Senator PROXMIRE. In my business in Wisconsin when we wanted to buy a press or expand the size of our plant we would always do it on the basis of bank loans. And if the loan was for 2 or 3 years, we would refund it after 2 or 3 years. There was no problem.

Mr. HORNE. You got into the bank at the right time then, when he had funds available, or you were a good customer, he knew you personally and knew his loan was good. He cannot lend to everybody, so through his experience he lets it go to just those with whom he has good experience with. He is not able to take care of all the needs that come to his attention.

I do not know, Mr. Chairman, what the percentage of the total amount of money loaned to small business is that comes from the Small Business Administration. My guess is it is beyond 1 percent. I do not know how to prove it.

My further guess is, based on the record of loans we make being good, that this 1 percent, if it is 1 percent, might be very important so far as the overall economy is concerned, so far as enabling these people to stay in business, so far as enabling the employees of the business not to have to go on unemployment compensation payrolls or some other form of Government help.

I would also like to point out that so far as the large banks are concerned I do not expect many of the large banks, although there are, no doubt, some exceptions, to support this agency. We have certain newspapers that also oppose this agency. But, by and large, I think the medium-sized bank and the small bank, and particularly the independent banks, do support this agency, have come to accept it.

I say this based on the fact that last October, for example, for the first time, a Small Business Administration official was invited to address the American Bankers Association at its national convention.

I also say it based on experience that I have with banking members of our advisory councils who serve as members of SBA's advisory council, at State, regional and national levels.

I also say it based on testimony we have gotten from banks saying how pleased they are to have had this experience in making loans where they could take part of it but where they could not possibly have taken all of it. But the fact that we can take a part and they can take a part has made it possible for them to give assistance to this small business industry or to bring into the location a new small business industry which otherwise could not possibly have gotten the help.

I think, by and large, that the bankers, particularly again the medium-sized and smaller independent bankers, do accept SBA, and they realize they cannot provide all the needs that the small businessmen have in the form of financial assistance.

We do, of course, have this difficulty quite frequently: When we run out of funds, as we presently have, we have a hiatus between working

with banks and not working with banks. They get discouraged and say that, "We cannot depend on the consistency of your program." Sometimes this interferes with our having as much bank participation, as much bank support as we otherwise would have.

Mr. HENDRICKS. May I make an added comment, Mr. Chairman?

The length of the maturity in these loans has a great effect upon the banks. We hear repeated evidence from the banks that when the bank examiners arrive they scrutinize the portfolio. If they find a number of loans with long maturities, what they would call long-term loans, and particularly if they are not participated in by the U.S. Government, this becomes a criticized asset.

This is perhaps one of the reasons that many a credit which is reasonably good might go to a bank but would properly require the money for 7, 8, or up to 10 years, and they find that the banker is disinclined to go along with them.

We know this because when he does come to us and we are able to find that the credit is acceptable and do approach the bank to come in, say, for a 25-percent participation, they will do an exact reverse, meaning that if they can come in for a minimum of 25 percent they are willing to go in on a 10-year loan. But if they must shoulder the entire loan by themselves, they would be disinclined to go along.

I think maturity is one factor that has a profound effect on this so-called gap that exists as between what the banks collectively will do for the small businessman and what they will not do.

We should also look to the maturity of the obligation as perhaps one of the reasons for this attitude.

Senator PROXMIRE. I do not want to detain you, Mr. Administrator. This testimony has been very, very helpful to me. But I do want to inquire a little bit about one other area, since we are considering lifting the authorization. We will have to consider later, presumably, if we do not lift the authorization, what particular authorization will be necessary for this year.

As you know, in the judgment of many Members of Congress, and I am sure of many members of the administration, we are at a stage now where we want to do all we can to economize on Federal spending wherever we possibly can, particularly in the domestic area.

We had a bill that passed the Senate just yesterday for \$13 billion for procurement. If you include everything in it, it was \$13.5 billion, as a matter of fact. That is a perfectly fantastic burden on the American people, but necessary because it was military procurement and we have to defend our country.

If we do reduce the authorization below what SBA has requested, below what you anticipate would be your needs, if we do cut it back, it seems to me that we can do that, although all of us would do it with reluctance, and at the same time conform with what seems to be a very prevalent viewpoint on the part of many small businessmen in my State which I am sure is shared nationally; reducing the size of the loan that could be made.

What I run into more than anything else when I bring up the Small Business Administration with small businesses is: "Oh, that is not for small business. That is for the big boys. Why, they loan to people who have 200 or 250 employees. They loan to people who have a million dollars or more of sales. This does not really help small business."

Then I tell them most of the loans, of course, are made to small businesses and are not in this big category at all.

Nevertheless, the fact is, though, that whereas 90 percent of your loans are less than \$100,000, roughly—this was for the January to June period—about 50 percent of your money goes into big loans of over \$100,000.

While these are certainly in many cases very small businesses, usually they are bigger businesses than the ones that borrow the lesser amount.

So that if there should be a policy determination on the part of this committee or on the part of the Congress to reduce the authorization, under the circumstances, feeling that we should economize wherever we can, what would be wrong with doing it on the basis of reducing the size limit of the loan and thereby saving at least a large part of the amount that is loaned over \$100,000, since this involves about half of the amount of loans that are made but only 10 percent of the businesses that borrow?

Mr. HORNE. Mr. Chairman, if I understand your question correctly, you are asking what would be wrong, what would be my viewpoint on it. My viewpoint necessarily has to be that as long as I am Administrator of SBA I comply with the legislation under which I operate. If Congress saw fit to make such a move, anybody administering the agency has to comply with it.

Personally, though, I would not favor it. I would not favor it for several reasons. One is that I am not in agreement with the belief that—

Senator PROXMIRE. I do not mean to interrupt you in the middle of a statement, but I do want to get a little history right here.

SBA started off with a maximum loan size of \$150,000.

Mr. HORNE. \$100,000.

Senator PROXMIRE. How much?

Mr. HORNE. Wait a minute. It started off with \$150,000 in 1953. Congress has seen fit on two occasions to raise this to the present \$350,000.

Senator PROXMIRE. First they went from \$150,000 to \$250,000, as I recall.

Mr. HORNE. Then to \$350,000.

Senator PROXMIRE. And from \$250,000 to \$350,000.

Mr. HORNE. That is right, sir.

Senator PROXMIRE. So Congress started out with \$150,000 as a maximum.

Mr. HORNE. \$150,000 at that time. At the time Congress began with \$150,000 there were some Members of Congress who felt it should be higher, and evidently the majority has thought since that time that \$150,000 was not adequate because it has been raised on two different occasions to its present \$350,000.

Now, if Congress should reverse its attitude and reverse its position, then, of course, the agency would have to comply with whatever Congress decides the policy is to be.

But, as I recall the raises that took place from \$150,000 to \$350,000, they took place because Members of Congress recognized that there were many small businesses who needed in excess of this \$100,000. There are many types of small businesses. There are many types

of small businesses which require larger financial assistance than others.

They also took place because the cost of doing business continues to go up, and with the recent developments that the chairman knows about I think the small businessman is going to be squeezed even more and he is going to need additional help to overcome the effects.

Senator PROXMIRE. The fact still remains that 90 percent of your loans are, roughly, maybe a little less but about 90 percent of the loans, are to businesses that borrow less than \$100,000. Only 10 percent borrow more, and those 10 percent take about 50 percent of your money.

The commonsense interpretation would be that these are the bigger firms that borrow the larger amount of money.

Mr. HORNE. Well, not necessarily, Mr. Chairman.

Senator PROXMIRE. Not necessarily and not in all cases, of course.

Mr. HORNE. That is true.

Senator PROXMIRE. But generally is that not true?

Mr. HORNE. I do not have the figures. I would say—

Senator PROXMIRE. Furthermore, let me say one more thing. That is, this participation which you have begun is very interesting. This would not prevent a small business that needed \$200,000 or even \$350,000 from borrowing \$100,000 from the SBA and getting the rest from banking sources.

Mr. HORNE. No, it would not prohibit it from doing so, but I do not believe that you will find that many banks would participate beyond the 25 percent.

Right now the banks can participate up to any amount they want to. They can go up to 50 percent. They can go up to 95 percent and we take five.

Senator PROXMIRE. They can if they wish. But then you would have a real selling job on the part of the businessman to sell the bank on the soundness of the loan. It seems to me that you would put it into a desirable category in those bigger loans plus satisfying a whale of a lot of small businessmen who now say they do not like these big loans because they tend to be made to bigger business and that this is not a small business administration but it is a medium-size or even in their view a big business administration.

In many communities in the country, as I am sure the Administrator recognizes, the big business is the one that employs 100 people or 150 people.

In Waterloo, Wis., where my business was, we were not the biggest business in town but the biggest business in town employed about 70 people.

When you talk in terms of 250 people, this may be small potatoes in New York City, but, believe me, it is awfully big in almost every town and village in Wisconsin.

Mr. HORNE. Mr. Chairman, there are two points about it, and there are probably other points that both you and I could make about it.

One point is that the present ceiling of \$350,000 is not preventing the smaller man from getting his loan. Now, that conceivably might take place if there is not adequate appropriation.

Senator PROXMIRE. That is right, and I did not say that. What I said was that if we are going to economize—this was the preface to

my statement—and if we are going to cut back, while we might be reluctant to do so, here is one area we can do it. It would seem to me, to inconvenience a minimum number of businesses, and at the same time have some side effects that might even be salutary.

Mr. HORNE. In doing that, I know, Mr. Chairman, you would weigh the importance of these businesses that you would eliminate.

Senator PROXMIRE. We would not eliminate business. We would just eliminate their right to come to the Government and get over \$100,000.

Mr. HORNE. I mean eliminate their prospects for getting financial assistance from SBA.

Senator PROXMIRE. For getting more than \$100,000 assistance, yes.

Mr. HORNE. Certainly many businesses who otherwise qualified, important small business concerns, would not be able to get financial assistance so far as the SBA is concerned.

Based on our records, I do not think that many of these businesses would get all of their needs from the bank, and I think the practical effect would be that you would deprive them of the means of financial assistance.

Mr. Hendricks has some figures, Mr. Chairman, that may interest you.

By the way, if you are interested in my doing so, I just made a record of some of the businesses in your own State of Wisconsin to which we made loans in excess of \$100,000—

Senator PROXMIRE. You made a number of them.

Mr. HORNE. From January 30, 1959, through September 30, 1961. I find that the number of employees varies considerably. This is true because—

Senator PROXMIRE. Of course, I do not want to be making points against myself, but the fact is that it is true, the most shocking part of it is, that when you make a big loan of \$350,000 to an outfit that employs two people, which is not unusual on the basis of the report that you made, or three people, a motel or something of that kind—

Mr. HORNE. I do not know many motels now, Mr. Chairman. You may know more about the number of employees employed by motels than I do. But I think when it comes to motels and bowling alleys you take into consideration not just the direct number of people who are working but you take into consideration the people you have employed by manufacturing the materials that go into the motel and also the number of people who were employed to build the motel.

I think you also take into consideration that we have a moving economy. People when they have money to spend like to move from one part of the country to the other to see parts of the country, and they need accommodations to stay in.

So far as bowling alleys are concerned, I think there again you get into something that has intangible benefits that cannot be measured necessarily in dollars. I think at most bowling alleys, the few I have attended, and I do not go to very many of them, but the few I have attended, you find a wholesome kind of entertainment. You find a clean kind of entertainment. You find a lot of people there that are spending their time in clean recreation. They are going to have recreation somehow.

I would rather, I think, for a child of mine to go to a bowling alley than to some other kind of entertainment that could be named.

I think these things serve a purpose both directly and indirectly.

Senator PROXMIRE. Let me make it clear the Senator from Wisconsin is not against bowling alleys. I enjoy bowling very much. And I am certainly not against poolrooms. I think that is good exercise. As a matter of fact, the last thing in the world I can be against is taverns. I think taverns are fine.

But I just do not see any argument that could be made for any kind of Federal assistance to this kind of very healthy recreation. I do not think it is needed.

I have read articles in the Wall Street Journal, the last couple of weeks, that the bowling industry is in trouble because there are too many bowling alleys. I think anybody who drives around most of our cities can see the kind of competition they have.

Mr. HORNE. I do not know what our loan record is in the case of bowling alleys, because I have not broken it down by different industries, but I believe that they are probably about as good as any other industry to which we make loans.

As the chairman also knows, talking about the number of employees, there are just some businesses that require more capital assistance than others, depending upon what kind it is. Sometimes a very small concern so far as total employment is concerned will need a loan in excess of the loan that would be needed by a firm that might have a larger number of employees, depending on the industry.

With some of these exotic industries, new industries requiring technical know-how, people who work with electronics and things of that sort, it just requires more financial assistance to help these businesses than it does for a corner grocery store or even a fairly good sized grocery store sometimes.

Here again, Mr. Chairman, if Congress sees fit to go back to \$100,000, of course, whoever is running this agency would have to administer it in accordance with that. But since Congress has constantly raised it instead of lowering it, it would be a reversal of sentiment. Of course, that sometimes takes place.

Mr. Hendricks was going to mention one thing, Mr. Chairman, that might have a bearing on this.

Mr. HENDRICKS. Mr. Chairman, I saw an excerpt in the Congressional Record of March 13 that has a bearing on this point, in which it spoke of the companies that may apply for large amounts. Quoting:

The requirements of these companies have no necessary correlation with the company size but more often depend on the company's objectives, its facility, and its equipment requirements, and whether or not it is in heavy or light industry or is in a manufacturing or selling organization.

I think this emphasizes the points that Mr. Horne made.

We do have some figures with respect to loans made over a 33-month period ending September 30, 1961, that further amplify this thought from the standpoint of size of concern. For instance, in the food manufacturing industry, where the size and standard to qualify for a small business ranges between 250 and 700 employees—these are loans over \$100,000—there were 94 out of the 121 made to concerns who employ 100 or fewer people.

In manufacturing, exclusive of food, out of 441 loans, 337 loans were made to concerns that have fewer than 100 employees.

Senator PROXMIRE. Three-quarters of them?

Mr. HENDRICKS. Yes, sir.

In other words, again, these are loans over \$100,000.

Mr. HORNE. But to firms with less than 100 employees.

Mr. HENDRICKS. And in the wholesale industries, out of 64 loans, 44 were made to concerns with sales of \$2 million or less.

In the wholesale business we judge the size by their annual gross rather than by number of employees.

These three examples would indicate what I excerpted from the Congressional Record, which says that very frequently company size has no direct bearing on the amount of money that they may need to do a job.

I would like to make one more point. If a concern has no other means of borrowing money on the outside—and I am thinking of term money particularly—and our limit, we will say, was reduced to \$150,000 and they needed \$300,000, to make this concern the loan, even though their credit seemed good, at the moment for \$150,000 would be doing half a job and often would turn out to be a disservice, meaning that often it is better to make no loan than to make a loan that is too small to do the job.

Mr. HORNE. Mr. Chairman, I have one other case that, with your permission, I think will interest you. I make this because it is from Stevens Point, Wis., but it is typical of many loans of which we have records.

This company, located in an area of substantial and persistent unemployment, was established in 1926 as a small retail bakery. A year later it entered the wholesale field. In order to remain competitive, a complete plant modernization was effected in 1959. A \$350,000 SBA-bank loan provided the needed term financing. The result has been that sales volume has increased by over \$1 million a year. Employment has increased from approximately 170 to nearly 200. Annual payroll has increased about \$200,000.

Senator PROXMIRE. What was the increase?

Mr. HORNE. From 170 to 200.

Senator PROXMIRE. Employees?

Mr. HORNE. Yes. But it had to do this modernization job to stay in business. Otherwise there were going to be 170 people unemployed.

Senator PROXMIRE. Now, wait a minute. I, of course, am all for helping Stevens Point. I think it is a wonderful place. I have often been up there. But I do not think you can necessarily argue that if the SBA had not made a \$350,000 loan there would have been 170 people unemployed.

Mr. HORNE. You cannot say that; no.

Senator PROXMIRE. Suppose they had borrowed \$100,000 from the SBA.

Mr. HORNE. Well, \$100,000 would not have done the job.

Senator PROXMIRE. I know, but we do not know whether or not it might have been possible—it might have been very possible then—for them to go out and get the additional money they needed elsewhere from private banking sources.

Mr. HORNE. They went to a bank, and the bank in this case probably took about 10 percent. I do not have the figures here as to what the bank took.

Senator PROXMIRE. The question is: Would they have then gone to Wausau? Would they have then gone possibly to Milwaukee, maybe even Chicago?

It is just hard to tell.

I think you make a fine point, and I think these loans probably have been very useful in many respects. I certainly would not criticize the SBA for making loans of more than \$100,000, not only because it is legal, but because I think it is probably good policy. I do say, however, if we are interested in saving money and if we are looking for ways in which we can reduce the commitments of the Federal Government, this may be one area which we can consider because it does involve 50 percent of the money of the SBA—that is, loans over \$100,000—and only 10 percent of the small businesses.

I think you make a good case on the other side, but this is an example of the kind of consideration which I think the Banking Committee can properly give to your authorization request when you come up. We perhaps would not give the same kind of consideration if we did not have a regular annual authorization process of the kind we have now and which your bill would knock out.

Mr. HORNE. Perhaps not, Mr. Chairman, but there are two other sources that would give this kind of consideration.

There is the Bureau of the Budget, and let me tell you they do give this kind of consideration.

I have also been before both sides of the Congress on appropriations, and let me tell you they also give this kind of consideration.

Senator PROXMIRE. Oh, yes, but I have an answer to both of those.

In the first place, the Bureau of the Budget is an executive agency under the President.

Mr. HORNE. Of course.

Senator PROXMIRE. I think if we are going to have any meaning to checks and balances in our political system, if Congress is going to perform any function, they certainly should not say, "Well, if the Bureau of the Budget is handling it, we can forget it."

As far as the Appropriations Committees are concerned, they are bound not to bring up policy matters. They cannot. You can make a point of order against them if they put any policy considerations in or any change in the policy set forth in the basic law. Any Senator can stand up and make a point of order and he will be sustained by the Senate on this.

Mr. HORNE. Of course, further, Senator, the Senate Small Business Committee and the House Small Business Committee and the Banking and Currency Committees when we are up for legislation, which is fairly often, also have this supervising or checking, so to speak, authority.

I would like to comment too on this, Senator. Of course, you can reduce the appropriations by one way or another of the money available to this agency, but I like to keep in mind that while you may save on the one hand, the impact on the budget, you are not necessarily saving money, because this money is being repaid and is being repaid with interest.

You may very well be making a lot of money by stimulating the economy with these people who otherwise would not get loans and by keeping employment up which otherwise might not be able to be kept up.

Senator PROXMIRE. I think that is a perfectly respectable and valid argument. Nevertheless, when we loan money, it is a matter of Federal dispensation of funds. It is a matter of appropriations, which do unbalance the budget. They do have the effect of the Federal Government paying money out although that money is repaid.

Mr. HORNE. Of course, that is true, Mr. Chairman, but I guess one reason I keep coming back to the point that this money is being repaid and is rendering a good service to the overall economy is that so frequently when we talk about this agency—and I am sure this agency is no exception to other agencies in this regard—we talk about its overall appropriation, and I like sometimes to relate, as I did a few moments ago, what its actual costs are to the taxpayer.

When you look at its actual cost to the taxpayer, as I said a few moments ago, it is, relatively speaking, a drop in the bucket.

Senator JAVITS. Mr. Chairman, will you yield?

Senator PROXMIRE. I am delighted to yield.

Senator JAVITS. I have only just come to the hearing, and I must leave very shortly, but I came expressly to express my support for the views of the Chair that the committee should retain the dollar limit provisions in this legislation, as the Chair has said. What they shall be is a matter for our judgment.

But having sat and heard the testimony on SBIC's in New York and being well acquainted with the fact that this is a fairly new program and in many cases experimental and in many cases just building up a body of experience, I think whatever might be said for taking off the dollar limits on a permanent basis when, as, and if it has really proved itself in every aspect certainly cannot be said now.

I therefore support the Chair in continuance of dollar limits until we have had somewhat more experience with how this agency will work out.

Senator PROXMIRE. I thank the Senator from New York very, very much. He has been very helpful.

I suggest we might move ahead to the interest rate charges by the Treasury. You have been extremely patient and very responsive.

Mr. HORNE. Thank you, Mr. Chairman.

Another change called for by S. 2970 involves the interest rate charged SBA on moneys disbursed by it. This change can best be explained by a brief description of the manner in which the following provisions of section 4(c) of the act have been administered:

Advances shall be made to the Administration from the revolving fund when requested by the Administration. * * * The Administration shall pay into miscellaneous receipts of the Treasury, at the close of each fiscal year, interest on the net amount of the cash disbursements from such advances at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate of outstanding interest-bearing marketable public debt obligations of the United States of comparable maturities.

The evident purpose of these provisions is to tie the interest rate paid by SBA, on moneys disbursed by it, as closely as possible to the cost of these same funds to the Government. However, prior to July 1, 1960, the Secretary of the Treasury applied the current interest rate,

yielded by the statutory formula, not only to disbursements made by SBA during the current year but also to funds disbursed in earlier years when the cost of money to the Government may have been substantially higher or lower.

For example, SBA was required during the fiscal year 1960 to pay $4\frac{3}{8}$ percent on funds disbursed in the fiscal year 1959 when the applicable rate was only $2\frac{3}{8}$ percent.

In an effort to remove the inequity of that system, the Department of the Treasury, at the request of SBA, inaugurated a method of computing the rate each year on a weighted-average basis, taking into consideration amounts outstanding and the rates in effect during prior years and a projection of disbursements at a current rate for the current year.

Although this system has effected a substantial improvement, its value is limited by the mathematical complexities involved.

For example, it was not until November 1961 that SBA could furnish the Department with the estimated disbursement data for the fiscal year 1962 essential to a determination of the rate for that year.

The language recommended in the bill would overcome the basic difficulty by eliminating the existing requirement of the statute that the Secretary compute each year a single rate applicable to all outstanding cash disbursements made by SBA. Instead of following this method the Secretary would, in June of each year, set the rate to be applied to all disbursements made during the succeeding fiscal year. This rate would remain applicable to such disbursements, regardless of any subsequent fluctuations in the borrowing costs of the Government, until the money is returned to the Treasury. Repayments would be applied against the oldest outstanding disbursements.

The proposed system of multiple rates would provide a more efficient and a more equitable method of computing interest.

Senator PROXMIRE. What are the main disadvantages of this proposal, if any?

Mr. HORNE. Main disadvantages of this proposal?

Senator PROXMIRE. Of the new proposal.

Mr. HORNE. If you are speaking of the proposal, Mr. Chairman, in the bill, and you ask—

Senator PROXMIRE. Yes. Would there be any disadvantage to SBA if we adopt this proposal you are making here?

Mr. HORNE. No, sir, there would not be.

Senator PROXMIRE. Would there be a time, on the basis of your calculations, when you would have paid higher interest than you actually did pay—or would have been charged higher interest I should say?

Mr. HORNE. It is unlikely, Mr. Chairman.

The interest that we would pay for one year's disbursements might be different from interest we would pay on another year's disbursements, but we would pay in accordance with the cost each time.

Senator PROXMIRE. I understand that. But has there ever been a time when you paid less than the cost?

Mr. HANNA. Mr. Chairman, there may have been 1 or 2 years where the rate was building up during the course of the year, and, of course, that is potentially true here. The rate is set based on the June computation of Treasury, and that applies for the succeeding year.

In past years, in particular, where the rate was applied against all outstanding disbursements, that may have been some significance.

Mr. HORNE. But the answer to your previous question, sir, that it would be of no disadvantage to the agency. As a matter of fact, it would over the years prove to be an advantage.

Senator PROXMIRE. Is it true that the proposed legislation, just like the existing legislation, would give the Secretary of the Treasury unusual discretion in setting the rate?

Mr. HORNE. He would have the discretion to set the rate, but he would, of course—

Senator PROXMIRE. He would simply take it into account? He would not be required to compute and then add on a certain amount for service or anything like that?

Mr. HORNE. No, sir.

Senator PROXMIRE. He just takes it into account?

Mr. HORNE. Yes, sir.

Senator PROXMIRE. So he has discretion to go as high or as low as he wants to go?

Mr. HORNE. Yes, sir.

Senator PROXMIRE. Is it not more customary that the Congress specifies that it shall be calculated in terms of Treasury cost plus a certain amount for service rather than to leave this discretionary with the Secretary of the Treasury who might either be a little too enthusiastic for SBA or a little bit too much opposed to it?

Mr. HORNE. There are some of our programs, Mr. Chairman, where Congress sets the interest rate on our loans, and in some programs it does not. I do not know, frankly, what is customary throughout the Government as a whole.

Senator PROXMIRE. If we adopt this proposal to provide the advantages you have mentioned of more responsiveness to the actual cost of Treasury, but have it computed in an objective way without having the Secretary of the Treasury having to intervene—the Secretary would not, I presume, do it anyway; he would presumably delegate it to somebody else, and conceivably through human prejudice or error this might be disadvantageous to SBA—

Mr. HORNE. Mr. Chairman, of course, I am only authorized to testify in support of the measure before you. But I might answer your question by saying this: On the displaced small business loan authority that was granted this agency last year, the legislation does spell out a particular formula. It does spell out a formula approach for the Secretary of the Treasury to make in setting an interest rate for these loans. I think this in effect does the same thing with respect to our revolving fund not as specifically.

I think under this proposal that we would not have a case of the Secretary of the Treasury being unresponsive to what the costs of the money we get from the Treasury are, and I think he would certainly charge us an adequate amount to cover that cost to the Treasury.

The Treasury Department, Mr. Chairman, already has a formula. I do not know the details of that formula, but they already have a formula.

Senator PROXMIRE. How would this affect the interest rates you would charge to your customers?

Mr. HORNE. It does not affect the interest rates the agency would charge for its loans. It would not affect those interest rates.

Senator PROXMIRE. Would this enable you to come in next year and tell us, instead of this costing \$31 million, that you had made a profit out of SBA?

Mr. HORNE. Mr. Chairman, I am not going to try to mislead, and I could not if I tried to, the chairman of this committee. SBA in its present operations is not likely overall to produce a net profit to the Government. I do not see how it possibly could, taking into consideration all of its programs.

Senator PROXMIRE. If you loan at—what?— $5\frac{1}{2}$ percent—

Mr. HORNE. All of our loans, of course, are not—

Senator PROXMIRE. And the interest rate, which many of us hope will develop, is reduced substantially below what it is now so the Federal Government can borrow money at a lower rate, you could have a pretty good spread. You could have a spread of 2 or 3 percent between the cost of your money conceivably, and what you are getting for your money.

On that basis, even with heavy overhead, even with a fairly bad loan record, you could conceivably come in saying, "There is no basis for criticism. We are making money for you."

Mr. HORNE. I do not think we can do it any time soon, just to be honest with the chairman. And I am quite sure we cannot do it if we reduce the size loans we can make to \$100,000. Because it costs just about as much to make a \$100,000 loan as it does to make a \$350,000 loan.

Senator PROXMIRE. I am sure that would show up as a debit.

Mr. HORNE. Moreover, Mr. Chairman, it costs about as much to process and examine a loan which we turn down as it does to process a loan that we approve. Moreover, there are certain lending authorities which we have on which Congress has set statutory limitations, and it costs us more money to borrow than we get in interest. In addition, we have the administrative cost on top of it.

For example, our disaster loan—

Senator PROXMIRE. Except for that last qualification, this is true of banks as well as true of SBA. It costs them more money. They have to investigate loans they never make. They do make small loans in which their investigation might wipe out their profits.

Incidentally, you have just indicated another reason why the argument for making loans of more than \$100,000 is not nearly as persuasive as the loans for less. It is exactly because of bigger returns in terms of investigation cost that private banking is more likely to make that big loan rather than the small one.

Mr. HORNE. Of course, also, Mr. Chairman, I cited the disaster loans. If it is not inside an Area Redevelopment Area we charge $5\frac{1}{2}$ percent. We have some spread there because the money today is costing us I believe about $3\frac{5}{8}$ percent so we certainly would have more income on a \$350,000 outside of an ARA than we would have on a \$100,000 loan or \$50,000 loan outside an ARA.

So some loans of \$350,000 with the spread we have certainly would help the agency to more nearly meet its actual net cost to the Government.

But, as I was saying, we have several programs in which we cannot charge in excess of what the limitation is, and the interest rate on one of these programs is less than what the money costs us. That is one the disaster loan authority which prescribes a 3-percent rate.

In case of the displaced businesses, as you know, that authority was added last year, wherein we make loans at special rates to businesses that are displaced by any kind of Federal construction activity. Congress did write into this authority a formula approach for the Secretary of the Treasury to use. We do get that money from the Secretary of the Treasury at the cost to the Treasury, and we add one-fourth of 1 percent as the rate SBA charges.

But there is no spread allowed for administrative cost of handling these other loans.

Senator PROXMIRE. Tell me. What would have been the report you would have made to us on the cost to the taxpayers of the SBA if you had had this system of computing it in 1962?

You probably cannot tell us that now. Maybe for the record you could.

Mr. HORNE. We might be able to supply it.

Senator PROXMIRE. You just told us about \$32 million.

Mr. HORNE. If we get all we ask for in 1963, we estimate the net cost would be about \$32 million on all the things we do.

Senator PROXMIRE. Including this method of computing the cost of money to you?

Mr. HORNE. Yes, sir.

Senator PROXMIRE. And what will it be if we turn you down on this particular provision?

Mr. HORNE. If I may, sir, let me ask my controller to answer that.

Mr. HANNA. With respect to the method of computing interest, Mr. Chairman, the composite basis we are using at the present time comes out to essentially the same answer we would have under the new bill.

Senator PROXMIRE. You have been computing on this basis even though—

Mr. HANNA. We did it on the composite basis for the past 2 years.

Senator PROXMIRE. I see. What is the reason and what is the effect of using yields instead of rates as in the existing legislation?

Mr. HANNA. That has been in effect. "Yields" as compared to "rates" can furnish a more current indication of cost for certain maturities not frequently borrowed. By relating the comparable maturities of SBA to comparable maturities of the Treasury Department, a more accurate and current rate can be determined for SBA.

Mr. HORNE. Mr. Chairman, since I know that you want all the information that we can give you on any of these questions, I want to make another statement with which I am sure you are familiar. This is simply to call your attention to it.

We also do make 4 percent loans even under our regular business lending authority in areas designated by the Area Redevelopment Administration.

Senator PROXMIRE. It is 3 percent, 4 percent, and 5½ percent?

Mr. HORNE. We also make 3¾ percent loans too, Mr. Chairman.

Senator PROXMIRE. Apparently this method you have suggested is the best for the SBA. Is it also for the Treasury?

Mr. HORNE. The Treasury is supporting it so I am inclined to think the answer to your question is "Yes."

Senator PROXMIRE. Would it reflect the average rate for the year better than say December or May if the June figure is used? Let me put it this way: Is the June figure generally the average rate for the year?

Mr. HANNA. I would have to answer it this way, Mr. Chairman: That the June rate is the customary rate used on this type of approach where there is an annual rate.

In other words, that gives you the rate at the beginning of the year so your current borrowings and withdrawals can be immediately charged at the new rate.

Senator PROXMIRE. And you say this is better than December or March because it does reflect a midyear—

Mr. HANNA. I could not answer that directly, sir.

Senator PROXMIRE. Let me ask you: Will you furnish for the record the amount of interest you paid into the Treasury from 1958 to the present compared with the amount you would have paid had the rate formula suggested by this bill been in effect?

Mr. HANNA. Yes, sir.

(The information requested follows:)

Statement of interest payments to the Treasury Department, compared with interest computed per S. 2970, fiscal years 1958-61

[In thousands]

Fiscal year	Actual interest cost	Interest computed per S. 2970
1958.....	¹ \$6,649	\$2,606
1959.....	¹ 6,294	7,246
1960.....	¹ 14,875	10,606
1961.....	² 14,248	14,093
Total.....	42,066	34,551

¹ Through the fiscal year 1960, interest was computed each year at the current fiscal year rate on all outstanding disbursements regardless of the year in which such disbursements were made.

² Fiscal year 1961 was the first year in which the weighted average rate was developed by the Treasury Department.

Senator PROXMIRE. Would not the 1961 amount, since it was determined by the weighted rate, be the one most nearly comparable to this proposed formula?

Mr. HANNA. Yes, sir.

Senator PROXMIRE. Is it not true that the Treasury now advances funds to some agencies with separate statutory programs such as FNMA at rates reflecting the operating requirements of each separate program?

Mr. HANNA. I believe that is correct. I am not certain.

Senator PROXMIRE. Why do you not proceed?

Mr. HORNE. Mr. Chairman, we now get into the section having to do with technical amendments.

There are a number of changes in the bill which are designed to bring the provisions of section 4(c) of the act into closer accord with the evident intent of Congress and to eliminate language which does not reflect existing practice.

In its present form, for example, the section does not expressly provide for the establishment in the Treasury of a revolving fund for the use of SBA. Also absent from the section are express provisions that loan repayments and other receipts are to be paid into the fund and that appropriations made to the fund are to remain available until expended.

Such authority is, to be sure, so clearly implied in the terms of the section that an amendment for the sole purpose of spelling it out would probably not have been appropriate. However, it is believed desirable, in connection with the proposed revision of the section for substantive reasons, to insert the described provisions. This would be accomplished by the bill. The bill would also emphasize that appropriations made to the fund constitute "capital" thereof.

Since only one account is required to be maintained in the Treasury, the bill would strike from the section all references to "advances" to SBA from the revolving fund.

Finally, the bill contemplates that the interest payments of SBA are to be made "following" instead of "at" the close of each fiscal year. The purpose of this is to make allowance for the time which necessarily elapses before the amount due can be computed. Subsequent to the submission of the bill, however, the Budget Bureau suggested a further revision by the substitution of the words "as of" instead of the word "at." The words "as of" would recognize the current situation and would permit the payment to be reflected both on the books of Treasury and SBA as of June 30 if certain technical problems can be resolved at a further date.

Mr. Chairman, I would like to emphasize the importance of prompt action on S. 2970 or I might ad lib and say on whatever the committee decides to do about this proposed change.

Our 1963 budget estimate is now being considered by the House Appropriations Committee, which is expected to report an appropriation bill including SBA's funds within the next few weeks.

The budget estimate for SBA for the fiscal year 1963 contains a request for an additional appropriation of \$300 million which would make a cumulative total of \$1,310 million. This would be \$110 million in excess of the present revolving fund authorization of \$1.2 billion.

It is my understanding that the Appropriations Committees are reluctant to recommend any amount in excess of an authorization since such an item would be subject to a point of order. Consequently, it will be necessary that some action be taken with respect to the revolving fund authorization if the full budget program is to be carried out for fiscal year 1963.

Mr. Chairman, I would like to express my very warm thanks for the courteous treatment which this committee always gives me and the employees of my staff. We may not always be in complete agreement, but I appreciate the fact very much the chairman has always been most kind and most courteous to me and to this agency.

If we can now, sir, answer any questions that you or Senator Sparkman may have, we will be glad to do so.

SENATOR PROXMIRE. I think this is a very fine, very persuasive, presentation. As I have indicated, I have some disagreement with at least your first request, and I think that there is at least some chance that the Congress may not act favorably on lifting the authorization.

With that in mind, I wondered if you would care at this point or, if you would prefer, later to appear before the committee or write a letter to us justifying your authorization needs in the event that the authorization is not lifted.

(The information requested follows:)

SMALL BUSINESS ADMINISTRATION,
Washington, D.C., April 18, 1962.

Hon. WILLIAM E. PROXMIRE,
Chairman, Subcommittee on Small Business, Committee on Banking and Currency, U.S. Senate, Washington, D.C.

DEAR SENATOR PROXMIRE: As requested by you during the hearing on Thursday, April 12, on S. 2970, I am furnishing the following information:

1. A brief justification of authorization increases needed through fiscal year 1963 (exhibits 1a, 1b, and 1c).

2. A projection of estimated authorization requirements for the 5-year period fiscal years 1964 through 1968 (exhibits 2a and 2b).

3. A statement reflecting the extent of bank participation in each of the New England States and in Wisconsin, as compared with the national average (exhibit 3).

The increases in authorizations estimated to be needed during the fiscal year 1963 are those which would be required to carry out the estimated level of activity as set forth in the budget for that year. They are, in my judgment, most conservative estimates when one takes into consideration the growth experience of this agency.

The projection of business loan activity for the next 5 years is a straight line projection of current volume and does not provide for any increase in volume which would be most natural in the light of our past experience. It does point up the fact that further authorization increases will be required in future years even though the business loan activity leveled off at approximately the present volume. The projection for investment and development company programs is based upon the continuation of existing policies, particularly with respect to a showing of unavailability of private funds. Neither of these projections has been cleared with the Bureau of the Budget and cannot, therefore, be considered as official estimates. However, I believe they should be of some assistance to the committee in consideration of this legislation and in anticipating future authorization requirements.

All of the above estimates are based on existing legislation.

You also requested an indication of the timing required on this bill. To the best of our knowledge, the House Committee on Appropriations has not scheduled a date for reporting the appropriation bill which will include funds for SBA. I would assume, therefore, that it is unlikely that it will occur before May 1. If the appropriation bill is reported and passed by the House during the first week in May and if Senate appropriation hearings start promptly after House action, it is conceivable that the Senate Appropriation Committee could be in a position of reporting out on the bill before the end of May. Since the Appropriation Committees must act on the basis of existing authorizations, it becomes imperative that congressional action on the authorization be completed at least prior to the time the Senate Appropriation Committee takes action.

In the event the committee determines that monetary limitations should be retained in the revolving fund, I would recommend some flexibility at least beyond that which is indicated by the budget estimate for the fiscal year 1963. For example, it is possible that fluctuations in volume within the total funds available might result in greater dollar requirements for business loans and less for investment and development company loans or vice versa. The use of the exact computations reflected in the budget estimate would remove this element of flexibility which is essential to good management. It is possible further that substantial variations in volume might justify a supplemental appropriation request during 1963. Unless some flexibility is given, a supplemental appropriation request would also entail an additional authorization request and would be a further burden on this committee.

If any additional information is desired in connection with the information being submitted, please feel free to call upon us.

With kind regards, I am

Sincerely,

JOHN E. HORNE, Administrator.

EXHIBIT 1A

Revolving fund authorization activity, fiscal years 1962 and 1963

[Dollars in millions]

	Business loans		Disaster loans		Investment and development company loans		Total	
	Fiscal year 1962	Fiscal year 1963	Fiscal year 1962	Fiscal year 1963	Fiscal year 1962	Fiscal year 1963	Fiscal year 1962	Fiscal year 1963
Outstanding loans and commitments start of year.....	\$528.6	\$735.0	\$60.1	\$91.2	\$80.0	\$168.7	\$668.8	\$994.9
Plus:								
New loan approvals.....	¹ 354.5	390.0	43.0	20.0	² 91.0	² 176.0	488.5	586.0
Commitment to purchase loans sold with recourse.....		45.0				10.0		55.0
Total.....	354.5	435.0	43.0	20.0	91.0	186.0	488.5	641.0
Minus:								
Principal repayments to SBA or banks.....	126.8	164.0	11.9	14.4	1.5	2.8	140.2	181.2
Loans sold.....		50.0				10.0		60.0
Loan cancellations.....	21.3	23.4			.9	1.7	22.2	25.1
Total.....	148.1	237.4	11.9	14.4	2.4	14.5	162.4	266.3
Outstanding loans and commitments end of year.....	735.0	932.6	91.2	96.8	168.7	340.2	994.9	1,369.6

¹ Budget assumptions, business loans:

	1962	1963
Applications per month.....	1,250	1,370
Withdrawals (percent).....	5	5
Approvals (percent).....	55	60
Cancellations (percent).....	6	6
Net approvals for year:		
Number.....	7,405	8,813
Average size.....	\$45,000	\$41,600

² Budget estimates—Investment and development company loans:

	1962	1963
SBIC's debentures purchased.....	\$61	\$72.5
Section 303(b) loans to SBIC's.....	13	72.0
Loans to State development companies.....	3	5.0
Loans to local development companies.....	14	26.5
Total.....	91	176.0

EXHIBIT 1B

EXPLANATION OF INCREASE REQUIRED IN BUSINESS LOAN AUTHORITY—FISCAL YEAR 1963

The 1963 budget, as submitted by the President, assumes that the amount of outstanding business loans and reservations for undisbursed loans will increase from \$735 million at June 30, 1962, to \$932.6 million at June 30, 1963. The estimate as of the end of fiscal year 1962 will require an increase of \$10 million in the existing authority, and the estimate as of June 30, 1963, will require a further increase of almost \$200 million (\$197.6 million to be exact).

As stated, this increase of \$200 million in business loan authority predicated on the President's 1963 budget estimates for the business loan program, which in turn are based on the following assumptions concerning the level of applica-

tions, the proportion to be approved and the average size of the SBA share of loans approved:

Applications per month.....	1,370
Withdrawals, 5 percent.....	68
Approvals, 60 percent of remainder.....	781
Cancellations, 6 percent.....	47
Gross approvals at \$41,600 average size..... million.....	\$390.0
Cancellations at \$41,600 average size..... do.....	\$23.4

On the basis of the foregoing factors, the increase during fiscal year 1963 in outstanding loans and reservations for undisbursed loans may be summarized as follows:

Estimated outstanding loans and commitments, June 30, 1962.....	<i>Millions</i> \$735.0
Plus:	
New loan approvals.....	390.0
Commitment to purchase loans sold with 90-percent recourse.....	45.0
Minus:	
Principal repayments to SBA or banks.....	164.0
Loans sold.....	50.0
Loan cancellations.....	23.4

Estimated outstanding loans and commitments, June 30, 1963..... 963.6

In the light of our experience over the past several years, the estimate of an average of 1,370 applications per month for 1963 is very reasonable, representing an increase of only 9.6 percent over 1962.

The actual and estimated application volume by years beginning with fiscal year 1958 is as follows:

Fiscal year	Number of applications	Percentage increase from previous year	Fiscal year	Number of applications	Percentage increase from previous year
1958.....	7,898	15.1	1961.....	10,880	30.6
1959.....	10,213	29.3	1962 (estimated).....	15,000	37.9
1960.....	8,331	-18.4	1963 (estimated).....	16,440	9.6

As referred to above, the budget estimate for 1963 is predicated in part on an average of \$41,600 for the SBA share of loans approved. This average size assumes an increase in both the proportion of participation loans and the banks' share of such loans, primarily because of the new simplified bank loan participation program. Although the response to this program has been excellent since its inception last September, and we expect it to continue so in the months to come, the average size of the SBA share of loans approved during the first 9 months of fiscal year 1962 has been \$47,950.

Because of the continuing record demand for loans in relation to funds available, it was necessary as of December 1, 1961, to restrict the dollar amount of business loan applications being accepted to \$200,000 (SBA share) for other than defense-oriented concerns. Undoubtedly, this policy will result in a reduction in the average SBA share amount, as will an expected increase in the banks' proportion of participation loans discussed just above. However, because of applications in the "pipeline," we have not yet had sufficient experience to appraise the effects of this policy action.

The amount of authority required is also influenced, of course, by repayments on loans previously made. The estimate of \$164 million for repayments has been derived by computations based on the average term of our business loans (approximately 6½ years) and the amounts disbursed in prior years. In relation to current repayments and the anticipated increase in the amount of outstanding loans receivable held by SBA or participating banks, the estimate is as accurate as can be computed.

In summary, our current experience as concerns both the anticipated level of applications and the average size of loan requested fully supports, in our opinion, the estimate of a required increase in business loan authority in 1963 of approximately \$200 million.

EXHIBIT 1C

EXPLANATION OF INCREASE REQUIRED IN INVESTMENT AND DEVELOPMENT COMPANY
LOAN AUTHORITY—FISCAL YEAR 1963

The 1961 amendments to the Small Business Investment Act increased the authority of the Agency to purchase subordinated debentures of the small business investment companies from \$150,000 to \$400,000. The estimate submitted for the fiscal year 1962 for the purchase of subordinated debentures is \$61 million. The increase in the statutory authority coupled with the steady increase in the application rate for the formation of small business investment companies has resulted in an estimate of \$72.5 million for 1963.

We have made a strenuous effort to encourage the flow of private funds into this program in order that the Government participation may be kept at a minimum level.

As the small business segment of the economy is becoming more aware of the availability of equity and long-term financing, the interest in the formation of SBIC's increases, as do the demands upon this capital.

Through regulations we have held the maximum Government participation in the formation of SBIC's to \$150,000 in subordinated debentures. When the investment company has increased its private capital, and has exhibited to us that they have loaned up to 75 percent of their paid-in capital and surplus, they can then apply for the additional \$250,000 of subordinated debentures matching the increased private capital raised for growth purposes. Thus, most of the companies licensed in fiscal year 1962 will be in a position to request the additional subordinated debenture funds in fiscal year 1963. This accounts for the requested increase of funds in this area.

The agency is authorized under certain conditions to lend funds to small business investment companies in amounts which may not exceed 50 percent of the paid-in capital and surplus of a company, or \$4 million, whichever is less.

With the increase in the amount authorized for the purchase of subordinated debentures, the borrowing power authorized under section 303(b) of the act is correspondingly increased.

In order to provide the assistance to small businesses with a minimum of Government funds involved, this agency has embarked on a program to guarantee these section 303(b) loans made by commercial banks under a standby guarantee. A fund reservation of 50 percent is held against such loans. Although this plan conserves our appropriations, the full amount must be charged against the statutory authorization. We estimate \$8 million will be loaned on a direct basis by SBA, and \$64 million will be loaned by commercial banks.

The 1961 amendments to the act increased the authority for local development company loans from \$250,000 to \$350,000 for assistance to identifiable small business concerns and increased the maturity from 10 to 25 years. In addition, several more States have passed enabling legislation which permits State development companies to borrow from SBA in an amount equal to the total borrowing power of such development companies. These loans, both local and State, are made for plant construction, conversion, and expansion including the acquisition of land.

The enactment of the amended legislation brought the terms of these loans more in line with the construction industry standards, and a definite increase in loan application rates has resulted.

As a net result of this program to date, approximately 9,900 new jobs have been created in the small business community.

In fiscal year 1962, we had estimated a need for \$17 million for this program, and our present rate of applications indicates a definite need for \$31.5 million for 1963.

We are presently requiring each proponent to submit a certification that no additional private funds are available for investment in this program before Government funds are made available.

In addition, we have established controls to determine that no violations exist before considering applications for the purchase of subordinated debentures or the approval of a loan.

We are endeavoring to reach the maximum in participation with commercial banks on a standby guarantee basis in order to minimize the outflow of Government funds in this program.

EXHIBIT 2A

OFFICE OF BUDGET,
April 16, 1962.*Projection of business loans and commitments outstanding, fiscal years 1964 to 1968, inclusive*

[Dollars in millions]

	Estimates for fiscal years—				
	1964	1965	1966	1967	1968
Outstanding loans and commitments, start of year	\$932.6	\$1,149.5	\$1,315.6	\$1,430.2	\$1,499.7
Plus: New loan approvals	426.8	426.8	426.8	426.8	426.8
Minus:					
Repayments to banks or SBA	184.6	235.4	286.9	332.0	369.2
Loan cancellations	25.3	25.3	25.3	25.3	25.3
Total	209.9	260.7	312.2	357.3	394.5
Outstanding loans and commitments end of year	1,149.5	1,315.6	1,430.2	1,499.7	1,532.0

ASSUMPTIONS

Applications per month	1,300	Gross approvals at \$48,000 average, annually	\$426,816,000
Withdrawals, 5 percent	65	Cancellations at \$48,000 average, annually	25,344,000
Approvals, 60 percent remainder	741		
Cancellations, 6 percent	44		

OFFICE OF BUDGET,
April 18, 1962.

EXHIBIT 2B

Projection of investment and development company loans and commitments outstanding, fiscal years 1964 to 1968, inclusive

[Dollars in millions]

	Estimates for fiscal years				
	1964	1965	1966	1967	1968
Outstanding loans and commitments start of year	\$340.2	\$673.9	\$861.6	\$1,013.0	\$1,161.9
Plus new loan approvals:					
Purchase of SBIC debentures (sec. 302)	60.0	30.0	20.0	20.0	20.0
Loans to SBIC's (sec. 303)	184.0	80.0	60.0	60.0	60.0
Loans to State development companies (sec. 501)	30.0	20.0	20.0	20.0	20.0
Loans to local development companies (sec. 502)	64.0	64.0	64.0	64.0	64.0
Total	338.0	194.0	164.0	164.0	164.0
Minus repayments to SBA or banks:					
Debentures purchased from SBIC's (sec. 302)					
Loans to SBIC's (sec. 303)			2.4	1.1	2.6
Loans to State development companies (sec. 501)	3	1.5	2.5	3.4	4.2
Loans to local development companies (sec. 502)	4.0	4.8	7.7	10.6	13.3
Total	4.3	6.3	12.6	15.1	20.1
Outstanding loans and commitments end of year:					
SBIC debentures (sec. 302)	247.5	277.5	297.5	317.5	337.5
Loans to SBIC's (sec. 303)	280.3	360.3	417.9	476.8	534.2
Loans to State development companies (sec. 501)	36.1	54.6	72.1	88.7	104.5
Loans to local development companies (sec. 502)	110.0	169.2	225.5	278.9	329.6
Total	673.9	861.6	1,013.0	1,161.9	1,305.8

OFFICE OF BUDGET,
April 15, 1962.

EXHIBIT B

Number and percentage of participation business loans approved, specified States and periods

State	Fiscal year 1961		First 6 months, fiscal year 1962		Cumulative through Dec. 31, 1961		
	Number of participation loans	Percent of total loans	Number of participation loans	Percent of total loans	Number of participation loans	Percent of total loans	Bank's share as a percent of total amount of participation loans
Connecticut.....	15	45.5	19	54.3	140	63.1	18.0
Maine.....	24	80.0	23	71.9	153	64.3	19.7
Massachusetts.....	111	76.0	129	75.0	662	71.4	24.7
New Hampshire.....	18	60.0	16	66.7	111	65.3	22.6
Rhode Island.....	28	44.4	24	36.9	174	50.1	24.7
Vermont.....	10	76.9	5	62.5	88	75.9	24.7
Wisconsin.....	76	90.5	66	89.2	549	91.3	24.4
Total, all States.....	2,997	60.1	2,286	60.7	18,314	62.9	22.0

You say in your statement a further increase of \$200 million would be required in the business loan authorization for the fiscal year 1963. That is a huge increase, and I would presume that we would want a pretty detailed and exacting justification for that to approve it.

Mr. HORNE. Mr. Chairman, we will do that.

Senator PROXMIRE. In the event the committee acts unfavorably on this bill, which it may not. It may approve it.

Mr. HORNE. Would this be in keeping with what the chairman would like to have, if I understand you correctly? I have in mind the possibility of submitting to the committee perhaps three things. One would be approximately the same testimony that we have presented to the Appropriations Committees justifying our request for appropriations. Another could be a projection as to what increase in authorization we would need for fiscal year 1963 and the remainder of 1962 provided the committee saw fit to increase its authorization in accordance with our request for appropriations. And another might be a similar projection for the next 5 years.

Senator PROXMIRE. I think we would want a different kind of justification than the Appropriations Committee might. The Appropriations Committee, as I understand it, is prevented from acting on the basic law.

I would certainly be interested as chairman of the subcommittee in the kind of justification that was implied by Senator Javits' statement for insurance of the SBIC's. Whether there are any prospective changes in the law which might permit economy in that area or not, or whether it might go the other way if the basic law were improved to let SBA do a bigger job, and the SBIC's move ahead more rapidly, there might be required larger authorization.

This is the basic reason I feel we should continue to pass on this. I think it is such a fine way to coordinate the basic policy decision on the law and the money needs of the SBA.

So I would prefer to have you give us that kind of justification as well as what you are giving the Appropriations Committee.

Mr. HORNE. Very well, sir.

Of course, I did not have in mind duplicating the Appropriation testimony. There are certain bits of information in there that would apply to your request. (See p. 39.)

At the same time, assuming that this committee recommended an authorization in keeping with our already recommended appropriation, would you like to have these other two bits of information projecting what we would need for fiscal year 1963 and the remainder of 1962 and also would you like to have a projection, based on current activity, of what our increased authorization might be if you decided to give an increased authorization even for a period of 5 years?

Senator PROXMIRE. Yes indeed. And we would also like an indication of the timing on this, because we want to make sure that this authorization bill is passed in ample time so you can be protected. The time is getting short.

Mr. HORNE. Yes, sir.

Senator PROXMIRE. It is only a matter of less than 60 days? It is less than 90 days before the absolute deadline.

Mr. HORNE. Yes, sir.

Senator PROXMIRE. And we have to go through the Senate and the House, possibly to conference, et cetera, in the event this is not approved. So that we probably had better act quite promptly and work out a schedule and stick to it.

Mr. HORNE. I agree with you, Mr. Chairman, because, as I indicated in the last few sentences of my statement, it is important that we get whatever the committee is going to do as soon as we can, and in view of that we will submit this information that you have requested as soon as we can get it together.

Senator SPARKMAN. May I ask just this question? It is not detailed because it would entail duplication.

The amount you say you need in order to carry on the business loan activity includes the ability to do away with this restrictive limitation that you have placed on the amount of loans?

In other words, I believe last fall SBA found it necessary to cut the limit on small business loans to \$200,000 from the statutory limit of \$350,000. Is that not right?

Mr. HORNE. Yes, sir. That is correct.

Senator SPARKMAN. Is that still in effect?

Mr. HORNE. Yes, sir.

Senator SPARKMAN. Would the \$200 million make it possible for you to lift that?

I will tell you the reason I ask the question. I think it is a terrible commentary—and I have said this under the past administration and I say it under our administration—when it is necessary for budgetary reasons to effectuate savings that the first two groups hit most are the small business people and the homebuilders of the country.

Just look at it. Go back and get your records in the past and see that they are the ones that are hit first and hardest.

Senator PROXMIRE. If the Senator would yield at that point, I want to make sure it is absolutely clear in the record that the reduction to \$200,000 had nothing whatsoever to do with the congressional limitation on authorization. It was a decision made by the administration to cut down spending of various kinds.

Senator SPARKMAN. Yes.

Senator PROXMIRE. I am sure if you had not done that and had come back and asked for additional authorization this committee would have probably given it to you promptly.

Senator SPARKMAN. Yes. I said it was made necessary by budgetary limitations.

I recognize that fact, and I have expressed myself to the executive department about it.

First of all, we have always had some difficulty in getting the loan level up as high as \$350,000. In the beginning I contended it ought to be a million dollars, and I took that simply because that was the breakeven point that the Securities and Exchange Commission found 15 years ago when they made a study, or at least a good many years ago when they made a study, as to the availability of credit for small- and medium-sized businesses. They found that a business wanting to borrow not less than a million dollars—could not afford to go into the securities market. And I suppose that would be considerably higher now.

Finally we got the level up to \$350,000, and I think it is very bad that you had to cut the level to \$200,000 because there are lots of small businesses in this country that have been denied adequate credit to step up their operations to provide better plant, better equipment, and so forth, by reason of that limitation.

I hope that as soon as the funds are available, and I assume that the Budget will clear it, the amount will be increased.

Senator PROXMIRE. If the Senator would yield at that point, it is my understanding that the securities studies indicated that the million dollars was for investment banking money, long-term money, equity money, and so forth.

Senator SPARKMAN. That is true.

Senator PROXMIRE. And this, therefore, would apply to the SBIC program but not so much—to the business loan program.

Senator SPARKMAN. Not to the same extent. But similarly—

Mr. HORNE. I should like, Senator Sparkman, to answer your question in two parts. I might add that this question has been asked prior to now and I have informally cleared my reply with officials of the Bureau of the Budget.

The supplemental request now before Congress which has been acted on by the House and by the Senate Appropriations Committees—

Senator SPARKMAN. It is coming up today I believe, or tomorrow.

Mr. HORNE. It is coming up soon.

Senator SPARKMAN. Monday.

Mr. HORNE. Our request was for \$80 million for business loans, SBIC, and our regular programs. We had an additional \$10 million for disaster.

The House gave us the \$10 million for the disaster and reduced the \$80 to \$75 million. The Senate committee took \$5 million from the \$80 million and put it over with the \$10 million for disaster so we now have so far as the Senate is concerned \$15 million for disaster and \$75 million to run our lending programs through the remainder of the fiscal year of 1962.

The original request of \$80 million for this purpose was based on the fact that we would not be able to restore the \$350,000 limitation,

that we would continue for the remainder of this fiscal year the \$200,000 limitation.

It is clear that if we have less than the \$80 million somehow we have to absorb whatever the lesser amount is.

As regards the 1963 budget, this matter has not been determined as to whether or not we would return following action on our 1963 budget, to the \$350,000 limitation. I can tell the committee that in my opinion if we do return to the \$350,000 on July 1—and I say in all frankness that would be my personal hope—we would not at our present rate of applications be able to run through the entire fiscal year 1963. We would require additional money through forms of deficiency appropriation or supplemental appropriation.

Senator PROXMIRE. Thank you very, very much. This has been extremely helpful and responsive testimony, and I appreciate it.

We have letters on this legislation from the Chamber of Commerce of the United States and the American Bankers Association.

CHAMBER OF COMMERCE OF THE UNITED STATES,
Washington, D.C., April 12, 1962.

HON. WILLIAM PROXMIRE,
Chairman, Subcommittee on Small Business,
Senate Banking and Currency Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR PROXMIRE: The Chamber of Commerce of the United States is vitally interested in advancing the well-being of smaller business firms because their growth and prosperity are essential to the continued economic progress of our country. The chamber has vigorously supported measures which would strengthen smaller businesses in such areas as tax reform, antitrust enforcement, and patent policy.

However, we must oppose such legislation as S. 2970, which is currently before your Subcommittee on Small Business.

Subsection (c) of the Small Business Act of 1958 provides important statutory limitations on the amounts of money which may be loaned by the Small Business Administration in the performance of its three main functions: business development and disaster loans, investment company loans, and technical advice. If amended, as proposed by S. 2970, these ceilings would be removed, allowing greater latitude for expansion of the Small Business Administration.

A study of the growth of the Small Business Administration from its inception in 1953 reveals that funds for salaries and expenditures alone have grown from \$3,775,000 in fiscal 1954 to the 1963 budget request of \$34 million—an eight-fold increase in 9 years. This in itself should be enough to command continued program and fiscal review of Small Business Administration activities by both the legislative and appropriations committees, rather than removal of one of these necessary checkpoints.

The chamber strongly favors congressional control over Federal expenditures of taxpayers' dollars. To enact legislation which would directly or indirectly lessen controls over departmental and agency spending could serve to prolong the existence of a program long after its functional value has terminated.

The continuous and critical review of all Government activities and spending authorizations by Congress is essential in pointing the way toward reduction of the national debt.

For these reasons, the chamber urges the rejection of S. 2970.

Sincerely yours,

THERON J. RICE,
Legislative Action General Manager.

THE AMERICAN BANKERS ASSOCIATION,
Washington, D.C., April 13, 1962.

Hon. A. WILLIS ROBERTSON,
U.S. Senate,

DEAR SENATOR ROBERTSON: The American Bankers Association wishes to register opposition to S. 2970 which would eliminate the present ceiling on the overall amount SBA can spend on its programs and the ceiling on the amounts that can be expended in individual SBA programs. This association believes that the present joint control which your committee and the Appropriations Committee has over SBA expenditures is most desirable.

The American Bankers Association feels that it would be unwise for your committee, which originally considered the legislation establishing SBA and which handles amendments to the act, to give up all control over SBA expenditures at a time when SBA is expanding its lending functions. Therefore, the American Bankers Association recommends that S. 2970 not be enacted.

Sincerely yours,

CHARLES R. McNEILL,
Director, Washington Office.

Senator PROXMIRE. The subcommittee will stand recessed.
(Whereupon, at 12.02 p.m., the subcommittee recessed, subject to the call of the chairman.)

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