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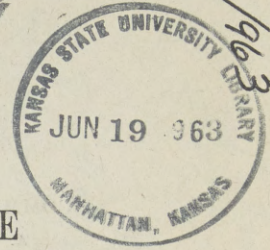
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SBA AND SBIC AMENDMENTS, 1963

GOVERNMENT

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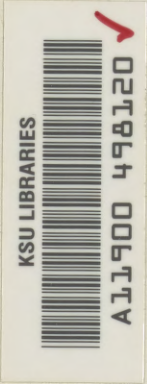


HEARINGS BEFORE A SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE EIGHTY-EIGHTH CONGRESS FIRST SESSION ON S. 298 and S. 1309

BILLS TO AMEND THE SMALL BUSINESS INVESTMENT ACT
OF 1958, AND THE SMALL BUSINESS ACT

MAY 14 AND 15, 1963

Printed for the use of the
Committee on Banking and Currency



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SBA AND SBIC AMENDMENTS, 1963

TUESDAY, MAY 14, 1963

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

The subcommittee met, pursuant to call, at 10:05 a.m., Hon. John Sparkman, presiding.

Present: Senators Sparkman, Douglas, Proxmire, McIntyre and Dominick.

Senator SPARKMAN. Let the committee come to order, please. Senator Proxmire has been delayed for just a few minutes and has requested we begin without him. I think other Senators will be in a little later.

Our subcommittee begins hearings today on S. 298, a bill to amend the Small Business Investment Act of 1958, and S. 1309, a bill to amend the Small Business Act.

(The two bills and a report from the Treasury Department follow.)

88TH CONGRESS
1ST SESSION

S. 298

IN THE SENATE OF THE UNITED STATES

JANUARY 18 (legislative day, JANUARY 15), 1963

Mr. SPARKMAN (for himself, Mr. HUMPHREY, Mr. SMATHERS, Mr. MORSE, Mr. BIBLE, Mr. RANDOLPH, Mr. ENGLE, Mr. BARTLETT, Mr. WILLIAMS of New Jersey, Mr. MOSS, Mr. SALTONSTALL, Mr. JAVITS, Mr. COOPER, Mr. SCOTT, Mr. PROUTY, and Mr. COTTON) introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

A BILL

To amend the Small Business Investment Act of 1958.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Small Business Invest-
4 ment Act Amendments of 1963".

5 SEC. 2. The second sentence of section 302 (a) of the
6 Small Business Investment Act of 1958 is amended by strik-
7 ing out "\$400,000" and inserting in lieu thereof "\$1,000,-
8 000" and by striking out "three years" and inserting in lieu
9 thereof "seven years".

★I

1 SEC. 3. Section 303 (b) of the Small Business Invest-
2 ment Act of 1958 is amended to read as follows:

3 “(b) To encourage the formation and growth of small
4 business investment companies, the Administration is
5 authorized (but only to the extent that the necessary funds
6 are not available to the company involved from private
7 sources on reasonable terms) to lend funds to such companies
8 either directly or by loans made or effected in cooperation
9 with banks or other lending institutions through agreements
10 to participate on an immediate or deferred (standby) basis.
11 Such loans shall bear interest at such rate and contain such
12 other terms as the Administration may fix, and shall be
13 subject to the following restrictions and limitations:

14 “(1) The total amount of the Administration’s share of
15 loans made and outstanding under this subsection (b) to any
16 one company at any one time (including direct loans, the
17 Administration’s share of loans made hereunder pursuant to
18 agreements to participate on an immediate basis, and com-
19 mitments to lend directly or on an immediate participation
20 basis, but excluding loans made hereunder pursuant to agree-
21 ments to participate on a deferred (standby) basis and any
22 obligations acquired pursuant to such deferred participation
23 (standby) agreements) shall not exceed an amount equal to
24 50 per centum of the paid-in capital and surplus of such com-
25 pany or \$4,000,000, whichever is less. The total amount of

1 the Administration's share of all loans made and outstanding
2 under this subsection (b) to any one company at any one
3 time, including loans made hereunder pursuant to agreements
4 to participate on a deferred (standby) basis and any obliga-
5 tions acquired pursuant to such deferred participation
6 (standby) agreements, shall not exceed an amount equal to
7 the paid-in capital and surplus of such company or
8 \$8,000,000, whichever is less.

9 “(2) All loans made under this subsection (b) shall be
10 of such sound value as reasonably to assure repayment.”

11 SEC. 4. Section 306 of the Small Business Investment
12 Act of 1958 is amended to read as follows:

13 “SEC. 306. Without the approval of the Administration,
14 the aggregate amount of obligations and securities acquired
15 and for which commitments may be issued by any small busi-
16 ness investment company under the provisions of this Act
17 for any single enterprise shall not exceed 20 per centum of
18 the combined capital and surplus of such small business in-
19 vestment company authorized by this Act.”

88TH CONGRESS
1ST SESSION

S. 1309

IN THE SENATE OF THE UNITED STATES

APRIL 10, 1963

Mr. SPARKMAN 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, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That the name of the Small Business Administration is
4 hereby changed to the "Federal Small Business Administra-
5 tion."

6 SEC. 2. (a) The Small Business Act and the Small
7 Business Investment Act of 1958 are amended by inserting
8 "Federal" before "Small Business Administration" each
9 place the latter term appears in such Acts.

10 (b) All references to the Small Business Administra-
11 tion in the laws of the United States, other than the laws

1 specified in subsection (a), shall be deemed to refer to the
2 Federal Small Business Administration.

3 SEC. 3. Section 4(c) of the Small Business Act is
4 amended—

5 (1) by striking out “\$1,666,000,000” and insert-
6 ing in lieu thereof “\$1,775,000,000”;

7 (2) by striking out “\$1,325,000,000” and insert-
8 ing in lieu thereof “\$1,375,000,000”;

9 (3) by striking out “\$1,222,000,000” and insert-
10 ing in lieu thereof “\$1,225,000,000”;

11 (4) by striking out “\$103,000,000” and insert-
12 ing in lieu thereof “\$150,000,000”; and

13 (5) by striking out “\$341,000,000” and insert-
14 ing in lieu thereof “\$400,000,000”.

15 SEC. 4. Paragraph (2) of section 7(b) of the Small
16 Business Act is amended to read as follows:

17 “(2) to make such loans (either directly or in co-
18 operation with banks or other lending institutions
19 through agreements to participate on an immediate
20 or deferred basis) as the Administration may determine
21 to be necessary or appropriate to any small-business con-
22 cern located in an area affected by a disaster, if the
23 Administration determines that the concern has suf-
24 fered a substantial economic injury as a result of such
25 disaster and if such disaster constitutes—

3

1 “(A) a major disaster, as determined by the
2 President under the Act entitled ‘An Act to author-
3 ize Federal assistance to States and local govern-
4 ments in major disasters, and for other purposes’,
5 approved September 30, 1950, as amended (42
6 U.S.C. 1855-1855g), or

7 “(B) a natural disaster, as determined by the
8 Secretary of Agriculture pursuant to the Consoli-
9 dated Farmers Home Administration Act of 1961
10 (7 U.S.C. 1961).”

11 SEC. 5. Section 16 of the Small Business Act is amended
12 by adding thereto the following new subsection:

13 “(c) Whoever, with intent to defraud, knowingly con-
14 ceals, removes, disposes of, or converts to his own use or
15 to that of another, any property mortgaged or pledged to,
16 or held by, the Administration, shall be fined not more
17 than \$5,000 or imprisoned not more than five years, or
18 both; but if the value of such property does not exceed
19 \$100, he shall be fined not more than \$1,000 or imprisoned
20 not more than one year, or both.”

21 SEC. 6. If any provision of this Act, or the application
22 thereof to any person or circumstances, is held invalid, the
23 remainder of this Act, and the application of such provision
24 to other persons or circumstances, shall not be affected.

TREASURY DEPARTMENT REPORT ON S. 298

THE GENERAL COUNSEL OF THE TREASURY,
Washington, May 17, 1963.

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. 298, to amend the Small Business Investment Act of 1958.

It should be recognized that the SBIC program is still new and experimental and that the experience of the SBIC program during the past 4 years may indicate a need for additional encouragement in certain areas.

With respect to the proposed participation loans, in accordance with the report of the Committee on Federal Credit Programs, we would be opposed to seeing a new deferred participation program enacted which would involve giving the private holder of the loan the indefinite right to shift it to the Government without risk or cost whenever interest rates rise or alternative investment opportunities become more attractive. There is less reason, however, to be averse to arrangements which would provide liquidity only for short periods and at a substantial actual or potential cost to the lender making use of it. However, during the developmental period of a new program, the basic principle regarding "liquidity puts" enunciated by the Committee may be too rigorous and could interfere with the further objective of creating experience in new lending techniques designed to improve the mobility of credit and the ability of borrowers to attract private funds. For this reason SBA has initiated a temporary full liquidity guarantee program for banking-disbursed loans to SBIC's under its general authority. We understand it intends to phase out this program by July 1, 1965, to bring its lending to SBIC's in line with the guidelines of the Credit Committee report. We favor SBA's plans along these lines.

Some extension in the time after licensing during which SBA may purchase subordinated debentures of an SBIC from the current 3 years would not appear to be objectionable. While the Treasury has no independent knowledge as to the appropriate time period, we believe that careful watch should be kept on developments, in the event this change is enacted, to prevent any abuses. It would appear appropriate, moreover, because of the experimental nature of the program to review the effects of the change after adequate experience has been gained to determine whether additional changes should be made.

The provisions of the bill which would remove the \$500,000 limitation on loans and commitments to a single enterprise by an SBIC may raise questions regarding the definition of a small business. We believe, however, that the present \$500,000 limitation is too low. We understand there have been a large number of instances in which two or more SBIC's have jointly made advances to a single enterprise which has had need for financing in excess of the limitation. Although Treasury would have no specific knowledge as to what the limitation should be, consideration should be given to raising the limitation, perhaps to as much as \$2 million. Prudent lending operations would, of course, require the continuation of the 20 percent restriction.

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,

FRED B. SMITH,
Acting General Counsel.

Senator SPARKMAN. Our witness today is Mr. John Horne, Administrator of the Small Business Administration. Our witnesses tomorrow will be representatives of the small business investment company industry.

Mr. Horne, we welcome you back to the committee. We have a copy of your prepared statement. As you know, you may treat it as you wish and read it through and comment, but in any event it will be printed in full in the record.

Now, for the benefit of the record will you identify those who accompany you?

STATEMENT OF JOHN E. HORNE, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION; ACCOMPANIED BY KEITH HANNA, ASSISTANT ADMINISTRATOR (CONTROLLER); C. R. LANMAN, DEPUTY ADMINISTRATOR FOR FINANCIAL ASSISTANCE; JAMES L. PARRIS, DEPUTY ADMINISTRATOR FOR THE INVESTMENT DIVISION; LAWRENCE S. CASAZZA, DIRECTOR, OFFICE OF INVESTMENT; GERALD S. FISHER, CHIEF, PROGRAM ADMINISTRATION AND COMPLIANCE DIVISION, OFFICE OF INVESTMENT; JEROME S. PLAPINGER, DEPUTY GENERAL COUNSEL; AND LEONARD J. RALSTON, ASSISTANT GENERAL COUNSEL (LEGAL INVESTMENT DIVISION)

Mr. HORNE. To my immediate left, Senator Sparkman, is Keith Hanna, Controller of the agency. To his left is C. R. Lanman, Deputy Administrator for Financial Assistance. To my far left is Jerome Plapinger, Deputy General Counsel. To my right is James Parris, Deputy Administrator, Investment Division. To his right is Lawrence Casazza, Director of the Office of Investment. And to his right is Gerald Fisher who is Program Administration and Compliance Chief of the ID Operations.

Senator SPARKMAN. We welcome all of you, gentlemen. Glad to have you here. We shall be pleased to have you proceed, Mr. Horne, as you see fit.

Mr. HORNE. Thank you, Mr. Chairman, for the invitation to review with you and your colleagues on the subcommittee the two bills to which you referred, S. 1309 and S. 298, which are the subject of these hearings.

One of the bills, S. 1309, would amend the Small Business Act, and the other, S. 298, would amend the Small Business Investment Act.

FEDERAL SMALL BUSINESS ADMINISTRATION

Turning first to S. 1309, section 1 of the bill would change the name of the Small Business Administration to the Federal Small Business Administration; and section 2 would effect corresponding changes in references to the agency which are embodied in the Small Business Act, the Small Business Investment Act of 1958 and other laws of the United States.

The purpose of this change is to provide the public with a clear indication that the agency is an instrumentality of the Federal Government, rather than a State or private organization. There is reason to believe that the existing name is inadequate for such purpose.

REVOLVING FUND AUTHORIZATION

Section 3 of the bill would increase the authorization for business and disaster loans from \$1,325 million to \$1,375 million, and the authorization for investment and development company activity from \$341 million to \$400 million. The total authorization, therefore, would increase from \$1,666 million to \$1,775 million.

In view of our most recent experience, and for reasons outlined in later paragraphs, I am today proposing that the recommended in-

crease in the authorization for business and disaster loans of \$50 million be eliminated. The total authorization, therefore, would be increased to \$1,725 million rather than the \$1,775 million proposed in the bill.

BUSINESS LOANS

I would like to comment first on my recommendation to eliminate the proposed change in the authorization for business and disaster loans.

When I appeared before this committee in April 1962, I reported that SBA had been experiencing a very sizable increase in business loan activity and that the volume in the fiscal years 1961 and 1962 was the highest in the history of the agency. A total of 10,880 applications were received in the fiscal year 1961 and 13,502 in the fiscal year 1962, and at the time of my appearance we were anticipating a continued growth in succeeding years.

During the current year, however, we have experienced a change in this trend. It now appears that the business loan application volume for fiscal year 1963 will be slightly under the 1961 volume.

In making a new projection of probable authorization needs through the fiscal year 1966 (as was required by the Congress in the legislative history of amendments to the Small Business Act in 1962, Public Law 87-550), we tried to ascertain the cause of such decrease in volume in order to measure its potential impact.

We found from discussions with our regional directors and banking officials that a major factor for the decrease was greater activity in term lending on the part of commercial banks. We believe this activity was stimulated, in part, by the necessity for investing the additional time deposits flowing into the banks because of the increased rate paid on savings.

We believe also that the energetic efforts on the part of SBA to attract more banks into term lending was a major contributing factor. In our bank participation program, for example, the current rate of bank participation in terms of dollars is 28.1 percent, as compared to 23.9 percent in fiscal year 1962, and 20.8 percent in 1961.

Another factor, which I am sure contributed to this decrease was the fact that our revolving fund became exhausted last March (except for a small amount reserved for disaster loans). For a number of months, as members of this committee may remember, the only funds available for lending were those received from collections.

It is interesting to note that the decline in business loan applications started shortly after our funds became exhausted, and we have not, since that time, reached the previous level of activity.

In making our current projections, we attempted to take these factors into consideration. We also have assumed that the current economic recovery will continue and there will be no substantial change either in the domestic or international picture. We have assumed also that there will be no significant change in the lending operations of the banks.

On the basis of these assumptions, we are estimating a level of 12,000 business loan applications in 1964 and an increase of 600 applications in each of the next 2 fiscal years, with a total of 13,200 in the fiscal year 1966.

Applying the factors which are set forth in the attachment to this statement, this would indicate that we would have outstanding on June 30, 1966, a total of \$1,055 million for business loans. Since we have estimated that we will need an authorization of \$150 million for disaster loan activity during this same period, we would have available for business loans \$1,175 million out of the total present authorization of \$1,325 million.

Based on current projects, my recommendation would leave us with some margin of safety in the business and disaster loan authorization. However, I would like to stress that any substantial reversal of small business term lending by banks, or other significant change in the facts underlying our assumptions, could necessitate our return to the Congress to request additional business and disaster loan authorization.

DISASTER LOANS

As indicated above, we are estimating that a total of \$150 million of the authorization should be reserved for the disaster loan program through June 30, 1966. We plan to make this reservation administratively. In the case of disaster loans, other than those for displaced businesses, an annual estimate of \$20 million has been utilized. This figure represents the average for the 5-year period ending June 30, 1962.

For loans to displaced businesses, the 1963 estimate is \$6 million; and a gradual increase to \$15,500,000 in 1966 is anticipated. These computations indicate that disaster loans and commitments outstanding on June 30, 1966, will amount to approximately \$142 million. The latter figure has been rounded to \$150 million to provide a small margin of safety.

I would like to say here, Mr. Chairman, our displaced business requests have been smaller than I thought would be the case. Increased Federal activity though, such as urban renewal, highways, and so forth, and wider knowledge of our legislation which will come in time could result in a stepped up increase for applications under this authority.

INVESTMENT AND DEVELOPMENT COMPANIES

Now, as to the investment and development companies, the committee will recall that the amendment approved last year covered our estimated requirements for the fiscal year 1963 only. In other words, Mr. Chairman, in the legislation that was passed last year, having us project for 2 years in advance our authorization and needs under the regular lending program, did not incorporate or include the ID program, and this is the reason we are here projecting just for 1 year.

The amendment proposed by section 3 of the bill, increasing from \$341 to \$400 million the amount of the total fund which shall be outstanding at any one time for the exercise of the functions of SBA under the Small Business Investment Act of 1958, is based upon a projection of requirements through June 30, 1964, as amended in the attachment.

It is estimated that, as of the latter date, loans and commitments chargeable against this separate statutory authority will aggregate \$393,600,000. In order to provide a small margin for contingencies, this figure was rounded to \$400 million.

EXPANSION OF DISASTER LOAN PROGRAMS

Section 4 of the bill would broaden the scope of the disaster loan program conducted by SBA pursuant to section 7(b)(2) of the Small Business Act. Under the terms of the latter section, disaster loans are authorized to help any small business concern suffering substantial economic injury because of drought or excessive rainfall in the area in which such borrower is located, if the drought or excessive rainfall constitutes a major disaster as determined by the President, pursuant to the provisions of 42 U.S.C. 1855-1855g, or a natural disaster as determined by the Secretary of Agriculture pursuant to the provisions of 7 U.S.C. 1961. It is hardly necessary to emphasize the value of these loans in tiding over small businessmen until the buying power of their customers has been restored.

Nevertheless, drought and excessive rainfall are by no means the only disasters which can cause economic injury to small business concerns by destroying or reducing the buying power of their customers.

Exactly the same injury is currently being reported, for example, by small enterprises in Florida as a result of the damage inflicted on the citrus crops of that State by the freeze this past winter.

Also, such injury can, and sometimes does, stem from other physical disturbances such as flood, hurricane, fire, earthquake, and storm. No sound reason exists for extended disaster loans to alleviate economic injury in the case of drought or excessive rainfall, and, at the same time, refusing such assistance in the other described situations.

Accordingly, section 4 of the bill would extend the benefits of section 7(b)(2) of the Small Business Act to any small business concern located in an area affected by any disaster, if the Administration determines that the concern has suffered a substantial economic injury as a result of such disaster and if such disaster constitutes a major disaster as determined by the President, pursuant to the provisions of 42 U.S.C. 1855-1855g, or a natural disaster as determined by the Secretary of Agriculture pursuant to the provisions of 7 U.S.C. 1961.

In addition to this substantive amendment, section 4 of the bill would effect certain technical changes in the language of section 7(b)(2) to reflect the enactment of the Consolidated Farmers Home Administration Act of 1961.

FRAUD RELATING TO SBA MORTGAGES

Section 5 of the bill would provide criminal penalties for any person who, with intent to defraud, knowingly conceals, removes, disposes of, or converts to his own use, or to the use of another, any property mortgaged or pledged to, or held by SBA. These penalties (a fine of not more than \$5,000 or imprisonment for not more than 5 years, or both) are the same as those applicable for similar frauds committed against the Farm Credit Administration and other farm credit agencies of the Government.

The need for such legislation is reflected in the fact that, under existing law, the United States has no effective means of punishing persons who steal property mortgaged to SBA as security for a loan. Unless appropriate sanctions are established for such conduct, the Government may suffer substantial loss.

Senator DOUGLAS. Mr. Chairman, may I ask a question?

Senator PROXMIRE. Yes indeed.

Senator DOUGLAS. Mr. Horne, is this a hypothetical danger or has this actually occurred?

Mr. HORNE. I will ask Mr. Plapinger to comment on that.

Mr. PLAPINGER. I believe, sir, it happened in one case that called our attention to this situation.

Senator DOUGLAS. Would you describe that case?

Mr. PLAPINGER. This was a loan in the amount of \$28,000, and in March—

Senator DOUGLAS. Who were the parties concerned?

Mr. PLAPINGER. I have the name of the borrower, sir.

Senator DOUGLAS. Yes.

Mr. PLAPINGER. The name of the borrower was the Glosser Coal Co. In 1960 an unpaid supplier of the Glosser Coal Co. went into the premises of the company at night and removed some equipment that was security for our loan.

Our information is, despite the fact we threatened action, there was no statute under which we could proceed. This was so under Federal Law. We were unable to get local authorities to proceed under State law.

Fortunately, in this case the size of the loan was small. We consider this proposal to be a preventive measure.

And again, sir, if I might point out, as Mr. Horne indicated, the authority is the same as possessed by the farm credit agencies under 18 U.S.C. 658.

Senator SPARKMAN. May I follow that up briefly?

I have no objection to the legislation, but I am amazed to learn that there was no right to proceed, and particularly under State law. I should think that if a person entered the premises of another and took property that was not his own there would be ample coverage under the common law.

Mr. PLAPINGER. Senator Sparkman, I agree with you. When we were advised of this deficiency—the incident occurred in 1960—we wanted to stem any possibility of this ever happening again.

Senator DOUGLAS. In what State did this occur?

Mr. PLAPINGER. This was Pennsylvania, sir.

Senator DOUGLAS. Is there any suspicion that the borrower was the culprit?

Mr. PLAPINGER. I do not know, sir. This was much before my coming with the agency. When this situation was called to our attention, we figured that this is a situation that should be nailed down.

Mr. HORNE. We thought also, Senator, that by tying it to existing legislation of other affected agencies that it would at least provide uniformity as between what would happen in a similar situation under this agency and other lending agencies.

Now, Mr. Chairman, I should like to discuss S. 298, which would amend the Small Business Investment Act of 1958.

SECTION 302(A) FUNDS

Section 2 of the bill proposes two changes in section 302(a) of the act. First, it would increase from \$400,000 to \$1 million the dollar limitation governing the amount of debentures which the Small Bus-

iness Administration can purchase from a small business investment company. Second, it would liberalize the rule limiting the time within which such a purchase can be made.

With respect to the first of these proposals, it will be recalled that \$300,000 is the minimum capital prescribed for an SBIC under the act. Under the act as originally passed, up to \$150,000 of this amount could be provided by SBA through the purchase of subordinated debentures issued by the licensee. The proceeds of the subordinated debenture issue, together with the capital provided by private investment, made up the required \$300,000 statutory capital. Licensees were also eligible to borrow additional sums under section 303(b) of the act, up to 50 percent of their statutory capital.

Senator DOMINICK. Mr. Chairman, may I ask a question?

Senator PROXMIRE. Yes, indeed.

Senator DOMINICK. What do you mean by licensee?

Mr. HORNE. Under our authorization as granted in 1958, Senator, SBA is authorized to issue licenses to small business investment companies:

Senator DOMINICK. The investment company? The small business investment company is what you refer to as a licensee?

Mr. HORNE. Yes, sir.

Senator DOMINICK. Thank you.

Mr. HORNE. As a result, it was only the minimum-size companies that could achieve the maximum leverage on a ratio basis of 2 to 1. The larger the private investment in a licensee, the less leverage it could obtain on a ratio basis.

Moreover, it soon became apparent that \$450,000 (the maximum amount of assets for a minimum company) was insufficient to allow for profitable operations. However, consideration of this factor was for some time overshadowed by the spectacular success of a few licensees in marketing large issues of stock in the over-the-counter market.

It may be an oversimplification thus to describe it, but the facts are that under the act, as originally passed, the less a company invested above the absolute minimum, the greater percentage of its total funds it could obtain from SBA.

Recognizing these factors, the 87th Congress passed the Small Business Investment Act Amendments of 1961 (Public Law 87-341), which, among other things, made it possible for SBA to purchase subordinated debentures up to \$400,000 under section 302(a), on a matching basis with private funds.

The results of this change have been encouraging, but not to the extent that they might have been had not SBA encountered budget difficulties in the early months of 1962, and the industry experienced an abnormally adverse stock market.

The budget difficulties, for more than 6 months, limited approval to only a few of the most urgent requests for funds. Despite this, the record shows that since September 30, 1961, licensed companies have placed over \$22 million in newly subscribed private funds in the program, in anticipation of matching funds from SBA.

It is important to realize that for the most part these were funds produced by veterans of the program, insofar as a program as young

as this one may be said to include veterans. In other words, most of this additional money came from investors who had already invested at least \$150,000 and who were expressing their confidence in the program by putting additional funds, up to as much as a quarter of a million dollars, into these privately owned and operated companies.

At this point it would be well to emphasize a factor which may easily be misunderstood. At the end of 1962, there were 606 licensed SBIC's that had reported their financial condition in detail. These companies had total assets of \$588 million, of which \$359.9 million, or 61.2 percent, was invested in small businesses, while \$239 million, or 38.8 percent, was held in cash, bank deposits, U.S. Government obligations, and a minor amount of "other assets."

The longer an SBIC has been in business, the more likely it is to have invested most of its funds. Thus, at the end of 1962, companies licensed 2 years or more had placed 66 percent of their assets in small business investments; those licensed between 1 and 2 years had invested 57 percent; and those less than 1 year, 49 percent.

From these 1962 figures, the casual observer might infer that there was no need for additional funds in the program. Such an inference would be in error. These total assets of \$588 million are not in the form of a vast pool of funds to which all small business concerns have equivalent access. Instead, these assets are divided among 606 different compartments of varying sizes. When one of these compartments runs dry, there is no automatic means for replenishment.

To the extent possible under the act, SBA has taken steps to alleviate this problem. By regulation, we have allowed licensees to purchase from or trade portfolio items with other licensees, to the extent of one-third of their assets. And, we have broadened their ability to participate with other licensees. These actions are helpful, but do not go to the basic problem—availability of funds.

A great virtue of the SBIC program is that the licensees make their own investment and credit decisions. They do not wish, nor do we want them, to rely primarily on the purchase of other companies' portfolios, or on the taking of small bits and pieces of participations, in order to acquire earning assets.

A number of SBIC's have taken full advantage of the leverage provided by sections 302(a) and 303(b) under existing legislation and are substantially invested. Moreover, at the current rate of investment by SBIC's, it is expected that the number of such companies will increase within the next 2 years. The current economic picture does not permit them to obtain additional paid-in capital and surplus in the public marketplace.

Since this situation is believed to be of a temporary nature, I am recommending that until June 30, 1965, the maximum amount of subordinated debentures purchasable on a matching basis under section 302(a) of the act be raised from the present limit of \$400,000 to \$700,000.

We propose to carry out this temporary authority, if enacted, by regulations that would implement the Congressional mandate that there be "maximum participation of private financing sources," as follows:

1. No licensee could take advantage of the increase to \$700,000 in subordinated debentures during this temporary period until it had

taken down and substantially invested or committed (75 percent or more) (a) the \$400,000 subordinated debentures now permitted under existing legislation and (b) the loan funds now available to it under section 303(b) of the act.

2. The additional funds that would be available under section 303(b) could be applied for only if the licensee had complied with the steps indicated under item 1.

The foregoing procedures would, of course, be subject to the requirement now contained in sections 302(a) and 303(b) of the act that a licensee is eligible for funds under these sections "only to the extent that the necessary funds are not available * * * from private sources on reasonable terms."

It is our hope that the programs of the national administration will result in a fuller realization of the growth potential of the Nation's economy, and lead to reduction in the amount of Government funds in the SBIC program.

I want to emphasize here though there never has been as much Federal funds in the program by a long sight as originally Congress anticipated in its 2-for-1 ratio. The ratio is still I think about \$1 of Federal funds to about every four and a half dollars of private funds or stock funds.

Without the increase as proposed, the most active licensees may well be forced for a period of some years to reduce the scale of their operations to the servicing of investments now on their books.

It should be remembered that the proposal to increase subordinated debentures to \$700,000 is not a proposal for grants or subsidies. Our purchase of these debentures will be protected by the faith and credit of the corporate licensee, and backed up by actual private investments.

We favor the objective of the second of the two proposals contained in section 2 of the bill, which would extend the time within which SBIC's can call upon SBA for section 302(a) subordinated debenture funds. Under existing law an SBIC cannot obtain such funds after the lapse of 3 years from the date on which it received its license. In the case of SBIC's licensed prior to the enactment of the Small Business Investment Act Amendments of 1961, the deadline is now October 3, 1964.

It is the small SBIC's, those most in need of assistance, that will suffer the most if this short period is not extended.

It should be emphasized at this point that while we do not view the \$300,000 SBIC as a fully staffed, full service financial institution, we continue to feel that there is a definite place in the program for locally oriented SBIC's. Many of the present smaller licensees are locally oriented, in small to medium sized communities, with a board of directors of local small business and professional men. These SBIC's typically have acquired a portfolio of investments in, perhaps, six or seven small concerns, averaging \$30,000 to \$50,000.

Such companies as these are providing a grassroots service which should be encouraged, but they need more time than the 3 years provided for under existing law in which to add capital and make themselves eligible to receive additional subordinated funds from SBA. It is believed that 5 years, rather than 7 years, as proposed in the bill, would provide adequate additional time for this purpose.

We therefore recommend that the proposal in the bill be amended accordingly, so that every SBIC licensed subsequent to the enactment of the Small Business Investment Act Amendments of 1961 would be allowed 5 years from the date of its license within which to qualify for section 302(a) funds to the extent presently authorized. The cutoff date for SBIC's licensed prior to the 1961 amendments would be extended to October 3, 1966. All companies licensed in the future would also be allowed 5 years.

I emphasize that this extended period would apply only to the SBA purchase of subordinated debentures up to \$400,000. The additional \$300,000 contained in my proposal would have to be purchased by SBA on or before June 30, 1965.

SECTION 303(B) FUNDS

Section 3 of bill S. 298 would amend section 303(b) of the act in two particulars. Section 303(b) now provides authority for SBA to make operating loans to an SBIC up to 50 percent of its statutory capital or \$4 million, whichever is less. The bill would provide SBA with specific statutory authority to make loans under section 303(b) to SBIC's in cooperation with banks and other private lending institutions.

Also, it would increase the amount of assistance under section 303(b) which SBA can furnish to an SBIC under a deferred participation (standby) agreement with such an institution.

Section 303(b) does not now explicitly authorize SBA to make loans to SBIC's in participation with banks or other private lending institutions. However, considering the nature and purposes of the small business investment program, I believe we have authority to enter into such agreements.

The existence of such authority is, in my opinion, clearly implied in the language of the section. Thus it is provided that financial assistance may be extended thereunder only to the extent that the necessary funds are not available to the borrower from private sources on reasonable terms.

It follows that, if a bank is willing to put up part of the money needed by an SBIC, we are authorized to supply the remainder. Normally, such joint assistance would be extended through the medium of participation agreement, either immediate or deferred.

Although, in our judgment, we have this authority, to date we have not been able to enter into participation agreements because banks and other lending institutions have not yet consented to share in the long-term risks involved in section 303(b) loans. Meanwhile, in order to effectuate the congressional intent under section 102 of the act that private funds be utilized to the greatest possible extent, we have developed what is known as a standby agreement.

Under this arrangement the bank makes the loan with the understanding that it may call upon SBA at any time for the full amount of the outstanding principal. Our authority to make such agreements has been upheld by the Comptroller General (Comp. Gen. Op. 149685).

(See SBA letter to and the opinion from the Comptroller General, p. 187.)

Mr. HORNE. However, this procedure, if made permanent, would not be consistent with the findings and recommendations of the "Report to the President of the Committee on Federal Credit Programs" dated February 11, 1963. We thus propose to phase out this procedure on or before June 30, 1965.

We hope that encouragement to private lenders to participate in financing under section 303(b) will be forthcoming with further maturity and experience gained under the program.

Therefore, in light of the above considerations, we are not recommending that we be granted express authority to enter into cooperative arrangements with banks or similar institutions at this time. Rather, we propose that the status quo be maintained, so that we may explore further methods of achieving the congressional mandate stated in section 102 of the act. A plan may be worked out that would not necessitate legislation, or that may require different authority than proposed in the bill. We, of course, would so report to Congress.

The second amendment to section 303(b) of the act contained in section 3 of the bill relates to the rule which forbids SBA to acquire from any SBIC obligations in an amount which exceeds 50 percent of the paid-in capital and surplus of the company or \$4 million, whichever is less. This portion of the bill would exclude from the limitation obligations acquired pursuant to standby agreements.

Moreover, it would provide that the total amount of obligations which SBA can acquire from an SBIC, including those acquired pursuant to such agreements may range in value up to the entire amount of the company's paid-in capital and surplus, or \$8 million, whichever is less.

In view of the fact that sufficient leverage is now provided and would be provided under my proposal to amend section 2 of the bill, I do not recommend enactment of the second amendment to section 3. However, to create additional flexibility in the availability of section 303(b) funds, I strongly recommend an increase to \$5 million (in lieu of the present \$4 million ceiling) that may be borrowed by a licensee.

THE \$500,000 LIMITATION

Section 4 of the bill would eliminate the rule that, without SBA approval, the total amount of equity and long-term financing which an SBIC can provide to any individual business enterprise cannot exceed \$500,000. We hope that this amendment will be adopted. The premise underlying the rule appears to be that an applicant which demonstrates a need for long-term or equity financing in excess of \$500,000 is not likely to be a small business concern, since such a concern seldom, if ever, requires financing of such magnitude.

In our opinion, this premise is incorrect in a number of aspects. The capital requirements in many lines of business today are such that \$500,000, no matter how large that sum appears to be in an absolute sense, would provide capital equipment for no more than 40 or 50 workers, or even fewer in the case of technical industries. Such a maximum condemns to a continued existence in the equity gap many of the very group of small but growing concerns that the SBA was designed to aid.

The premise is faulty in that it appears to equate size of loan with size of business. Moreover, I want to stress two effective controls in this connection; that is, with regard to size.

One is that the amendment proposed by the bill would not affect the present 20-percent limitation (no SBIC may invest more than 20 percent of its combined capital and surplus in any small firm without SBA approval).

Secondly, size standards prescribed by SBA effectively prohibit investments in large businesses.

Thus, Mr. Chairman, without the \$500,000 limitation I feel there are adequate safeguards as far as providing financing to the entire range of small business is concerned. However, it does not seem to us that the intent of the act is to provide aid only to those firms which can be expected to remain forever small.

It is also to help small concerns to reach a position where they can effectively compete with the giants of their industry, and to counteract existing monopolistic tendencies and undue concentrations.

The fact that prior approval can be sought from SBA for an over-\$500,000 investment does not obviate the objection to the limitation. No SBIC will approve a large investment until weeks or even months of serious negotiations, often accompanied by heavy expenses, have taken place.

At the same time, SBA does not feel it can pass on a request for permission to exceed the limit unless it is in possession of detailed facts on the proposed investment.

As a result, SBIC's have told us that they simply decline to enter into negotiations for loans or investments in excess of \$500,000 if they must seek our prior approval. They do not wish to risk the expenditure of time and money against the possibility that SBA may not approve the investment when it is ready for culmination.

The \$500,000 limitation was cited by one of the largest SBIC's as one of the major reasons for turning in its license and withdrawing from the program. The limitation has also been cited by larger SBIC's as a major deficiency in the program, and as a reason by other SBIC's for possibly leaving the program. These companies have made it clear to us that if the \$500,000 limitation is not lifted, they will definitely consider leaving the program.

In summary, we strongly support the removal of this restriction, as would be accomplished by section 4 of the bill. We, of course, desire that the entire size spectrum of small concerns be served by this program, without undue concentration at the upper end. We feel, however, that in order to establish an appropriate limitation, the financial needs of a small business should be looked to, rather than resort to an arbitrary dollar ceiling.

Senator DOUGLAS. Mr. Chairman, may I ask the witness a question?

Senator PROXMIRE. Yes, indeed.

Senator DOUGLAS. Mr. Horne, do I understand correctly that after the amendments of 1961 were passed imposing a \$500,000 limitation on the amount which any SBIC could loan to an individual business that you issued regulations on this matter.

Mr. HORNE. Yes, sir.

Senator DOUGLAS. What was the nature of these regulations? Would you insert the regulations in the record and would you summarize them?

Mr. HORNE. Yes, sir. I will be glad to insert it, Senator Douglas. (The regulations referred to follow:)

§ 107.708 Aggregate limitation on investments and loans.

(a) Without the prior written approval of SBA, the aggregate amount of funds loaned to, or invested in Equity Securities of, any single small business concern, or for which commitments may be made, shall not exceed 20 percent of the combined paid-in capital and paid-in surplus of any Licensee (including in such Licensee's capital and surplus the outstanding amount of any SBA loans under section 302(a) of the Act) or \$500,000 whichever is the lesser. Such \$500,000 limitation shall apply only with respect to loans made to and Equity Securities acquired from a small business concern by a Licensee on or after October 3, 1961, but shall not apply with respect to any loans made, or Equity Securities acquired, pursuant to a commitment issued before such date. Furthermore, the \$500,000 limitation shall not apply so long as 50 percent (amount invested, disbursed, or committed) of the Equity Securities acquired and loans made by a Licensee after October 3, 1961, meet such \$500,000 limitation.

(b) Without the prior written approval of SBA, no more than 5 Licensees may, by participation or otherwise, provide Equity Capital or long-term loans to any single small business concern unless the total financing involved is \$500,000 or less.

Mr. HORNE. I will ask Mr. Parris, who is the Deputy Administrator for the Investment Division, to summarize the regulations.

Mr. PARRIS. Senator, the regulation number is 107.708 of our regulations, and it provides first that without our approval the 20 percent or \$500,000 limitation cannot be exceeded.

Then it provides that this limit should not apply to loans made or equity securities acquired by a licensee before the October 3, 1961 amendment that made the \$500,000 limitation effective.

And then, furthermore, the \$500,000 limitation shall not apply so long as 50 percent of the amount invested, disbursed, or committed of the equity securities acquired and loans made by a licensee after October 3, 1961, meet such \$500,000 limitation.

This latter provision was adopted in order to allow companies to make loans above the line of \$500,000 if they had an equal number in dollar amount below the line.

Senator DOUGLAS. Well, now, Mr. Horne, may I ask: Do you think you had legislative authority to raise the limit above \$500,000 when the 1961 amendments seemed on the face of them to place this as a ceiling?

Where was your legislative authority to permit loans in excess of \$500,000?

Mr. PARRIS. The amendment provided that these limits could not be exceeded without the approval of the Administration. It was considered in light of the legislative history that that approval need not be specific in each case but that we could develop a formula approach.

Senator PROXMIRE. If the Senator would yield at that point—

Senator DOUGLAS. Yes.

Senator PROXMIRE. I was author of that amendment. I recall it very well. I made my position emphatically clear at the time I introduced the amendment. I have protested this constantly to the SBA ever since. I think this interpretation was outrageous. I still think so.

There is a 20 percent of capital and surplus limitation on loans by an SBIC in the law, and there has been since SBIC's were first created.

There is a well-established pattern of administration of this 20-percent provision. And as the Administrator has just told this committee, on rare occasions do they permit an SBIC to exceed the 20-percent limitation.

With that in mind, I introduced my amendment to limit the loans to \$500,000, feeling that on a very rare occasion that there would be permission for an SBIC to exceed \$500,000.

However, the SBA, I thought in an almost incredible interpretation, on the basis of remarks made by Congressman Patman on the floor of the House—largely that was their justification—said that firms can exceed \$500,000 to the extent of 50 percent of their loan portfolio.

In other words, if they have a loan portfolio of \$20 million, \$10 million of it can be in loans in excess of \$500,000—which just makes my amendment, I think, exactly one-half effective.

Mr. HORNE. I might—

Senator PROXMIRE. This is the one they want to wipe out entirely now on the recommendation of the Administrator.

Senator DOUGLAS. I would like to get the precise legislative justification for this regulation.

I have here in my hand the conference report dated September 13, 1961, which gives the text of the bill that came out in conference. Section 7 reads as follows:

(a) Section 306 of the Small Business Investment Act of 1958 is amended by striking out the matter following "exceed" and inserting in lieu thereof the following: "(1) 20 per centum of the combined capital and surplus of such small business investment company authorized by this Act, or (2) \$500,000, whichever is the lesser."

That to my mind, so far as the language of the act is concerned, would seem to put a ceiling of \$500,000. And I am somewhat mystified at the Administrator thinking that he had the right by administrative discretion to raise that ceiling.

Mr. HORNE. Well, Senator Douglas, I must confess in this case that the agency found itself in a position of believing under the law, under the wording, that we did have the authority to go above that.

I must also confess that every member of the conferees, as Senator Proxmire, the chairman, has pointed out, was not in complete agreement as to just what could or could not be done under this particular provision.

As Senator Proxmire has also pointed out, Congressman Patman made a statement on the House floor which gave what his understanding of the provision was.

I might also add there was not complete unanimity of agreement among the conferees.

This, plus the fact that the legislation said "without the approval of the administration," did indicate to me that we were not in violation of the wording as established by Congress.

Senator DOUGLAS. I had always thought that the language of a statute was controlling and that legislative history, while interesting, did not change the plain meaning of the legislation. And I see nothing in the legislation which permits you to go over \$500,000.

Now, it is true that in the report of the House conferees that in parentheses they added the phrase "without SBA approval." This is on page 9.

Senator SPARKMAN. Will the Senator yield?

Senator DOUGLAS. Certainly.

Senator SPARKMAN. The law itself says "without the approval of the Administration."

Senator DOUGLAS. Where is this?

Senator SPARKMAN. Section 306.

Yes, I remember that was the thing that we had our big hassle over. In other words, that was the compromise—that there could not be a loan beyond \$500,000 without the approval of the Administrator. And my recollection is—I have not refreshed myself recently on this—that what Congressman Patman did in the House of Representatives was to explain how the approval of the Administrator might be given and that it did not require that he take up and consider and approve every case individually but that he could lay down a regulation under which the SBIC might proceed.

Senator PROXMIRE. If the Senator would yield, that was Congressman Patman's interpretation. But the position of the Senator from Illinois—

Senator SPARKMAN. I said that was the explanation.

Senator PROXMIRE. The law is very clear on it. And even assume Congressman Patman's interpretation was the law, which it was not. But assume it was. He accepted my amendment and we accepted one of his proposals that we were reluctant about at the time.

Even assuming Congressman Patman's floor statement was law, it seems to me to provide that there be a 50-percent exclusion was an incredible interpretation of what Congressman Patman said. It means that half of what a large SBIC invests is excluded from this provision of the law and only half of it is included.

Mr. HORNE. Well, Senator, Mr. Chairman, if I may, I have a direct quote here from Congressman Patman. It says:

I see no reason why this purpose could not be accomplished by some formula SBA may develop allowing, for example, a given percentage of investments over the \$500,000 limitation.

Now, according to the record I have here, Congressman Widnall and other Congressmen also supported Congressman Patman's interpretation.

Senator PROXMIRE. They wanted it. And, of course, they were very reluctant to accept this amendment. But a "given percentage," it seems to me, once again, may be 3 percent, may be 5 percent. But, after all, as the Senator from Illinois has indicated, the law is clear. The law is explicit. And the exception should not prove to be the rule half the time. If you do that, it seems to me that the exception becomes equally important with the rule.

Senator DOUGLAS. Mr. Chairman, I want to modify for the sake of the record my previous statement. When I first spoke I had only the amendment of 1961 in my hand. I now have the basic act, and it is

true that the basic act in section 306, as the Senator from Alabama expressed, starts off with the phrase—

without the approval of the Administration, the aggregate amount shall not exceed—

and so forth.

Senator PROXMIRE. That is exactly why. See, this had been in effect for years before we came in in 1961 with the \$500,000 provision. They had been able to exceed the 20 percent before. And they had rarely done it. I do not know if there is any occasion when you had done it.

Now, we fit it into exactly the same framework.

Senator DOUGLAS. I want to modify the statement I made. The Administrator has discretionary power to exceed the \$500,000 limit. That is true.

Mr. HORNE. Yes, sir.

Senator DOUGLAS. But I think there is very real question as to whether he can go up to the 50 percent.

Senator PROXMIRE. Yes.

Senator DOUGLAS. Because that I think does make a shambles of the \$500,000 limitation.

Is this 50 percent on a case by case basis, or is this a blanket permission, Mr. Horne?

Mr. HORNE. It is a blanket permission above.

Senator DOUGLAS. Blanket permission?

Mr. HORNE. Yes.

Senator DOUGLAS. Well, I was one of those who supported Senator Proxmire in his amendment, and I thought we had anchored it down subject to individual modifications.

Now to give blanket permission of 50 percent—50 percent of what?

Mr. PARRIS. Of the amount invested, disbursed, or committed of the equity securities acquired and loans made by a licensee after October 3, 1961.

Senator DOUGLAS. Is that 50 percent of the SBIC or 50 percent of the company to which the loan is being made?

Mr. PARRIS. Fifty percent of the dollar amounts invested by the SBIC.

Senator DOUGLAS. The total of the dollar amount?

Mr. PARRIS. Yes.

Senator PROXMIRE. The entire portfolio. Everything.

Senator DOUGLAS. Just as Senator Proxmire has said, suppose the entire portfolio was \$20 million. Are there any SBIC's with as big a portfolio as that?

Senator PROXMIRE. Oh, yes.

Senator DOUGLAS. Then you could put \$10 million more into this enterprise.

Now, very frankly, I do not think this is any limitation at all, and now you want to eliminate it completely.

I find myself "from Missouri" on this, Mr. Horne. I really do.

Mr. HORNE. Well, Senator, I realize that this is a controversial issue so far as Senators and Congressmen are concerned.

Now, in good conscience we struggled with this thing quite a while. As a matter of fact, we read the legislation very carefully where, as you have just pointed out, the Administrator was given some leeway.

Senator DOUGLAS. The original act and the modification, the amendment of 1961, simply the words following "exceed."

Mr. HORNE. Yes, sir.

We read the legislative history. We discussed our proposed amendment not only with Members of the House but also with Members of the Senate. And I do not want to get myself involved here in a situation that would not be appropriate, but there also were some members of this committee that saw the regulation before it was ever issued, just as the chairman saw it. As he stated very honestly, he strenuously objected to it. It was not unanimous at all. There was strong objection to it.

Under all circumstances considered, and with the knowledge that it was impossible to satisfy every member, we came out with what we thought was a fairly reasonable, workable interpretation of the act.

Now, of course, this is a new industry, and I think we all would agree that if it is going to reach its potential, certainly at its beginning, we need to give it as much encouragement as possible.

And it was with some consideration given to the thoughts of the industry that we finally worked out our amendment. Of course, the industry was not in accord with it.

Senator DOUGLAS. Now, Mr. Horne, over the years I have had a very high opinion of you. I still continue to have a high opinion of you.

Mr. HORNE. Thank you, sir.

Senator DOUGLAS. But what you are saying now is on the basis of ex parte conversations with members of the committee you felt justified in stretching the language of this amendment so that, in effect, it meant very little?

Mr. HORNE. Well, I am not so sure, sir, that—

Senator SPARKMAN. Will the Senator yield to me?

Senator DOUGLAS. Surely.

Senator SPARKMAN. I think we ought to have this in proper perspective. This is not the sole item in the formula, is it? The 50 percent limitation?

Mr. PARRIS. Well, it should be pointed out, sir—

Senator SPARKMAN. In other words, what you were doing was outlining conditions under which these loans might be made without having to receive case-by-case approval?

Mr. PARRIS. Yes, sir. And the 50 percent, it should be remembered, is not 50 percent of their investable funds.

Senator SPARKMAN. Yes.

Mr. PARRIS. They could not get \$10 million simply because they had \$20 million investable funds.

Senator DOUGLAS. What is the 50 percent?

Mr. PARRIS. Fifty percent of the amount actually invested.

They may make loans in excess of \$500,000 so long as 50 percent of what they have already invested and are investing meets the limitation.

Senator PROXMIRE. The difference is they might have money in cash and Government bonds which would be excluded. It is only the part that is invested in equity securities and loans to small business.

Senator DOUGLAS. Even so, I think this is important.

I took part in the investigation of the RFC and helped to send some people to jail in the RFC. After the original purpose of the RFC was fulfilled, namely, the bailing out of the banks and in some cases the railroads, then the justification which was advanced for the RFC was that it was primarily to help small business.

But we found that the RFC was making very large loans to somewhat dubious enterprises and that the proportion of the money small business was receiving was very little. There were large numbers of loans to small business but a relatively small amount of the total funds went to small business.

As a result of this investigation, the RFC was killed.

Now, I felt that was too severe, and I supported the creation of this Small Business Investment Act in which Senator Sparkman and Senator Fulbright played a leading part.

I think it is basically good legislation. But I would hate to see the nose of the camel get in under the tent and for this to turn into aid to—financially not giant business—I do not suppose it will ever aid giant business—but moderately large business.

I think this program was intended to serve small business. And I suppose we fundamentally get into the question of what is the proper definition of small business.

And you say that the \$500,000 limitation, if the SBIC provides machinery and equipment with a \$10,000 investment per job, would only result in 50 new employees.

I can understand your argument, but I think there is a real danger here that one must guard against.

Mr. HORNE. Let me say, Senator Douglas, I share completely the thoughts that you have expressed. But I want to emphasize again a couple of matters that you have pointed out if I may, sir.

We do have size control already. We have it by the very nature of our act. We also have it by the 20-percent formula.

But beyond the 20-percent formula as it applies to a large SBIC in which the 20 percent might still be a large loan we have size standards so far as the types of businesses and the size of the companies to which the loans may be made.

Also there are different kinds of businesses in which \$500,000 is relatively very small, relatively a drop in the bucket, if we are going to enable the new exotic, expensive kinds of business to continue to have a chance to grow and become competitive.

We also keep in mind that the SBIC's are privately owned and privately operated companies. We do not have—maybe this is not a good analogy but I should like to make it anyhow, sir—the FDIC looking over the shoulder of every loan made by its member institutions or the Home Loan Bank Board looking over the shoulder of every loan made by its member institutions.

The FDIC is privately owned and privately operated just as savings and loan—

Senator DOUGLAS. Yes, but there is a transfusion of Government money into these SBIC's.

Mr. HORNE. In the case of savings and loan associations you do have some Government banking, of course, through your deposits and guarantees. You are so familiar with that operation that—

Senator DOUGLAS. As a matter of fact, I think on that analogy a case can be made that the Home Loan Bank Board has not watched sufficiently carefully the types of investments made by the savings and loan associations. And there are some savings and loan associations, as you well know, that are in great difficulty because of injudicious loans.

Mr. HORNE. I also, Senator, want to emphasize that so far as the larger SBIC's are concerned there are no private funds invested. And very, very few of them do have private funds. By and large—

Senator PROXMIRE. No public funds you mean?

Mr. HORNE. I mean public funds.

Senator PROXMIRE. The point here, of course, is that the SBIC's do have substantial tax advantages and tax privileges.

Mr. HORNE. Only if they lose money, sir.

Senator PROXMIRE. That can be worth a very great amount.

Mr. HORNE. Presently most of their tax advantages relate to cases in which they lose money. Now, somebody pointed out to me you cannot make money by losing it.

Senator PROXMIRE. They can make an investment, or two investments, and one would lose \$100,000 and the second would make \$100,000. And if the investor in the SBIC is in the 60 percent tax bracket he has a 17.5 percent gain even though the SBIC has made nothing. He can do it because he offsets the passed-through \$100,000 loss against ordinary income and his \$100,000 gain is taxed at a maximum of 25 percent. This is a tremendous privilege. It is a real loophole.

I was very reluctant to approve it on any basis.

But if you are going to have this kind of tax advantage, it should be for the basis of small business.

Mr. HORNE. Now, there is another factor. There are two factors involved here, Mr. Chairman. One, of course, has been mentioned two or three times. That is, in certain types of business \$500,000 and above is still a very small loan, depending on what you are looking at. Size is relative, of course, as we know.

But I think it also well to point out here that, just as the RFC in making a lot of small loans also had the privilege and opportunity of making some very big loans and did so. If any profit is going to be realized—and we know the SBIC program is set up as a profitmaking program and also a program to help small businesses—they have got to make some loans of some size if they are going to offset the expense that they incur in making small loans.

They cannot go out and make all \$25,000 and \$50,000 loans. We know that through our own operation in SBA. You have got to have some big ones here to make a profit or even break even.

And in talking about big ones, I am still talking about small business loans.

Senator PROXMIRE. This is exactly what this amendment which you have misinterpreted—or I think you have, with due respect—does now. You come in now and ask for no limitation at \$500,000, so they can make all big loans. Every loan can be over \$500,000.

Mr. HORNE. We still have the control of size of companies.

Senator PROXMIRE. Sure. The big boys are the ones who want this. The small SBIC's do not care about this. They get no gain from it. It is only the big ones that want it. Is that not right?

Mr. HORNE. Mr. Chairman, this is something else that is important though: The 20-percent factor forces, and properly so, the smaller SBIC's, which are far greater in number than the larger ones, to make relatively small loans. Now, if you do not have somebody that has the freedom to make the larger loans, still to small companies, you simply squeeze them out altogether.

Senator PROXMIRE. Yes, but you have the situation here in which you have to be in an SBIC with investable funds over two and a half million before this can affect you. It is only when you get in that area that the \$500,000 limitation comes into play.

The fact is we have a situation in which there are many small firms that need equity capital and long-term capital. Of course, you can make a case that some of these firms need more than \$500,000, but there are insurance companies and there are various ways these arrangements can be made. An investment of \$500,000 can be financially sound and attractive investment because the investigation is confined to 1 company, 1 management, 1 situation, and requires the cost of 1 investigation whereas it is these \$50,000 and \$30,000 and \$100,000 investments that are very hard to come by without paying 30 or 40 percent for your long-term money because to invest \$500,000 in 10 \$50,000 situations requires the cost of 10 investigations.

Now, this is what we want to get at in this legislation. What you are doing if you knock this out entirely is providing that the big SBIC's—and in my judgment you are going to get fewer SBIC's and bigger SBIC's—are going to be making big attractive loans and that is all. Why should they make smaller loans? After all, they are not in business for their health. They are in business to make money. If they can make one investigation of a \$1 or \$2 million loan, why should they make 20 investigations of \$100,000 loans? Of course they are not going to do it.

Mr. HORNE. They way the thing is presently constiuted we have pretty good balance between big and small.

Mr. Parris thought you might be interested in some figures on this.

Mr. PARRIS. I have some examples of where a small business needed a large amount of funds. I read one right from the May issue of the SBIC Evaluation Service. It says that a few SBIC's in the East were recently negotiating with a growth company in the cyrogenic field, an interesting field, a fast-growing field.

The SBIC's were in process of studying in detail the company's operation, market prospects, etc., when they heard the company had signed an agreement with a competitor of the SBICs, E. I. du Pont & Co. Du Pont offered the small company far more extended terms but indicated at some future time there was a strong likelihood that the company would be absorbed by Du Pont.

The agreement called for the purchase of \$300,000 in common stock, a \$300,000 7-year loan at 3-percent interest per year, convertible to stock at increasing prices, and an option to buy controlling stock on a formula.

Now, the SBIC's tried to do this by participation. Participations are hard to handle. The negotiations tend to bog down sometimes because of lack of firm leadership by one SBIC.

If one SBIC had been able to get in here and exceed the \$500,000 limit, this company might have continued as small business instead of being absorbed or swallowed up by one of the ultra-big companies in the country.

Senator PROXMIRE. Yes, but you were talking about SBIC's who were participating—plural. And I presume that they are capable of participating. If so, there is nothing in the law now which would prohibit them under any circumstances from making a \$600,000 investment.

Mr. PARRIS. But the point is that many SBIC's prefer not to participate because it is very difficult to negotiate among a group. They prefer to handle deals themselves. And if SBIC's are going to help these small companies that need large amounts of money compete with the giants of industry, the small firms are going to need substantial amounts of equity capital or long-term loans if they are in the manufacturing field. And 40 percent of the investments made by the SBIC's are in the manufacturing field.

The only new entries into the market to compete with the ultrabig companies and prevent oligopolies from developing are companies just like this.

I have another example if—

Senator PROXMIRE. I think these examples are interesting and useful, but I think we have to keep in mind what this can do. I do not think we can stop oligopoly or monopoly with SBIC's. It would be good if we could. Maybe we can help a little bit.

But the main thrust and purpose, as I understand it, of our small business investment companies is to help small businesses compete and grow and develop. Then when they get up to an area where they are borrowing or using more than \$500,000, maybe they can walk for themselves.

There are sufficient numbers of small businesses. Heaven knows they constitute 95 percent or more of the firms in America that will never need as much as \$500,000. These are the firms it seems to me for whom we can justify this very heavy tax advantage and the investment of taxpayers' money.

Mr. PARRIS. But, Mr. Chairman, if this program is not successful and does not have some spectacular profitmaking deals, we are not going to attract the large amounts of private money in the public marketplace, to support loans of any size to these small business concerns.

And it is only in the bigger loans by the SBIC's that you stand a reasonably good chance of having spectacular successes that will attract this kind of money. We know this from experience.

The experience of the Whitney Co. has been written up in—

Senator PROXMIRE. Investors are going to say, "Here is a firm that invested in Henry's Drive-In in Chicago, which has extensive real estate holdings, 150 or 170 outlets, individual branch stores, and yet an SBIC makes an investment." Several SBIC's together combined to invest a million dollars in them, and they compete with really small business, the local restaurants, locally owned by individuals.

And what is happening is that you are getting into chain operations, getting into manufacturers which are much larger than certainly anything that most persons would consider to be small business.

While you may have spectacular successes, the spectacular successes are largely confined to these big investments of large amounts, and I just do not think we can justify that with the taxpayers' money.

Mr. PARRIS. I would like to read from a recent book, "Organizing, Investing, Borrowing: New Opportunities in Small Business Investment Companies," by Prentice Hall, in 1961. They gave the experience of J. H. Whitney Co., a private venture capital company, very similar in capitalization and type of investment to a large SBIC. I will just read part:

More than five-sixths of the increase in the capital of this company came from only five ventures, and Whitney had to sink \$2 million or more in each of these five ventures. The picture becomes even more gloomy when you look at the record on investments under \$500,000, which is precisely the area in which most SBIC's will probably function.

Whitney shelled out less than \$500,000 exactly 38 times. In 15 cases Whitney lost his shirt. In 6 cases he came out even, not counting all the expenses. In 4 cases he made something but the return was hardly worth the effort. Only 13 of the 38 firms under \$500,000 brought in a decent return. For the entire group of 38 the average annual return was less than 2 percent. For the 13 successful investments the average annual rate was 9 to 10 percent.

And Whitney had a technical staff of about 35 people including 13 partners.

Senator DOUGLAS. Is that John H. Whitney?

Mr. PARRIS. Yes. That is the kind of record they made with that tremendous staff.

Our large SBIC's only average three and four professional management and technical people.

If the SBIC's are going to have some successes that are going to make this program go and bring in large amounts of money, they have got to be in our opinion, sir, allowed to make some of these.

I would like to read one more example which shows what a large investment did for a depressed area, if I may.

Senator PROXMIRE. Just one question.

Senator DOUGLAS. Whitney made more money on the 38 investments than he is making on the New York Herald Tribune in which he has a great deal of money sunk.

Senator PROXMIRE. Let we ask this question of the Administrator. Have you or any of the staff made a study to determine whether companies that make these big and profitable investments occasionally have a record of also putting a great deal of their money and wanting to put more of their money in the smaller investments? Or are they the ones who are coming before us now and saying they are not even satisfied with 50 percent of their investments in the over \$500,000 category?

Are they not the ones who now want to put all of their money or virtually all of their money into the big loans?

Mr. HORNE. I do not believe that would be the case, Mr. Chairman.

Senator PROXMIRE. Why do they want to change this then?

Mr. HORNE. I guess the industry will be able to speak for itself better tomorrow when it testifies before this committee than I can

speak for it. But it is not just the big fellows who are interested in this change so far as I am able to gather from the industry.

It is the whole industry working together trying to be a success. And while there is bound to be disagreement somewhat, I am sure, among individual members of the industry, most of the industry if I understand it correctly is in favor of this change.

Now, another thing that impressed me about it is here we are with the Bureau of the Budget perfectly willing and amendable and thinking this is a sensible change. It is not that I think this committee necessarily is going to do what the Bureau of the Budget recommends, but I mention it only—

Senator PROXMIRE. Not on this particular issue. We know more about it than the Bureau of the Budget does on this. Maybe on very little else.

Mr. HORNE. I mention it only because the Bureau of the Budget rightfully, necessarily, and understandably is pretty tight with what it permits a Government agency to come here and support. Now, they are in favor of this proposal for—

Senator PROXMIRE. I can see that the Bureau of the Budget would be in favor of this. For one reason I think it would tend to diminish the amount of Government capital involved, because you are going to have the small SBIC's dropping out and the bigger ones getting bigger. The bigger SBIC's discontinue taking much Government capital. Maybe they take none.

Under these circumstances the Bureau of the Budget would have a better record of appropriations in this field.

But if they would be a little more imaginative and see what it is going to do to the revenue side of the ledger, with the tax privilege they might have a different viewpoint.

Senator DOUGLAS. I do not think the situation is comparable.

Senator DOMINICK. Mr. Chairman, can I get into this act?

Senator PROXMIRE. Yes indeed.

Senator DOMINICK. I would like to ask the gentleman, in the case where the SBIC's could not get in but Du Pont did, why we should put public funds up for taking care of an investment of this kind when private industry is willing to do it.

Mr. HORNE. Go ahead, Mr. Parris.

Mr. PARRIS. Well, this is a personal opinion, but I do not think that a small business concern should have to go to a large competitor like that to be financed. I think there are many concerns in this country that would prefer to be independently owned and operated.

The purpose clause of the Small Business Act stresses the importance of their contribution to the economy.

Senator DOMINICK. You mean we have to tax people all over the country to provide funds for an SBIC when private industry is willing to come in and make the investment instead?

Mr. HORNE. Senator, let me say there are two points also that—

Senator DOMINICK. Is that the point he is making? I want to find out.

Mr. HORNE. I do not think so.

Mr. PARRIS. No, sir. I think when they can go to banks and insurance companies and get that kind of long-term money, then they do not need it from this type of institution.

But we know from experience that banks cannot always do it alone. I can give you an example right now where a bank cooperated with an SBIC on a large long-term loan but I was told by the bank and the bank-related SBIC that it could not have been done without an SBIC.

I would like to read that example to you because it shows what can be done in a depressed area.

Mr. HORNE. Let me say—

Senator DOMINICK. I realize there are cases where SBIC has done a tremendous job where you cannot get financing without them. But it does seem to me that to use the example where private industry has come in to provide financing and instead you advocate that we should have the Government do it is going pretty far.

Mr. HORNE. Let me make two or three comments in regard to that to clarify it.

In the first place, of course, as Mr. Parris explained, we prefer that private funds do it. If the insurance companies or others would do it, this is fine.

But keep in mind the basic purpose back of the establishment of this act. The study made by the Federal Reserve Board in 1956 and 1957 showed that there is a gap here which so far as the small firm retaining its independence is such that it is simply not able to get the financing.

Here is a company that is willing to make the financing available, but not on the terms of the company to which it is lending money retaining its independence. It is going to be acquired. It is going to be absorbed by the large company.

This is the point that Mr. Parris was trying to make.

Senator DOMINICK. So under those circumstances, then, the Government ought to come in? Is this right?

Mr. HORNE. Well, in this case keep in mind also that this is not a grant.

Senator DOMINICK. I am not talking about that. You are still using taxpayers' funds.

Mr. HORNE. Well, we are using the taxpayers' funds if the company involved here—and I am not sure on this point—had taxpayers' money. But most of the big companies who are eligible to make the \$500,000 loans that we are talking about, or who could make it without the other legislative restrictions, are the companies who have private funds, who do not have taxpayers' funds at all. Or they have private and public funds but do not have Government funds.

Mr. PARRIS. Mr. Chairman, you asked: Are the big companies making the smaller loans? I have the figures for 3 months ended December 31, 1962, and it shows that of the disbursements made during that period by 58 licensees with capital and surplus of more than a million dollars the arithmetic average size of loans was \$109,000.

The arithmetic average size of debt securities that provided equity capital was \$155,000.

The arithmetic average size of capital stock investments was \$66,000.

The arithmetic average size for all types of financing was \$120,000.

Senator DOUGLAS. This arithmetic average does not mean a thing. Suppose I eat six meals a day and you do not eat any meals. The arithmetic average is three meals. But you go without food.

This is just what the RFC used to give us. They would give several thousand small loans, lump them in with the big loans, and show that the average was relatively small.

But the question is distribution. How many of these loans are over \$1 million? How many are over \$2 million? And so on.

Mr. PARRIS. I have figures—

Senator DOUGLAS. Please do not assume we are statistical boobs who fall for this arithmetic average stuff.

Mr. PARRIS. I have some figures on the other ranges if you would like them.

Senator DOUGLAS. The breakdown is fine. Let's go to that. But let's wipe off the map this arithmetic average business.

Mr. PARRIS. For the year ended September 30, loans disbursed and equity securities purchased, we have several ranges.

(A tabular breakdown of ranges follows:)

SMALL BUSINESS ADMINISTRATION, PROGRAM ADMINISTRATION BRANCH,
OFFICE OF INVESTMENT, WASHINGTON, D.C.

Loans disbursed and equity securities purchased for the year ending Sept. 30, 1962

Amount of each financing	Number of firms financed	Percent of total number	Total amount of financing	Percent of total amount
0 to \$50,000.....	3,000	73.2	\$58,273,832	27.8
\$50,001 to \$125,000.....	798	19.5	57,250,579	27.3
\$125,001 to \$250,000.....	165	4.0	31,223,264	14.9
\$250,001 to \$500,000.....	115	2.8	42,480,731	20.2
\$500,001 to \$1,000,000.....	15	.4	11,329,150	5.4
Over \$1,000,000.....	6	.1	9,190,000	4.4
Totals.....	4,099	100.0	209,747,556	100.0

Mr. PARRIS. In the range from 0 to \$50,000 there were 3,000 firms financed. This was 73 percent of the firms financed by SBIC.

Senator PROXMIRE. This is all SBIC's, the little ones too?

Mr. PARRIS. Yes. For a total amount of financing of \$58 million, which in dollar amount was 27.8 percent of the dollar amount of all financing during the period.

In the next range, \$50,001 to \$125,000, there were 798 firms financed representing 19.5 percent of the total number of firms financed. The total amount of financing to these firms was \$57 million-odd.

Senator DOUGLAS. What percentage was that?

Mr. PARRIS. That was 27.3 percent of dollar volume.

In the next range, Senator Douglas, \$125,001 to \$250,000 there were 165 firms, small business firms, financed. The percent of the total number was 4 percent. The total amount of financing was \$31 million-odd, for a percentage of the total amount of dollars of 14.9 percent.

The next bracket is \$250,001 to \$500,000. The number of firms financed was 115, which was 2.8 percent of the total number of firms.

Senator PROXMIRE. That represents 2.8 percent?

Mr. PARRIS. 2.8 percent.

Senator DOMINICK. What was the percent of dollars?

Mr. PARRIS. The dollars were \$42 million-odd for 20.2 percent.

Senator DOUGLAS. What about over \$500,000?

Mr. PARRIS. \$500,001 to \$1 million—there were 15 firms financed, which represented 0.4 percent of the total number of firms financed.

Senator DOUGLAS. Yes. And the percentage of loans?

Mr. PARRIS. And the percentage of loans was 5.4 percent of the dollar amount. The actual dollars were \$11,300,000-odd.

Senator PROXMIRE. How about over \$1 million?

Senator DOUGLAS. Let's not run wild yet.

Senator PROXMIRE. He has not come to the end yet, Senator.

Mr. PARRIS. One more category.

Senator PROXMIRE. There is one more category over \$1 million.

Senator DOUGLAS. Excuse me.

Mr. PARRIS. Over \$1 million, 6 firms financed for 0.1 percent of the total number of firms. The total dollars financed was \$9,190,000. The percent there of dollars was 4.4 percent.

Senator DOUGLAS. Now, I think you are getting on dangerous ground.

Senator PROXMIRE. What this shows really is that you have roughly 3 percent of your firms in the \$250,000 to \$500,000 category. Then you have one-half of 1 percent of your firms over that. However, loans from \$250,000 and over get 30 percent of your money.

Now, what this provision you favor in the bill would do would be to knock out the limitation on the loans over \$500,000, which can only mean to me that you are going to have a much larger proportion of your money going to a very, very few firms.

The only ones I would say that would be very likely to even be eligible would be this 3.5 percent—that is, those in the \$250,000-and-over category.

So, in order to provide investments in this relatively small group of firms we are changing the law and changing the situation which is that they have now got almost a third of the money and are going to be in a position where, I would think, that they might very well, if this develops on the basis of the economic likelihood, because these big loans are much more attractive since there is less investigation, get more than half the money.

Mr. PARRIS. The 30 percent would be with \$250,000. It would be 10 percent if you began at \$500,000, sir.

Senator PROXMIRE. I began at \$250,000 because these are the ones who would be most likely to move into the over \$500,000 if you changed the rule.

Senator DOUGLAS. Those loans and investments over \$500,000 are now 9.8 percent of the funds? Am I correct?

Mr. PARRIS. Yes, sir.

Senator PROXMIRE. You see, my position is that this situation would be much worse if we changed the law as is advocated here.

Mr. HORNE. I realize, Mr. Chairman, I am repeating myself, but I think we also must remember that we do have size standards. The agency has size standards, and SBIC's cannot make loans to companies that are outside our size standards.

We also have—and I keep repeating this—a 20-percent limitation which compels the many small ones—and there are many more small ones than there are large ones—to make small loans. And, I think, by the combination of the two we get a pretty good balance, keeping in mind that there are certain kinds of industries which must have

several hundred thousand dollars if they are going to be able to remain independent and not be absorbed as this company we were talking about a moment ago was by another company.

Senator DOMINICK. When I get time I want to ask you some more about that.

Mr. HORNE. One purpose that this act had in mind, as I understand the act, was to enable companies to get necessary financing and to remain independent.

And also as I recall the act—and you gentlemen passed it, and you know more about this than I do, of course—but as I recall the act it definitely showed that this is an area of financing which is needed but which private industry otherwise is not filling.

So the purpose was to set up a privately owned and privately operated new institution that would fill this gap.

Senator PROXMIRE. Let me just quickly answer this.

First, what are the size standards? They are these: For the purpose of the SBIC program, small business is defined by SBA as one which meets the statutory definition that it does not have total assets exceeding \$5 million, net worth exceeding \$2.5 million, nor average net income after Federal taxes for the preceding 2 years in excess of \$250,000.

Now, I submit that there are many very big, healthy firms able to get financing. And the bigger they are, the healthier they are, in general, and the bigger they are, in general, the easier it is for them to get financing.

Now, I put into the Congressional Record—and I will cite a couple of examples as soon as I get a copy—a series of what I thought were just gross examples of big, prosperous, worldwide firms that were getting loans of a million dollars and more from the SBIC's.

In view of the fact we have a \$350,000 limitation on loans by the SBA, it seems to me that this provision we now have, which Senator Douglas and I think is weakened, of the \$500,000 limitation on half the loans by the big SBIC's, is certainly most generous, it would seem to me, to the bigger firms. And to go farther than this is just unconscionable.

I will not say any more on this point because I have talked too much now. I apologize to the members of the committee.

Senator DOUGLAS. No, no, I think this is very appropriate.

The situation is probably very similar to what you have in a nursery. How large will you let the tree grow before you have it transplanted? You certainly would not let it grow to full height.

I have regarded these concerns as financial nurseries to protect small firms from being killed out from birth, to give them a chance to grow, but not to follow them all the way through.

I think it is a question of fact: Where should you draw the line? Maybe \$500,000 is too rigid. It may be. It apparently does not inhibit you now. You go a million dollars in some cases. Are you going to take the ceiling off completely?

Mr. HORNE. Well, of course, Senator Douglas, we already have a ceiling as to the size of the company.

Senator DOUGLAS. You really do not.

Mr. HORNE. As to the size of the company. We already have a ceiling.

Senator DOUGLAS. The ceiling is ostensibly \$500,000, but you have got a tenth of your assets in 24 firms over \$500,000, 9 firms over \$1 million.

Mr. HORNE. Well, with over 7,000 loans having been made and just this little handful in the upper bracket—

Senator DOUGLAS. It is the same thing we came up against with RFC.

Mr. HORNE. But, Senator—

Senator DOUGLAS. They said 95 percent of their loans were to small business. But then they would make \$20 million loans. I think there was a loan to Kaiser of—what was it?—\$60 million. That is subject to correction.

Mr. HORNE. But, Senator, keep this in mind, sir—and I know you are—that if there were no dollar limitations there still would be a limitation as to the size of the company. And also these are privately owned and privately operated companies. While they have some Government support, this is true.

Senator DOUGLAS. We give them tax privileges, as Senator Proxmire said.

Mr. HORNE. And also RFC was never by statute at all limited to small business. RFC, as I am sure you remember better than I, was expanded after its early days so as to include small business. It started off being an agency primarily under President Hoover to help the large banks and—

Senator DOUGLAS. That was the original purpose.

Mr. HORNE. The original purpose, yes, sir.

Senator DOUGLAS. But after Mr. Dawes' bank in Chicago was bailed out the day after he resigned as Administrator of the RFC and after some of the railroads were helped, then the justification used was that it was to help small business.

Mr. HORNE. But, insofar as it was expanded to incorporate small business, it was never limited to small business.

Moreover, the RFC was like our regular lending program under SBA, in that Government funds were used, and in that it participated with banks. There was nothing during the RFC days that was comparable to the SBIC program.

Senator DOUGLAS. What you say is true, no doubt. On the other hand, as the Senator from Wisconsin points out, we give them very valuable tax privileges, and we are rapidly getting to the point where everyone who has a good idea wants to foster it by giving it a tax privilege, so that the whole tax system of the country is being increasingly shot to pieces.

Mr. HORNE. I think I am right in this. The Federal Reserve study indicated there should be, for the purposes for this act, to fill this gap, about a half a billion dollars available annually. This is the Fed's figure. And Congress, when they set up this leverage, indicated by the act that there would be \$2 of Federal money for \$1 of private money.

Now, presently, we have in the total program about a half billion dollars of which only about \$100 million is Federal money.

Mr. PARRIS. And \$300 million was raised by these public companies. And a recent survey by an independent magazine showed that many of these companies will seriously consider leaving the program if this restriction is not raised.

Mr. HORNE. This is one thing that gives us some concern so far as the total industry is concerned. Here is my opinion, sir: Congress has wisely set up a new institution to fill an important gap, to fill an important need. There is grave danger that we may lose this opportunity so far as its real impact is concerned if the publicly held companies leave the program.

Senator DOUGLAS. Wait a minute. The smaller companies would not withdraw. You mean that the big SBIC's will fold up?

Mr. HORNE. The ones with most of the money. I do not think they would fold up, sir. We had a big one in Texas, about \$15 million firm, that dropped out a few months ago. They gave several reasons, but the reason they stressed over and over was the fact they could not go beyond the \$500,000. They said, "We do not have any objection to your size standards, to lending to your size standards, but we do have objection to being restricted to the \$500,000 limitation."

Senator PROXMIER. I cannot resist getting in here once more. What these companies are saying is they are getting out of the business because they are not satisfied with only putting half of their portfolio into loans of over \$500,000. Apparently they want to put virtually all of it in that size loans.

Now, I say if that is their attitude, in view of the fact that this legislation is designed primarily for the small businesses, let them go. Let them go.

I am not interested—maybe others are, and maybe I should be—but I am not very interested really in firms that need more than half a million dollars. I am interested in 97 percent of the firms that are borrowing less than \$250,000 on the basis of your record. And if these SBIC people do not want to make this investment, what do we lose?

Senator DOUGLAS. It looks to me as if they want to use SBIC as a front for what would otherwise be a private investment.

Senator SPARKMAN. Well, Mr. Chairman, I would like to say just a few things about this. I have been relatively quiet.

I think the issue is this: We fought this out last year, and we decided on the \$500,000 limitation except that the Administrator might provide for exceptions.

Senator DOUGLAS. I had always thought it was to be on a case-by-case basis.

Senator SPARKMAN. Well, I do not recall. I may say to the Senator I probably felt that it meant the same thing.

But there was considerable discussion in the conference, and the difficulty of deciding it on a case-by-case basis was brought up.

I am not sure that there was any issue made as to this, whether it would be all right to lay down a regulation setting a formula so that it would not be necessary to bring each individual case and have it passed on.

I see nothing wrong with setting a formula. Of course, I realize there would be difference of opinion as to whether or not the formula was right.

I do not recall any other regulatory legislation with reference to financial institutions in which the Government has an interest whereby lending agencies are limited to dollar amount. Now, there are limitations upon commercial banks, but they are based upon the deposits and the reserves and not on dollar amount.

It seems strange to me that when we come to the field of small business that there is where the insistence is made that it be on dollar amount.

And remember we are dealing primarily with private organizations. A very small percentage of the SBIC's, as has been shown, particularly those that would be capable of making the larger loans, where there is any Government money used whatsoever.

Now, Senator Proxmire has indicated that 97 percent—I do not know where he gets his figure, but I will accept it for the sake of argument—want loans below \$500,000. But I do not see why we should ever pass legislation that would cut off the 3 percent who might need loans above \$500,000.

Now, we can leave it at \$500,000 and put the burden on the Administrator of handling it case by case, or we can let him apply that formula as has been done.

I want to read this into the record. In April of this year, the Senate Small Business Committee held its periodic review of the operation of the small business investment companies under the Small Business Investment Act, and here is the unanimous agreement.

I will take that back. Senator Russell Long was not present at the hearings. He did not take part. But with the exception of Senator Long—and he did not dissent but simply did not take part—all of the other members, Democrats and Republicans alike, after studying this question, had this to say:

It has been argued that the small firm needing more than \$500,000 may be accommodated through participation between several SBIC's.

Now, that is in the regulations. That can be done.

Under SBA regulation, as many as five SBIC's may participate in making a loan, with each putting up an amount which exceeds neither the 20-percent limitation nor the \$500,000 limitation.

Your committee does not find this argument to be convincing. If a firm is small within the accepted definition of that term, it should not be required to become involved with as many as five creditors in order to obtain assistance available to other small firms from a single source. Such a firm is further disadvantaged through the increased time and expense involved in putting together a participation arrangement.

It may be well to recall that one of the reasons for establishing this program in the first place was the fact that the time and expense involved in small public stock issues made it economically unfeasible for small firms to raise funds from this source.

I think our committee correctly stated the situation there. And may I say that this formula for automatically determining eligibility for loans in excess of \$500,000 was not in issue. Nobody raised this question. And yet, that was the attitude that the committee took with reference to this limitation, this need of exceeding it from time to time and making it possible for that to be from one source rather than five different sources as the law otherwise would require.

Mr. HORNE. Well, Senator, I keep coming back, of course, to the study that was made and the great amount of attention given by Congress before it had acted even on the study made by the Federal Reserve Board.

I recall that legislation similar to this was introduced by members of the Small Business Committee back as early as 1950 based on the fact that they thought here was a big financial gap that was not being

filled and they wanted it filled as much as possible from private and public sources.

But it was not until the Federal Reserve Board study was completed that enough momentum was generated on the part of Congress to pass the legislation.

Now, when the legislation was passed, it was passed in 1958, and it was passed after careful study not only by the Small Business Committee but other members. It was a bipartisan measure. And it was passed with the understanding that these companies would operate within this area of need.

I would like to emphasize that these companies, the SBIC's, do not have a full path to travel on as banks and insurance companies and others have. They have a restricted path on which they must travel.

While it is true that in this path we think we ought to be able to make loans in excess of \$500,000 without our having to look at them—and, as you say, no other private institution has to have a Government agency looking over its shoulder when it is going to loan a loan, and I do not think we should have to do so—I think it is important to keep in mind that they are operating within a restricted area on a size standard set by the agency using the flexible provisions which Congress gave this agency back when it created it in 1953.

Senator SPARKMAN. Mr. Chairman, there is one other thing that is more or less incidental, but I should like to call attention to the fact that this bill, S. 298, is sponsored by quite a number of Senators, and practically every member of the Senate Small Business Committee, Democrat and Republican alike, is on the bill.

Senator DOUGLAS. I am sure it has very large support.

Senator PROXMIRE. Go ahead. I would like to ask him questions later. I do not want to hold him up, unless the Senator from Colorado, who has been very quiet—

Senator DOMINICK. Not willingly.

Senator DOUGLAS. S. 298, as I understand it, removes all dollar limitations but provides that no single enterprise shall get a loan from SBIC which shall exceed 20 percent of the combined capital and surplus of such small business investment company. In other words, the limitation is now going to be 20 percent of the capital and surplus of the SBIC.

May I ask how many SBIC's are there which have capital and surplus of more than \$5 million?

Mr. PARRIS. About 40. We have 46 public companies that are in excess of \$1,250,000. Your breakdown was \$5 million?

Senator DOUGLAS. \$5 million.

Mr. PARRIS. About 40.

Mr. HORNE. That would have in excess of \$5 million.

Senator DOUGLAS. 40?

Mr. HORNE. Yes, sir.

Senator DOUGLAS. What proportion of the capital and surplus of all the small business corporations are in these 40?

Mr. PARRIS. It would be about \$300 million.

Senator DOUGLAS. \$300 million?

Mr. PARRIS. Capital and surplus, yes. Out of—right now—\$571 million.

Senator DOUGLAS. In other words, something over half of the capital and surplus of these concerns is in the hands of the 40 companies with a capitalization of over \$5 million?

Mr. PARRIS. Yes, sir.

Senator DOUGLAS. I would like to point out that this 20-percent limitation would mean that they could make loans of more than a million.

Now, do you have any classification of those with more than \$10 million capital?

Mr. PARRIS. I can check that in just a minute, Senator. Fifteen with approximately \$10 million and over.

Senator DOUGLAS. Over \$10 million? How much capital and surplus do they have in the aggregate?

Mr. PARRIS. We do not have that broken down right now.

Mr. HORNE. We will supply that for the record.

(The information requested follows:)

Small business investment companies with total capital and surplus of \$2.5 million and over as of Apr. 30, 1962¹

\$2.5 to 5 million:

Advance Growth Capital, Chicago, Ill.....	\$4,275,200
Anderson New England Capital Corp., Boston, Mass.....	2,640,200
Chase Manhattan Capital Corp., New York, N.Y.....	3,000,000
Continental Capital Corp., San Francisco, Calif.....	3,508,300
Developers Small Business Investment Corp., Englewood, N.J	3,368,000
First Capital Corp. of Chicago, Ill.....	3,000,000
First Small Business Investment Co. of New Jersey, Newark, N.J.....	3,658,300
Greater Washington Industrial Investments, Inc., Washington, D.C.....	4,820,200
LaSalle Street Capital Corp., Chicago, Ill.....	2,922,300
Mid-States Business Capital Corp., St. Louis, Mo.....	2,718,400
Minnesota Capital Corp., Minneapolis, Minn.....	2,500,000
Puerto Rico Capital Corp., Santurce, San Juan, P.R.....	2,971,500
Science Capital Corp., Philadelphia, Pa.....	3,731,000
Small Business Enterprises, San Francisco, Calif.....	3,000,000
Southwestern Capital Corp., San Diego, Calif.....	4,215,000
Venture Capital of America, New York, N.Y.....	2,504,300

\$5 to 9.5 million:

Business Capital Corp., Chicago, Ill.....	5,000,000
Capital for Technical Industries, Inc., Santa Monica, Calif.....	7,642,900
Central Investment Corp., Denver, Colo.....	5,886,100
Narragansett Capital Corp., Providence, R.I.....	5,554,000
St. Louis Capital, Inc., St. Louis, Mo.....	7,177,700
Southeastern Capital Corp., Nashville, Tenn.....	6,431,600
Techno-Fund, Inc., Columbus, Ohio.....	5,583,000
Water Industries Capital Corp., New York, N.Y.....	5,351,800

\$9.5 and over:

Boston Capital Corp., Boston, Mass.....	20,593,800
Business Funds, Inc., Houston, Tex.....	19,567,300
Capital Southwest Corp., Dallas, Tex.....	14,884,400
The Citizens and Southern Capital Corp., Atlanta, Ga.....	20,931,500
Electronics Capital Corp., San Diego, Calif.....	32,377,600
Florida Capital Corp., Palm Beach, Fla.....	10,422,000
The Franklin Corp., New York, N.Y.....	9,629,000
Growth Capital, Inc., Cleveland, Ohio.....	9,821,200
Gulf-Southwest Capital Corp., Houston, Tex.....	16,805,100
Marine Capital Corp., Milwaukee, Wis.....	9,930,400
Midland Capital Corp., Buffalo, N.Y.....	16,459,000
Sierra Capital Co., San Francisco, Calif.....	9,604,700
SBIC of New York, Albany, N.Y.....	16,459,500
Texas Capital Corp., Georgetown, Tex.....	9,705,300
Westland Capital Corp., Los Angeles, Calif.....	10,770,600

¹ Prepared by Office of Investment.

Range	Number of companies	Amount
2.5 to 5 million.....	16	\$52,832,700
5 to 9.5 million.....	8	48,627,100
9.5 million and over.....	15	227,961,400
Total.....	39	329,421,200

Senator DOUGLAS. Obviously it will be over \$140 million. And this would be 25 percent even at \$10 million each.

I think it would be fairly safe to say that at least 30 percent of the resources are in the concerns with over \$10 million, and this would mean that they could loan up to \$2 million to any one enterprise.

Mr. HORNE. But even they, Senator, must conform to our size standards. And also, by and large, the money in these companies is private and public funds. There may be an occasional one——

Senator DOUGLAS. The only limitation which you apply as I understand it is now 20 percent of combined capital and surplus, and this permits, for those over \$5 million, loans in excess of \$1 million.

For the SBIC's which have capital and surplus of over \$10 million, it permits loans of \$2 million.

Mr. HORNE. Yes, sir; but the 20——

Senator DOUGLAS. And if the groups which have over \$5 million have half of the total capital and surplus available, I will wager, in just a hasty mental calculation, that the groups over \$10 million have at least 30 percent of the total capital.

Mr. HORNE. That may be true. But I emphasize again, sir, that while this 20 percent would not prevent their making loans in excess of \$500,000, they still could not make loans to any company that is not classified under our size standard as being a small company.

You see, there are two ways we control this. The 20 percent exercises a control, but our size standards also exercise a control. They could not go out and loan this money to companies on our size standards that are classified as large companies.

Senator DOUGLAS. Have they been making \$2 million or \$3 million loans under the present regulations?

Mr. HORNE. According to the figures——

Mr. PARRIS. In the last quarter, for those that were more than \$1 million, that had capital and surplus of more than \$1 million, they have been making loans in all the ranges I gave you before.

For example, under the loan category there were three loans \$5,000 and under, nine——

Senator DOUGLAS. I am not concerned with the little ones. Take the other end of the spectrum. Are there any loans in this last quarter over \$1 million?

Mr. PARRIS. In the last quarter there were three loans and two debt security investments over \$1 million.

Senator DOUGLAS. To whom did those loans go?

Mr. PARRIS. Under the formula method we would not necessarily have a report on every one of those loans. We have only by specific approval given four approvals of over \$500,000 since October 1961.

We can give you those.

Senator DOUGLAS. My offhand observation is you have already got a good deal of leeway under the regulations.

Mr. HORNE. Well, Senator, to some extent, of course, I agree with you. I think it gets back again to something that is basic. I think it gets back maybe to three basic points. And some of this again may be repetition.

One is that there are times when you simply need to make what may be a pretty sizable loan in dollars, but still to a small business company.

Another is that in doing this sometimes you are able to prevent this company from being absorbed by a larger firm and thereby maintaining congressional intent of enabling these companies to be completely independent.

Senator DOUGLAS. I agree with you thoroughly.

Mr. HORNE. Another is whether or not you want, as one of the members of the committee pointed out a moment ago, to force or to require that a Government agency look over a loan proposition that is being worked out by a privately owned and privately operated entity. We do not do it any place else in Government.

Senator PROXMIRE. Let me just quickly give the examples which I spoke about a minute ago.

You talk about size standards, restricting big loans to big firms. The size standards actually permit investments in some very, very big companies by SBIC's.

Let me give you three or four very quick ones.

Boston Capital Corp. made an investment under the SBIC Act in C. L. Gould Construction Co., a nationwide pile-driving contractor, which has worldwide rights to a new sonic piledriver and which has a net worth of \$3 million.

In addition, Business Funds, Inc., invested \$1,500,000 in Unanco Corp., a national construction firm based in California. In 1962 Unanco Construction Co. projected \$35 million of business.

Another investment was made by Electro Science Investors in Tamar Electronic Industries. The amount of the investment is \$1,417,000. Incidentally, the net worth of that investment today is \$13,160,000.

The investment of Electro Science Investors in Tamar constitutes 60 percent equity. So this is a \$20 million company.

The Florida Capital Corp. has invested \$1,025,000 in Roberts Co., a North Carolina textile machinery firm, which has been in operation 12 years, employs 700 persons, including 30 graduate engineers, and operates 6 plants, of which it owns 2 and leases 4.

The sales of Roberts Co. were projected to be \$7 million for 1961.

A few months ago the company reported a backlog of \$8 million. The sales are projected by the management to increase at the rate of 35 percent a year during the next 3 years. This company is publicly held.

The Midland Capital Corp., a small business investment company, last month increased its investment in Coyne International Enterprises by \$175,000 to a level of \$2,475,000. Coyne is a small business, management-held company in the industrial laundry, real estate, leasing, truck ownership, and other fields.

One more. Drug and Food Capital Corp. of Chicago, another small business investment company, has completed financing of \$1 million in 15-year, 7-percent notes for Henry's Drive-In, Inc.

Now, this investment is a Chicago-based system of franchised drive-in hamburger restaurants. Currently 105 units are in operation, 82 having been added in the past 3 years. The funds will allow Henry's to expand to 170 units by 1963.

There are a whole series of other examples, and it seems to me that the record shows that the size standards just do not indicate or do not restrict at least investments to what 99 people out of 100 would designate or consider to be a small business.

Furthermore, it would seem to me that these firms could get financing in all kinds of other ways. Maybe it is a little more convenient to go to an SBIC.

But this is why it would seem to me that some limitation such as the moderate limitation we have, makes sense.

Mr. HORNE. Mr. Chairman, of course, in setting up the agency itself in 1953, Congress I am sure knowingly and deliberately gave the several criteria to us and permitted that it use a flexible definition that would not draw hard and rigid lines.

As I recall the legislation having to do with the SBIC program, I do not think that any size limitation even was attempted in the legislation. We apply our size standards to it. But the legislation gave stress to independence and on not being dominant in its field.

Senator PROXMIRE. After all, then, American Motors of Wisconsin, which is certainly not dominant and which is providing very badly needed competition in the automotive field but made \$60 million last year, employed 26,000 people in the State of Wisconsin, ought to be getting loans from the Government and concessions and advantages and tax breaks, and so forth.

We know we just cannot attack monopoly that way, and you and I know that it may help a little, but the only justification I can see for this program is to help the really small firm that cannot get long-term financing any other possible way.

Mr. HORNE. We think this is pretty well the way it is working too, even though in the cases you are talking about there may be an occasional exception here, of course.

Senator PROXMIRE. A drive-in is going into competition with small business. You are financing a chain so that the chain can go from 105 to 170 units.

Mr. HORNE. You have a pretty difficult situation, Mr. Chairman, when it comes to franchises. This is a difficult problem we are dealing with. Many of the franchises are also independently operated. This is a growing industry. How far the Government and the agency should be in this is a matter under careful study.

You hear many arguments. And I read a book on the subject a few weeks ago which argues that the use of the franchiser approach is one of the most likely and one of the best ways to protect small business.

Here again I think we have to apply the rule as to whether or not the franchisee is at the complete mercy of the franchiser. This is the problem we are looking into.

I am simply pointing out in this regard you do have a very difficult and somewhat a new problem so far as its growth is concerned.

You have always had franchisee and franchiser arrangements, but it has begun to grow quite rapidly in recent years.

Senator DOMINICK. Could I interrupt right there?

Mr. HORNE. Yes, sir.

Senator DOMINICK. What do you mean by you are "looking into it"?

Mr. HORNE. I mean we are trying to make certain that, as we may provide any sort of our assistance to a franchisee, that we are not in violation of the act as Congress intended us to make use of it.

Senator DOMINICK. Are you saying to the franchisee and the franchiser that, "You have got to change the terms of the contract between yourselves before we will do anything"?

Mr. HORNE. Our legislation says, Senator Dominick, very definitely that we can help companies only that are independently owned and independently operated. Our problem in studying an agreement is to determine whether or not in our opinion the agreement is so restrictive that the concern is not independently operated.

Senator DOMINICK. That clears that up.

Senator SPARKMAN. Mr. Chairman, if I may break in, some reference was made to a loan by the Boston Co., the Boston Capital Corp. In these hearings to which I referred a few minutes ago, Mr. Joseph W. Powell, president of that company, appeared before the Select Small Business Committee, and testified regarding the five loans that were above \$500,000 that he had made.

I excerpt just this that he said:

The remaining five companies, all of them small business concerns, received from \$750,000 to \$1 million from Boston Capital Corp. In total, they account for 40 percent of the funds invested to date. Circumstances in each case were such that, in my opinion, not one of these five companies could have received its funds from other than a venture capital source, nor would Boston Capital have invested these funds had there been a limit of \$500,000 on its investment.

Senator PROXMIRE. Will the Senator yield at this point?

Senator PROXMIRE. Boston Capital invested in, among others, Research Specialties Co., which is publicly held. Its stock has been available to the public. Its stock is traded.

It seems to me that in view of this fact here is a company which at least has—

Senator SPARKMAN. How much did they invest?

Senator PROXMIRE. \$780,000. It has since appreciated to \$1,426,000—about doubled in value.

Senator SPARKMAN. That apparently is one of the five to which he refers. He says from \$750,000 to \$1 million. Yes, that would be one of the five.

In many of these instances it is a case of followup capital. The company may have borrowed already and needs still more in order to give it its usual growth.

I do not view these loans as being limited to the very small. I want to see the very small helped, and I never want us to get away from that field, but I realize this thing has got to be spread over the whole field if two things are accomplished:

First, if the individual SBIC can operate at a profit as was intended under the act.

Second, if these companies are going to be able to find capital funds and be able to grow as they are entitled to do under the American free-enterprise system.

In other words, a small business ought not to be condemned to remain in its present size forever. If it wants to grow and become big business, goodness knows, give it every assistance to do so.

Senator DOUGLAS. Yes; but do not insist that the tree be kept in the nursery until it is 20 feet high.

Senator SPARKMAN. No; I agree with you.

Senator DOUGLAS. When it is 5 or 6 feet, move it out in the open air.

Senator SPARKMAN. Give it the type and amount of sustenance it requires for normal growth.

Mr. HORNE. Let me suggest at that level that once the company does experience this growth and is able to stand completely on its own, if it goes beyond our size standards, only in the very, very rare situation would it ever be able to get any help from us any more. We do not continue to help it.

Senator PROXMIRE. You are talking about SBA?

Mr. HORNE. I am talking about SBIC, too.

Mr. Chairman, you made a point a moment ago. This may be helpful to the committee. You spoke of the fact that American Motors might conceivably be termed small business. It could possibly be under our act, because our act does emphasize again—

Senator PROXMIRE. I said it would be ridiculous to have it under your act, and nobody should argue it should be.

I say, in other words, if you are going to have an act which is going to do something about monopoly, this is the kind of company that needs to be helped.

I do not think they should want help. They are too big to get help. You are not going to stop monopoly, at least within the limits of the U.S. Treasury, unless you go into a terrific financing job on the basis of all sizes in all kinds of fields.

It might occasionally have this effect once in a while.

But it seems to me that if you are going to have competition against United States Steel and Aluminum Co. of America, and so forth, the SBA with all the very able and fine people there, just is not going to be able to provide it. You know you cannot.

Mr. HORNE. I want to alleviate and relieve any fear that might exist that we might classify that as small business, because our employee standard for manufacturers under no circumstances goes beyond 1,000.

Senator PROXMIRE. I understand. Why do you not go ahead? I think you are pretty much at the top of page 20, are you not?

Mr. HORNE. Yes, sir. We support this bill, Mr. Chairman, with the suggested changes, because we feel the SBIC program is becoming an outstanding example of effective partnership between the Federal Government and private initiative and a significant factor in improving our competitive economy.

I do not think it has reached 10 percent of the maximum it can reach, and I think as a new industry it must receive encouragement and help from Congress until it also is established and can go on its own more so than they can do now.

There is already substantial evidence that small businesses financed by SBIC's have true growth potential and are developing new products, new methods, and new services.

Moreover, SBIC investments frequently must be made without regard to the business cycle simply because investment funds have been raised and have to be put to work as soon as possible.

For this reason, SBIC's have the potential for developing a unique ability that will stimulate the economy even during downward trends in the business cycle.

In this regard, recently the Harvard Business Review in its March-April issue stated:

This lag [2 years between SBIC capital acquisition and investment of such funds] in the investment cycle portends a special role in the financial institution community for SBIC's; because of the availability of capital raised in earlier periods, SBIC's may well become an important source of funds for growing businesses during downswing cycles when the more conventional sources dry up.

Enactment of the recommendations I have outlined would be an effective sign of renewed Government commitment to the potential of this program. They would provide new incentive and encouragement to an industry with great promise.

Moreover, by enabling SBIC's to act more readily in investing in new industries and in growth industries, adoption of these recommendations would result in effective support of the President's goals of increasing job and investment opportunities.

The proposed increases in financial assistance would be a forceful affirmation of the bipartisan congressional support that has characterized this program—a program that has done so much and yet has so much to do in making risk capital available to small firms through private channels. It was the gap in the provision of such financing that led to creation of the program by Congress in 1958.

In its recent report to the President, the Committee on Federal Credit Programs stated (at page 7):

In our society, there is a presumption that the allocation of credit for essentially private purposes should be a function of private markets. Accordingly, the committee believes that Federal credit programs should in the main and whenever consistent with essential program goals, encourage and supplement, rather than displace private credit.

The SBIC program is squarely in line with this principle and should in my opinion receive from Congress the encouragement that I am recommending.

(Attachments to Mr. Horne's statement follow:)

[Attachment A, May 13, 1963]

SMALL BUSINESS ADMINISTRATION

Summary of revolving fund authorization requirements

[Dollars in millions]

	Present authorization	Amendment requested	Amended total
Business loans, disaster loans and prime contracts:			
Disaster loans.....	¹ \$150	0	¹ \$150
Business loans.....	² 1,175	0	² 1,175
Prime contracts.....	0	0	0
Total, activities under Small Business Act.....	1,325	0	1,325
Investment and development company activities under Small Business Investment Act.....	341	59	400
Total authorization requirements.....	1,666	59	1,725

¹ Estimated requirements through end of fiscal year 1966.² Available for business loans through end of fiscal year 1966.*Estimated business loan authorization requirements, fiscal years 1964-66*

[Dollars in millions]

	Fiscal years		
	1964	1965	1966 *
Estimated outstanding loans and commitments, start of year.....	\$725.0	\$834.5	\$950.5
Plus:			
New loan approvals.....	304.6	319.8	335.0
Reservation for loans sold.....	6.3		
Minus:			
Repayments to banks or SBA.....	-171.0	-171.8	-196.7
Loan cancellations.....	-30.4	-32.0	-33.5
Total.....	-201.4	-203.8	-230.2
Estimated outstanding loans and commitments, end of year.....	834.5	950.5	1,055.3
Estimated authorization available.....	1,175.0	1,175.0	1,175.0
Factors:			
Applications per month.....	1,000	1,050	1,100
Applications per year.....	12,000	12,600	13,200
Withdrawals, 6 percent.			
Approvals, 60 percent.			
Cancellations, 10 percent.			
Average size (SBA share), \$45,000.			

Estimated disaster loan authorization requirements, fiscal years 1964-66

[Dollars in millions]

	Fiscal years		
	1964	1965	1966
Estimated outstanding loans and commitments, start of year.....	\$99.4	\$113.7	\$127.7
Plus: New loan approvals:			
"Displaced business" loans.....	10.0	12.0	15.5
Other loans.....	20.0	20.0	20.0
Total.....	30.0	32.0	35.5
Minus: Repayments to banks or SBA.....	15.7	18.0	21.0
Estimated outstanding loans and commitments, end of year.....	113.7	127.7	142.2
Estimated authorization available.....	150.0	150.0	150.0

Estimated investment and development company loan authorization requirements, fiscal year 1964

[Dollars in millions]

Estimated loans and commitments outstanding, start of year.....	\$245.8
Plus new loan approvals:	
Purchase of SBIC debentures (sec. 302).....	73.8
Loans to SBIC's (sec. 303).....	41.0
Loans to State development companies (sec. 501).....	5.0
Loans to local development companies (sec. 502).....	36.0
Total.....	155.8
Minus repayments to banks or SBA and cancellations:	
Loans to State development companies (sec. 501).....	1.0
Loans to local development companies (sec. 502).....	6.8
Total.....	7.8
Estimated loans and commitments outstanding, end of year:	
SBIC debentures (sec. 302).....	208.5
SBIC loans (sec. 303).....	101.4
State development company loans (sec. 501).....	13.4
Local development company loans (sec. 502).....	70.3
Total.....	393.6
Present authorization available.....	341.0
Recommended authorization.....	400.0
Factors:	
Number of commitments to purchase SBIC debentures:	
Formation funds.....	64
Growth funds.....	250
Total.....	314
Number of loans to SBIC's approved:	
Direct.....	55
Bank disbursed under standby plan.....	109
Total.....	164
Number of SBIC licenses in force, end of year.....	780
Number of development company loans approved:	
State development companies.....	5
Local development companies.....	240
Total.....	245

Senator PROXMIRE. On the first page you propose something that is interesting. I do not know how significant it is.

Why do you have to change the name to "Federal Small Business Administration"?

"Small Business Administration" is a pretty long tag as it is. Does it really matter? I have never met anybody—and I have dealt with SBA for quite some time now—who is confused on SBA and thinks SBA is a State institution or local institution.

Mr. HORNE. Well, I have, in my own dealings, Mr. Chairman.

But I would not want to say on this particular point there is any great overriding need for the change. I simply have encountered confusion as between its name and the names of private sources.

This legislation, to accomplish, has been introduced by a Member of Congress. I think it would help to remove, if it were enacted, some of the misunderstanding I have encountered in some of my own experience with the agency.

But we have lived since 1953 under the name "Small Business Administration." We could continue, of course, to do so.

I would say this: There are more things more important about the continuation of this agency being a very active and helpful agency than what its particular name is.

Senator PROXMIRE. Are there any direct conflicts in the name? Do any States have SBA's or any other institution that might have a similar name?

Mr. HORNE. There is none that I know of, Mr. Chairman, that has the full name of "Small Business Administration." There are some whose names are close enough that sometimes confusion is created.

We felt that the word "Federal" preceding the words "Small Business Administration" would make clear to everybody this is a Government agency.

Senator PROXMIRE. All right.

Then on page 2 I want to congratulate you. This is the first time I can recall that the SBA has not come in asking increase in authorization for its general loan fund. This is the first time in how long that you have not asked for this?

Mr. HORNE. The first time since I have been with the agency. I do not know whether it is the first time in history or not.

Senator PROXMIRE. Can any of your staff indicate that?

Mr. HORNE. I can check that. Mr. Hanna can check it back, and we will supply the answer to your question, sir, for the record.

(The information requested is as follows:)

Increases in business loan authorization

[In millions]

	Increase	Total
Original limitation, Public Law 163 (83d Cong.) (July 30, 1953)-----		\$150
Increase Public Law 85-4 (85th Cong.) (Feb. 11, 1957)-----	\$80	230
Increase Public Law 85-120 (85th Cong.) (Aug. 3, 1957)-----	75	305
Increase Public Law 85-536 (85th Cong.) (July 18, 1958)-----	195	500
Increase Public Law 86-307 (Sept. 22, 1959)-----	75	575
Increase Public Law 87-198 (Sept. 5, 1961)-----	20	595
Increase Public Law 87-305 (Sept. 26, 1961)-----	130	725
(Includes prime contract authorization of \$25,000,000 merged with business loan authorization.)		
Increase Public Law 87-550 (July 25, 1962)-----	600	1,325
(Includes an increase of \$450,000,000 plus merging of disaster loan authorization of \$150,000,000.)		

Senator PROXMIRE. I think it would be interesting.

Now, does this indicate that maybe SBA has finally reached the end of its growth? This has been quite an empire. I do not mean any insult in that term, but it has been a terrific growth, in some ways one of the most rapidly moving and growing, expanding agencies in our Federal Government.

You have expanded your field offices, and you have expanded your personnel at a terrific rate really in the last 10 years.

Mr. HORNE. During the past 10 years, Mr. Chairman, we have, because it was not established until 1953, as you know.

I might say, sir, there are other agencies that as far as personnel and appropriations are concerned, I am sure have shown a much larger growth.

Senator PROXMIRE. You have increased from about 600 to about 3,000, have you not?

Mr. HORNE. No, sir. We have 3,000. We do not have 6,000.

Senator PROXMIRE. How many do you have?

Mr. HORNE. We have about 3,100, sir.

Senator PROXMIRE. Well, I said you had 3,000 and you say 3,100.

Mr. HORNE. I misunderstood your statement. We have 3,100 employees today.

Senator PROXMIRE. How many did you have in 1953?

Mr. HORNE. Well, we had probably around 600 or 700 in 1953.

Senator PROXMIRE. That is what I say. You have gone from about 600 to about 3,000 employees.

Mr. HORNE. But my point is, Mr. Chairman, you can take a brand new Government agency and I am sure I can find you some who have grown faster than this.

Senator PROXMIRE. Oh, sure, Space, and so forth. But you have done awfully well.

Mr. HORNE. During the 2 years that—

Senator SPARKMAN. You have been given added jobs during that time, have you not?

Senator PROXMIRE. I do not say it is your fault. It is the fault of the Congress.

Mr. HORNE. During the 2 or 3 years I have been head of the Agency I think its growth overall has been relatively small.

Senator PROXMIRE. I think it is good that you feel you can do the job without increasing your authorization.

Mr. HORNE. I think, sir, without taking the time unless you want me to, if you have had a chance to read the next couple of pages, we give a pretty good explanation there as to why we are in a position—

Senator PROXMIRE. I read that when I came in. It seems to me, however, that there is no conclusion that you feel this necessarily is significant, that the SBA will now be able to operate with the present regular business and disaster loan fund authorization limit of \$1,325 million.

Mr. HORNE. I think it is significant that we are able this time to get by without asking for increased authorization. But because of the factors, the favorable factors, we have pointed out possibly changing—we never know whether they are going to—I certainly would not like to say that we may not be back later on or sometime in the future for increased authorization.

Senator PROXMIRE. Well, the hour is late, and the other members have been very patient. I just want to say at this point that I do hope that you will give consideration to establishing loan priorities because I feel that with this terrific ocean of potential borrowers of 4.5 million when you have made 25,000 loans, or one out of every 200 small business firms, you could establish priorities or even recommend exclusions so you make loans in areas where you provide employment where loans obviously are necessary.

You might eliminate the doctors' and dentists' offices. You get into trouble when you mention categories. But bowling alleys and motels and recreation facilities sometimes are desirable, but I do not think the case has been made with great persuasiveness.

Mr. HORNE. Mr. Chairman, we have not made many of these loans, sir. The ARA program, for example, gets into loans of this sort.

Senator PROXMIRE. Yes. I know sometimes these are necessary.

Mr. HORNE. I think I agree with you, sir, that we should be discreet and careful in our selection of such loans to make, and I think, Mr. Chairman, we are doing so.

I might add that, of course, we never expect to make loans to the several million small businesses in existence. The RFC had no such record. We do not anticipate that we will have, nor do we want such a record.

I want to give Mr. C. R. Lanman, Deputy Administrator for Financial Assistance, a great deal of credit for our very cordial and improved relationships with the Nation's bankers. I think that the fact that the banks are getting into the term lending more than has been the case in the past is one of the reasons we are today able to say we do not want this \$50 million increased authorization. But the economic condition may very well change sometime in the future when the Congress would want us to have additional funds to enable small business to receive help.

Senator PROXMIRE. Well, I just feel we have a Nation that is pretty well banked. Some areas are underbanked, but most of them are well banked. And here is an agency that is doing an important job. But it is just very difficult to justify the kind of rapid expansion we have had in the past.

On page 5 you talk about disaster loan funds. Are you requesting this be increased?

Mr. HORNE. No, sir.

Senator PROXMIRE. You are asking it be at the same \$150 million level?

Mr. HORNE. Yes, sir.

Our increase in authorization, Mr. Chairman, in my proposal today relates only to the Investment Division program.

Senator PROXMIRE. How much is available in the event of a big disaster now in that fund?

Mr. HANNA. At the present time we only have about \$90 million of \$150 million committed.

Senator PROXMIRE. So you have \$60 million available?

Mr. HANNA. Yes, sir.

Senator PROXMIRE. What is the biggest disaster need you have ever had in any year?

Mr. HANNA. Slightly over \$40 million.

Senator PROXMIRE. What year was that? What was the disaster?

Mr. HANNA. In 1955-56, I believe, and then again in 1962 we came close to it.

Mr. HORNE. Hurricane Carla, I believe.

Senator PROXMIRE. At any rate, you feel on the basis of past experience it is conceivable you might have a year you would need something like this \$60 million?

Mr. HORNE. We are taking a 5-year average.

Senator PROXMIRE. The 5-year also seems to be excessive. Twenty million dollars is your average need; Sixty million dollars availability.

Mr. HORNE. This runs for 3 years though, sir.

Senator PROXMIRE. Okay.

Now, on the bottom of page 5 you say:

The amendment proposed by section 3 of the bill, increasing from \$341 million to \$400 million the amount of the total fund which shall be outstanding at any one time for the exercise of the functions of SBA under the Small Business Investment Act of 1958, is based upon a projection * * *

What would happen if this would be denied?

Mr. HORNE. Mr. Parris.

Mr. PARRIS. Well, we anticipate that at the rate these SBIC's are investing, which is \$14 million a month, we are going to have a heavy demand on us for 303 loans, and we think that if this request were denied we would have to do what we did last spring, which is to deny or postpone many requests for 303 loans or set up priorities.

And since the stock market is not available to these companies to raise money, the 303 loans are the main—

Senator PROXMIRE. These are the long term loans that go up to \$4 million maximum?

Mr. PARRIS. Yes, sir. Actually they are only 5-year loans at the present time. We have authority to go higher and we think we will—to 8 to 10 years.

Right now they are 5 years. They are 50 percent of capital and surplus or \$4 million, whichever is less.

And the SBIC stocks and the over-the-counter market are still very depressed despite the recovery of the big board.

Senator PROXMIRE. You mean the stock market in SBIC's?

Mr. PARRIS. Yes.

Senator PROXMIRE. Most of the SBIC's that are listed on the stock market do not borrow money from the Government, do they?

Mr. PARRIS. They are mostly in the over-the-counter market. There has not been a significant SBIC public financing this past year. There was one smaller public company that raised \$750,000.

Mr. HORNE. Mr. Chairman, also this \$59 million increase in authorization being requested here not only applies to the SBIC's—
Senator PROXMIRE (interrupting). I understand.

Mr. HORNE (continuing). But also applies to the State and local development companies.

Senator PROXMIRE. Oh. I did not know that. What proportion would you say for State and local development companies?

Mr. HANNA. The estimate for 1964 is \$41 million for loans to State and local development companies, \$5 million estimated for loans to State development companies and \$36 million for loans to local development companies.

Senator PROXMIRE. I am asking for the projection for 1964. You are asking for \$59 million more. Are you telling me \$41 million of this \$59 million is for State and local development companies?

Mr. HANNA. No, sir. That is in total. What I am outlining are the total new loan needs that we have estimated for the fiscal year 1964.

Senator PROXMIRE. How much of this \$59 million? That was my question. How much of that is needed for additional authorization for State and local development loans?

Mr. HANNA. Since we have not earmarked any specific portion of the authorization for development company loans, I could not break it down in that manner, Mr. Chairman. We are estimating that we would have outstanding at the beginning of 1964 a total of \$246 million out of the \$341 million committed in loans to SBIC's and State and local development companies.

Senator PROXMIRE. You see, the difficulty is that this committee might want to make a policy decision. We ought to have it very clearly and neatly before us. We may decide we do not want to provide any more money for the SBIC program or for the State and local development program, in which case we cannot make a decision unless you give us facts.

Mr. HANNA. On page 4 of attachment A, Mr. Chairman, we have laid out our total need for 1964 as well as the estimated available collections coming in.

Mr. HORNE. It is pretty difficult to say just how much of this new request would be channeled into each area.

Mr. PARRIS. On the increase in the development companies, in 1963 the budget estimate was \$30 million, roughly, and in the coming year we estimate it at \$41 million.

But we have had a vigorous effort to get to the grassroots of communities and let them know about this program, and we think it will begin to bear fruit here.

We have made extensive mailings to all the local development companies and mayors, chambers of commerce, and so forth, as the Select Committee on Small Business urged us to do.

Senator PROXMIRE. What did you say the figure had been on loans to local development companies and what was it now?

Mr. PARRIS. The figures for fiscal year 1963 were estimated at \$30,400,000.

Senator PROXMIRE. I see. You are expecting that to increase by about 20 percent?

Mr. PARRIS. Yes, sir.

Senator PROXMIRE. All right. Now, then, you are asking for an increase in the section 302 loans, investments, from \$400,000 to \$1 million, so this is more Government money going into the SBIC program. Is that right? \$700,000. I beg your pardon.

Mr. HORNE. Yes, sir.

Senator PROXMIRE. But you say in your statement it would increase from \$400,000 to \$1 million the dollar limitation governing the amount of debentures which the Small Business Administration can purchase from a small business investment company.

Mr. HORNE. That is according to the bill, Mr. Chairman.

Senator PROXMIRE. I see. But you recommend only \$700,000?

Mr. HORNE. \$700,000 for a period of 2 years.

Senator PROXMIRE. I see.

So this once again means that you feel that the Federal Government should invest more money in this program because the small firms that are making \$30,000 and \$50,000 and \$100,000 investments in communities would be the ones who would benefit from this provision?

Mr. HORNE. That is true.

Senator PROXMIRE. Plus the fact they would have more leverage?

Mr. HORNE. Additional funds, sir.

Senator PROXMIRE. So they can make more money out of it?

Mr. HORNE. It also gives them a chance to reach a more economical level of operations than they presently enjoy.

Senator PROXMIRE. Do you have any record on the basis of applications of how thoroughly utilized this would be?

Mr. HORNE. You mean the proposed additional funds?

Senator PROXMIRE. Yes. If you provided this increase from \$400,000 to \$700,000. On the basis of applications, would it be many firms?

Mr. PARRIS. We think that there are roughly 55 firms that are in a position now or very shortly to take advantage of it, because they are substantially loaned up, and they have used practically all the existing leverage.

In addition, there are nearly 200 companies that are substantially loaned up and who have used a substantial part of the leverage.

But about 55 could come in fairly promptly.

Senator PROXMIRE. If 55 firms came in and used \$300,000 apiece, that would be about \$16.5 million. Is that what you figured?

Mr. PARRIS. We have figured that the cost in fiscal 1964 of S. 298 as recommended by us would be about \$18.8 million.

Senator PROXMIRE. Because in addition to the 55 there would be some of the 200 others that would come in to it?

Mr. PARRIS. We have not figured that out, sir, because there are so many other aspects of the 1965 budget, but there would be more out of that 200 group that would come in conceivably in the 1965 fiscal period.

Senator PROXMIRE. All right.

Now, on page 12 you say:

No licensee could take advantage of the increase to \$700,000 in subordinated debentures during this temporary period until it had taken down and substantially invested or committed 75 percent or more * * *.

Why only 75 percent? Why not 90 percent? After all, if they have got funds in cash and Government bonds, why let them borrow more from the SBA, or if they have got them in other loans that are not small business?

Mr. PARRIS. Mr. Chairman, it has been our experience from talking to industry that for orderly planning they actually feel that they have to have some idea where additional funds are coming from when they get above 50 percent invested.

Mr. HORNE. Yes. The members of the industry complained even about the 75 percent level.

Senator PROXMIRE. I can see why they would. But I am just wondering from our standpoint, since we provide the money, or the taxpayers' standpoint.

Mr. HORNE. That is true. But I do not know that the 90 percent requirement any more than the 75 percent would afford any better break for the taxpayer or for the money that is loaned.

Of course, this money is repaid, as you know.

I think it does get back to the point Mr. Parris mentioned. That is, the importance of being able to make some orderly planning. And the 75 seemed to us to give more leverage there than would a higher rate.

Senator PROXMIRE. On the bottom of page 12 you say:

Without the increase as proposed, the most active licensees may well be forced for a period of some years to reduce the scale of their operations to the servicing of investments now on their books.

The most active licensees are the ones that do not have any public money, are they not? They are the biggest at least, that do the largest amount of work. And here you are talking about the relatively small firms.

Mr. PARRIS. Actually, the most active ones in terms of getting percentage invested are not the biggest ones, sir, but we have active ones in all ranges, small and big—very, very active.

We have some companies in the large range and in the small range that are over 100 percent invested as regards capital and surplus.

Senator PROXMIRE. Are they the most active firms, the ones in this middle range here you are talking about, as a matter of experience?

Mr. HORNE. It is pretty difficult to say. We can take a closer look at it and try to give you more measurement on it, Mr. Chairman.

But it is my impression that the activity is not necessarily determined by the size, that it ranges across the whole scope, so to speak.

Mr. PARRIS. It is more a function of age. The ones that are 2 years or more old are two-thirds invested. It is more a function of age, Senator Proxmire. This is true of all sizes of companies.

Senator PROXMIRE. All right.

On page 14 you say:

Section 303(b) now provides authority for SBA to make operating loans to an SBIC up to 50 percent of its statutory capital or \$4 million, whichever is less.

This bill provides authority to make loans in cooperation with banks and other private lending institutions.

What is the effect on the \$4 million limitation?

Mr. HORNE. It would go up. Under our recommendation it would go up to \$5 million.

Senator PROXMIRE. The bill would go up to \$8 million.

Mr. HORNE. Yes, sir. We are recommending \$5 million instead of the bill's figure of \$8 million.

Senator PROXMIRE. So this is again another area where you think more Government money might go into it?

Mr. HORNE. This would be a source of greater assistance to the SBIC's but not in the amount recommended.

Senator PROXMIRE. But this would be as contrasted with the increase to \$700,000 in investment by the SBA? This \$4 million would only affect the bigger SBIC's?

Mr. HORNE. Yes, sir.

Senator PROXMIRE. Do not the bigger SBIC's by and large say they do not need additional Government money?

Mr. PARRIS. Since the stock market for SBIC's has gone off so badly, we have had some of these large ones come in for 303 loans.

The stock market now in SBIC stocks is at the lowest point it has ever been according to Ruble's Service. About 60 percent. They are selling at about 60 percent of book value. And to go into a financing, a public company going into a financing, under those circumstances has a real problem about dilution of the equity of its existing stockholders.

Senator PROXMIRE. What happens then if we provide greater opportunities for them to borrow from the Federal Government? When the stock market is high, they go to the public. When the stock market is lower, they go to the Government. So the Government just provides a crutch.

If the private investor in his best judgment appraises the SBIC as being not a good investment, then the Government steps in?

Mr. HORNE. Well, I do not—

Senator PROXMIRE. You are asking us now to increase the degree to which the Government can step in for the big firms.

Mr. HORNE. I guess you could describe it as a crutch. I would not use that word myself, sir.

But I think it is simply a question that, yes, he would come to the Government for more assistance at the time of a depressed stock market. This would simply enable the SBIC's more evenly to continue to do the very important job they are doing in the economy and help rebuild the economy so the stock market and other economic conditions would improve.

Senator PROXMIRE. At the same time you have taken great pride, and properly so I think, in the fact so much of this program has been financed by private money. As you say, \$5 out of \$6 in the program are private. This is good from my standpoint, and you feel pride in it. You are right.

But you are asking us to change the rules a little bit so there will be more Government money.

Mr. HORNE. I am asking this: I am asking to make it possible that the Government in a smoother way enable these people to continue

to function and do the job which I think everybody who has made a study of it realizes they can do for the entire economy.

That is really in essence what it boils down to, Mr. Chairman.

There may be times, of course, when more Government funds are needed.

Senator PROXMIRE. On pages 15 and 16 you discuss the SBA's participation along with banks in SBIC financing. Is that correct?

Mr. HORNE. Yes, sir.

Senator PROXMIRE. You say:

Under this arrangement the bank makes the loan with the understanding that it may call upon SBA at any time for the full amount of the outstanding principal. Our authority to make such agreements has been upheld by the Comptroller General.

Now, what are you proposing that we do about this situation? Do you want us to affirm this?

Mr. PARRIS. We are asking that the status quo on our bank standby program be retained. We felt we had implied authority to do this under the congressional authorization, and we would like to continue that until July 1, 1965. In the meantime we will search for another type of program that will more adequately meet the needs of the President's Credit Committee.

Senator PROXMIRE. I can see merits in this thing, but I can also see an awful lot of danger.

After all, it is the judgment of the bank that is based on the possibility of loss, and so forth, the risk element, which requires them to exercise discipline in turning down an investment. The Government stands behind it, so it is, in effect, an investment in Government bonds except the increased SBA investment brings a higher interest rate. You eliminate that discipline.

You have a situation in which you have socialized your risk, and I am just wondering if this thing is not going to really expand but expand in a way which might be dangerous in the event we have a reversal of the business cycle.

Mr. PARRIS. This program is very similar to other Federal credit systems, the home loan bank system, and farm credit system.

Senator PROXMIRE. I know we have elsewhere what you are asking. This is the first I have had a chance to sit in a committee that was passing on it—at least in the position of chairman.

Mr. PARRIS. After a period of time these Federal credit programs succeeded and became almost completely privately owned. In fact, several of them are completely privately owned.

Senator PROXMIRE. You want to phase this out?

Mr. PARRIS. Well, phase this out but look for a substitute to keep the banks participating in some way because we are trying to get them familiar with this program so that they will build up relationships with the SBIC's and carry on from there.

Senator PROXMIRE. Okay. I am just about through. I appreciate the patience of the Senator from Colorado.

We have certainly exhausted that discussion on the \$500,000 limitation, but I would ask in view of the fact you are asking us to eliminate that \$500,000 limitation. It seems to me that this legislation is designed, as you might predict and expect, for those wonderful people, my good friends, who are in the SBIC movement. They are grand

people and are doing a good job. But there is nothing in this bill and nothing I have seen recommended coming out of the Small Business Committee that would help the small businessman directly.

What he is concerned about is SBIC taking over ownership, for one thing. And there is nothing in here that would, as I read it, help the small businessman protect himself from having the SBIC move in and take over.

Mr. HORNE. Our regulations (operating procedures) do that, Mr. Chairman.

Senator PROXMIRE. Do they do it satisfactorily?

Mr. HORNE. We think so, but there could be a difference of opinion. But we think it does.

Senator PROXMIRE. Precisely what regulation?

Mr. PARRIS. The finding of the select committee of the Senate was that both on control and interest rates the agency had done a commendable job. Every proposal for a license includes a statement that control will not normally be taken, but if it is, in order to protect an investment, the control position will be promptly divested when the need for protection is no longer there.

And through our examinations of these companies, when we find a control position, we ask for an explanation, and we do make them give us some type of plan about how they propose to get rid of that control position.

Senator PROXMIRE. You say when you "find control position." Are they not required to report any control position?

Mr. PARRIS. Yes, on their quarterly reports they show that.

Senator PROXMIRE. What do your records show on control?

Mr. PARRIS. Our records show that about 7 percent of the transactions involve control situations over 51 percent.

Mr. HORNE. But each of these is accompanied by an understanding as to how that control would be divested.

Senator PROXMIRE. What has been the record on divesting?

Mr. PARRIS. On our examinations that we have made when we have made the request for a plan of divestment we have always gotten a consent to—

Senator PROXMIRE. Do you also make a recommendation for a plan of divestment?

Mr. PARRIS. When we find control in an examination, this is what we ask for in all cases; yes, sir.

Also they can come in in advance and ask for control to protect an investment, and we always make the same stipulation there.

Senator PROXMIRE. Thank you.

The Senator from Colorado.

Senator DOMINICK. Thank you, Mr. Chairman.

There are just some few things that I would like to get into.

First of all, on this disaster loan fund which you recommended not be increased, as I understand it, what duplication is there between your disaster loan program and it seems to me at least five other programs that we have got for disaster loans in the Federal Government?

Mr. HORNE. I do not think there is any, Senator. I think there may be an occasional unintentional overlap or duplication, but I do not know of any. There may be one exception now. I saw something in the Congressional Record a few days ago to the effect that I believe

it was one of the Senators had suggested that funds of the Farmers Home Administration be used to make disaster loans so far as homes are concerned.

Of course, they operate in limited areas. Our program does include disaster loans to homes, and we are not limited to any particular area. We make disaster loans to help repair homes that are damaged by floods or storms or elements of the weather, things of that sort.

There may be an occasional conflict, but I know of no case other than occasional conflict.

I might ask Mr. Lanman if he knows of any.

Mr. LANMAN. I do not know of any, Senator. Basically our disaster loan authority is complete in that we can make loans to all victims of disaster. We are not restricted as we are in business loans to small business.

Senator DOMINICK. You are not telling me or the committee, are you, that this is the only disaster loan program that the Government has?

Mr. LANMAN. No, sir. All I am saying is to my knowledge there is no basic conflict between our lending program and the program of Farmers Home Administration, for example.

Senator DOMINICK. There are many others.

Mr. HORNE. But they do not cover the same things, Senator. You have a disaster program I think that relates to roads. Ours relates principally to business entities or to homes or property.

Senator DOMINICK. This is the only disaster loan program for that type of purpose?

Mr. HORNE. That is my understanding, sir.

I do not believe, with the single possible exception that I have outlined where there might be occasional overlap of jurisdiction, that there is any conflict or any duplication among this agency and other Government agencies in this area.

Senator DOMINICK. How do you get into home construction?

Mr. HORNE. Only through the disaster loan authority spelled out in the SBA Act, where we may go in and make loans to homeowners who are using a home as their principal domicile and which has been destroyed or impaired by natural disasters.

We make loans in such cases up to 20 years at a 3-percent interest rate which is set by statute.

Of course, in making such loans we take into consideration what would be required for reconstruction to its original status and also take into consideration what insurance or coverage they may otherwise have had.

Senator DOMINICK. These disasters are restricted under the present wording to drought and heavy rainfall. Right?

Mr. HORNE. Senator, let me go back and explain this. We have, in effect, three types of disaster loan authority. One relates to physical damage or impairment of property. One relates to economic impairment to small businesses and this is where excessive drought and excessive rainfall applies.

Senator DOMINICK. Small businesses only?

Mr. HORNE. Small business only; yes, sir.

And one relates to small businesses displaced by Federal Government activity such as urban renewal or highways or airports or other federally financed activity.

You have to sort of keep these three disaster authorities in mind in order to avoid some confusion about what we would do under each one.

Senator DOMINICK. Now, on physical damage to homes, and so on, that covers all risks?

Mr. HORNE. No, sir. It does not. But, Mr. Lanman, do you want to explain that?

Mr. LANMAN. The major ones have been floods and tornadoes and hurricanes and things of that nature.

We have had a few major fire disasters and several blocks were burned down. Then fire has been deemed a disaster.

Senator DOMINICK. What about hail?

Mr. LANMAN. I do not recall hail. We may have had one.

Mr. HORNE. It would not necessarily be ruled out.

Mr. LANMAN. It could be eligible. I do not recall one offhand.

Senator DOMINICK. What you are doing in this request then, is not increasing your amount on the business disaster portion of this but you are increasing the risk?

Mr. LANMAN. We would be under this proposal increasing something that we are not now covering under this particular section which relates to the economic disaster that is suffered by small businesses because of excessive rainfall or drought.

The amendment would include other types of disaster.

Senator DOMINICK. Are you not, in fact, more than trebling the risk that is involved?

Mr. LANMAN. Well, the amount of money that has been involved in the excessive rainfall and drought program has been quite small. Do you have that figure, Mr. Hanna?

Senator DOMINICK. The average I gather is over \$20 million.

Mr. HORNE. This is our average yearly total.

Mr. LANMAN. The \$20 million, sir, is the average annual total for our physical damage and economic injury disaster loans. This figure does not include displaced business loans.

Mr. HANNA. The total disaster loans we have made as a result of drought are only \$4.5 million, and for excessive rainfall \$12.5 million. These are cumulative totals.

Mr. HORNE. Since the authority was established.

You realize how this works, Senator Dominick. If there is excessive drought or rain and the farmers or people who do business with the small business entities in the community are not able to pay their bills then we could under such conditions, provided either the President or the Secretary of Agriculture declared the area a disaster area, make loans to the small business entities to tide them over until the economy is restored.

And what we are proposing today is simply to extend that to conditions other than excessive drought or excessive rain. Last year, for example, when they had the freeze in Florida, the small businesses in Florida were hurt just as badly by the people who were in the orange and citrus business with whom they were doing business, as were the small businesses in Texas that suffered as a result of drought. However, the Florida businesses did not have access to this kind of help.

Senator DOMINICK. I might say as a word of warning I have just heard from a very highly competent scientist we are liable to have

this in more extended phases in the next decade because of radiation in the upper atmosphere, so you may have more claims on this.

On page 7 you say that the United States has no effective means of punishing persons who steal property mortgaged to SBA as security for a loan. Do you not have insurance on this?

Mr. LANMAN. No; we do not carry insurance. We self-insure when we acquire collateral.

Senator DOMINICK. You think it is necessary to have specific power for the United States to go after these people instead of the mortgagee?

Mr. PLAPINGER. I would think so, sir. At least in the one case that came to our attention. And we view this strictly as a precautionary measure.

Senator DOMINICK. This has not been a prevalent situation?

Mr. PLAPINGER. No, sir. We are just being "extra cautious," as the saying goes.

Senator DOMINICK. On page 11 you say that under the Small Business Investment Act and the current rate of investment by SBIC's it is expected that the number of such companies will increase within the next 2 years. These are the ones who have taken full advantage of the leverage. You say the current economic picture does not permit them to obtain additional paid-in capital and surplus in the public market place.

Now, how do you come to a conclusion like that?

Mr. HORNE. Because the stock market having been depressed some time ago, Senator, simply meant that the SBIC's now would stand little or no success in going into the public offerings market and asking people to buy stock in these companies.

Mr. Parris may have something to add to that. But this is where in the past we have been able to get such a great percentage of our total money in this program rather than the formula that the Government anticipated when this legislation was passed of two Federal to one private dollar. It has been about one Federal to four and five otherwise.

Senator DOMINICK. You find yourself in a vicious circle at this point—that the more the administration tends to have business feel it is against them when the market goes down or remains stagnant the Government has to come in and prop them up? Is this right?

Mr. HORNE. I do not know, sir, that the stock market depression was necessarily triggered by business being unhappy with the administration.

Senator DOMINICK. I do not know whether it is, either. But it might have been. But the fact remains that whatever brought it about, it took place.

Mr. HORNE. Now, this is the reason in this particular place we are asking for a 2-year authority here with the hope that at the end of the 2 years the situation may have improved sufficiently to enable these people to return to the public market and get funds there, more so than they can do today.

Senator DOMINICK. Incidentally, before I go any further on the SBIC, I think it should be pointed out that in 1962 calendar year the SBA approved loans in the total amount of \$101 million in areas which are subject to ARA loans.

So it does seem to me that the ARA funds or the SBA funds, in considering the amount of Federal funds to go into these areas, ought to be put together to find out how much we are spending.

Mr. HORNE. We would have no objection in any of our reports to including how many loans or what loan amounts we have recommended to ARA areas, but I am sure you know, sir, this comes about by the fact that under the Area Redevelopment Administration Act they did delegate authority to us to be their fiscal agent, so to speak. And while it is ARA money that is loaned to the borrower where a borrower's application is approved, it is money appropriated to ARA not money appropriated to SBA.

We do make recommendations to ARA as to whether or not we believe that under the ARA program this loan can be or should be approved.

Senator DOMINICK. Are you telling me now, Mr. Horne, that this \$101 million is ARA money and not SBA money?

Mr. LANMAN. Senator, I think the funds you are referring to are the loans SBA made in ARA areas, \$101 million.

Senator DOMINICK. That is what I thought.

Mr. HORNE. I misunderstood you. I thought you were referring to loans we had recommended to ARA which they had finally approved.

Mr. LANMAN. We have a breakdown available, Senator.

Senator DOMINICK. Again we seem to have duplication of agencies employing taxpayers' funds in specific areas, and it is very difficult to get a cohesive picture of how much is going into any particular area because they are so widely spread out.

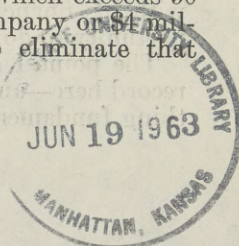
Mr. HORNE. Senator, I can see where you would have difficulty knowing how much all agencies are putting into a particular area. But as to the duplication, let me point out this, sir: We do the work for ARA insofar as getting together the information to be able to evaluate or to make a recommendation on an ARA application, so we eliminate duplication. Here the ARA people are not doing it; we are doing it.

Also in an ARA area we still are restricted from making loans beyond our size limitations. The ARA has no size restriction. ARA in an area designated by them to be an eligible area may make any size loan, whereas we are still restricted to our size standard in such areas.

Mr. LANMAN. Could I add one other thing, Senator? In an ARA area, if the funds are available from this agency, then the loan cannot be made by ARA. So to the extent of our lending limitation of \$350,000 and our 10-year maturity, if that fits in the borrower's case, then it has to come from this agency.

And on the other side of the coin, ARA cannot make working capital loans, and, of course, we can and do make working capital loans.

Senator DOMINICK. Going over to the elimination you refer to on page 16 and at the top of page 17, the present rule forbids SBA to acquire from any SBIC obligations in any amount which exceeds 50 percent of the paid-in capital and surplus of the company, or \$4 million, whichever is less. And your proposal is to eliminate that limitation.



You go on to say on the top of page 17:

* * * the total amount of obligations which SBA can acquire from an SBIC, including those acquired pursuant to such agreements, may range in value up to the entire amount of the company's paid-in capital and surplus or \$8 million, whichever is less.

This, in effect, puts the SBA, does it not, as a complete supplier of the funds for the SBIC?

Mr. HORNE. No, sir; it would not. And, incidentally, too, Senator, the language that you have just read is a description of the bill.

Now, the next paragraph is my own recommendation, that we increase it to \$5 million instead of the present \$4 million that may be borrowed.

Senator DOMINICK. I stand corrected on your position on this. But I still would like to know if we put this proposal in the bill if its effect would be or could be that SBA would simply take up all the obligations of SBIC.

Mr. PARRIS. Under the bill as proposed the SBIC to get the advantage of this leverage would still have to have its starting base of the private matching funds under 302.

Senator DOMINICK. It would at the beginning, but it would not have to retain it. If you can purchase the entire amount of the company's paid-in capital and surplus, you have, in effect, put yourself in the place of the SBIC. Is this not true?

Mr. PARRIS. I do not think so, sir. They would have to put in a million private funds for a million under 302. Then they might borrow 50 percent of that amount. Or under the bill, if they can get a bank to participate, 100 percent.

Mr. HORNE. There is no way, Senator, either under existing legislation, under this bill, or under our recommendation as pertains to this bill that all of the money in an SBIC could be Government money.

Mr. PARRIS. The ratio of Federal-to-private funds would be changed under the proposal in the bill from 2 to 1 to 3 to 1 if a bank were brought into the participation.

Senator DOMINICK. Now, in connection with this company or these companies which have said that if the \$500,000 limitation is not lifted they will consider leaving the program—and only one actually said that it would—are these the only reasons given for leaving the program?

Mr. PARRIS. No, sir. Another company left, a \$5 million company, that had taken a restrictive field of investment in water utilities. They did not desire to change their field of investment, and they found, at least their experience was, that it was too restrictive to find adequate investments for the amount of money that they had on hand.

Senator DOMINICK. I would like to comment again on the example that you gave where Du Pont I think you said—I think the words were—gobbled up a company. I do not know the details of this. Maybe you do. But there are a great many companies that I know all over this country who would love to be gobbled up by Mr. du Pont with his financial and management background if they had an opportunity to do so and have not been able to get their backing.

The point I am making is that to use these words implies in the record here—and I do not want that implication—that there is something fundamentally wrong with a big company going in and invest-

ing in a little company even if it gets control in the process of doing it. I do not think that is necessarily wrong, and I do not think you ought to leave that implication.

Mr. PARRIS. I did not mean to leave that impression. If I did I stand corrected.

I think that there is room in our economy for both big business and small business, but bearing in mind that Congress asked this Agency to encourage and assist small business, which was defined as independently owned and operated, I was simply trying to point out that when a company is purchased or acquired by a very large company it is no longer independently owned and operated, and it is not providing the competition that Congress has felt was highly desirable. Congress felt that through small business there would be a lot more competition.

Senator DOMINICK. And it is no longer a drain on the taxpayers either.

Mr. HORNE. This would not necessarily, Senator, be a drain on the taxpayers, particularly if it were financed by one of the publicly held companies.

I think what Mr. Parris was trying to emphasize here is not disagreement with you that there are some companies that want to be absorbed by large firms but also that there are some companies who do not want to be absorbed by large firms.

Senator DOMINICK. Correct.

Mr. HORNE. These are the firms that this act was intended to help.

Senator DOMINICK. I have been on the boards of a good number of them before I got into this position, and I know the struggle they have had.

Mr. HORNE. If it would not embarrass Mr. Parris, I would like to point out he came to us from Ford Motor Co. So I am sure he does not feel unfriendly toward big business.

Mr. PARRIS. That is correct, sir.

Senator DOMINICK. How much is the total amount of increase in authorization that you are recommending by virtue of your statement?

Mr. HORNE. The statement today, sir?

Senator DOMINICK. Yes.

Mr. HORNE. \$59 million, sir.

Senator DOMINICK. If this limitation is removed on the \$500,000 that we are talking about, will you have to come back for more authorization at a later date?

Mr. HORNE. If we have to come back I should not think it would be just because of this removal of the limitation. There may be other reasons, Senator, that we would need to come back.

But I think this would have very little effect, if any, on it. As a matter of fact, the total impact that we are estimating an everything that we are recommending in regard to S. 298 is only about \$18.8 million, sir.

Senator DOMINICK. Mr. Chairman, that is all. Thank you.

Senator PROXMIER. I would like to ask just a couple questions to clear it up.

I am shocked by the fact that 7 percent, as I understand it, of the small businesses which have had investments made in them by the SBIC's have eventually come under SBIC ownership, 51 percent or more ownership.

I would like to have a memorandum, if I could, showing in the first place the regulations that you now operate under in this regard, precisely the number of cases, how many firms have been released from control, and a detailed list of the individual investments, what SBIC and what small business firm they took control of.

Mr. PARRIS. Mr. Chairman, we will be glad to supply the information. I would just like to point out that with regard to that 7 percent the way many of these investments come about is you may have an inventor or entrepreneur with an idea but no money to speak of, no substantial money at all. If he is to get this type of long-term capital there is no way to escape a substantial equity position by the SBIC unless it is to take a straight loan, and this type of risk would not justify that normally.

(The information requested follows:)

SMALL BUSINESS ADMINISTRATION

Washington, D.C.

NUMBER OF SBIC'S, AND THE DEGREE OF CONTROL TAKEN IN FINANCED SMALL BUSINESS CONCERNS, AND BASIS FOR RELINQUISHING SUCH CONTROL

Table A shows the current status of actual and/or potential ownership of financed small business concerns with respect to the outstanding balances of investments, as of December 31, 1962, held by the 606 reporting small business investment companies. These data were extracted from schedules in the financial reports, SBA Form 468, showing the balances outstanding of individual investments as of December 31, 1962.

TABLE A

Percentage	Number of SBC's affected through sec. 304 debt securities	Number of SBC's affected through sec. 304 capital stock	Number of SBC's affected through combined investments in sec. 304 debt securities and capital stock	Total number of SBC's affected	Percent items in col. (5) to total
(1)	(2)	(3)	(4) ¹	(5)	(6)
Under 10.....	441	210	40	691	28.8
10 to 19.9.....	241	106	31	378	15.8
20 to 29.9.....	277	98	35	410	17.1
30 to 39.9.....	168	77	23	268	11.2
40 to 49.9.....	138	86	34	258	10.8
50.....	85	111	19	215	9.0
50.1 to 59.9.....	10	11	9	30	1.3
60 to 69.9.....	20	17	11	48	2.0
70 to 79.9.....	5	11	11	27	1.1
80 and over.....	12	30	28	70	2.9
Total.....	1,397	757	241	2,395	100.0

¹ The number of SBC's shown in this column is independent of the number of small businesses shown in cols. (2) and (3).

Table B shows the number of licensees which had 1 or more investments with balances outstanding as of December 31, 1962, providing actual and/or potential ownership of voting stock in each of the 10 selected percentage ranges. In many instances a single licensee is included in the figures shown for several different ranges of percentage ownership in the tabulation when the schedules in its December 31, 1962, report show investments with different percentages of ownership in separate small business concerns. Since 127 licensees reported no investments with voting stock ownership rights, and reports from 9 licensees were incomplete and could not be included, there were only 470 of the 606 reporting companies

which did show such stock rights and which are included in this tabulation. Thus, the tabulation figures total 1,411, although there were only 470 reporting licensees with stockownership or stock rights.

TABLE B

Percentage	Number of licensees affected through sec. 304 debt securities	Number of licensees affected through sec. 304 capital stock	Number of licensees affected through combined investments in sec. 304 debt securities and capital stock	Total number of licensees affected	Percent items in column (5) to total
(1)	(2)	(3)	(4) ¹	(5)	(6)
Under 10.....	189	129	37	355	25.2
10 to 19.9.....	143	80	27	250	17.7
20 to 29.9.....	137	61	27	225	15.9
30 to 39.9.....	99	59	19	177	12.5
40 to 49.9.....	81	45	16	142	10.1
50.....	47	65	12	124	8.8
50.1 to 59.9.....	5	10	3	23	1.6
60 to 69.9.....	13	16	10	39	2.8
70 to 79.9.....	5	11	8	24	1.7
80 and over.....	11	23	18	52	3.7
Total.....	730	499	182	1,411	100.0

¹ The number of licensees shown in this column is independent of the number of licensees shown in cols. (2) and (3).

Table B shows 262 licensees holding actual and/or potential ownership of 50 percent or more of the voting stock of financed small business concerns. After giving effect to the elimination of duplication caused by including the same licensee in the figures tabulated for more than 1 percentage class, there resulted only 163 separate licensees which hold ownership positions of 50 percent or more.

Applicants for licenses have to include the following statement in their proposal form:

"Except to the extent required by law, and SBA regulations, there will be no arbitrary, predetermined limit to the percent of voting securities of any one small business concern which the proposed operator may own, either directly or through conversion or exercise of a warrant, right, or stock option. It is contemplated that the company may be represented on the board of directors, and may assist management, in some of the small business concerns financed by it. The objective of the proposed operator in acquiring equity securities of small business concerns will not be to seek to acquire sufficient voting stock to control such small business concerns. In the event it should be deemed necessary to obtain control to protect an investment, proposed operator will take steps to promptly divest itself of such control at such time as control for purposes of protecting the investment is no longer required."

This becomes their statement of policy which they must operate under and cannot be changed without prior approval of the Small Business Administration. The proposal and this statement of policy has the effect of a regulation under which a company must operate.

With respect to the request for "a detailed list of the individual investments, what SBIC and what small business firm they took control of," and "how many cases have been released from control," our records have not been programed on to our data processing equipment in this manner. Thus, we are able to supply only the statistics shown above on the control question.

It is the policy of the Small Business Administration, however, that a licensee may acquire voting control of a small business concern only for the purpose of protecting an investment, and that, in such an instance, the licensee must take appropriate steps to promptly divest itself of such control at such times as control is no longer required for the protection of the investment. This may be accomplished by various means. Licensees can provide stock rights, warrants, or options to the other stockholders of small business concerns being financed for the redemption by them of controlling stock interest, or grant the right of first re-

fusal to such stockholders to repurchase the capital stock from licensees on appropriate terms and conditions negotiated at the time of providing the financing. Still other appropriate arrangements could be devised and negotiated upon such terms and conditions as would be mutually agreeable to the parties at interest. The procedure is to request licensees to give consideration to devising such plans and advise SBA of their views and conclusions regarding stock control position. Licensees are further urged to make provisions for ultimate divestiture of voting stock control within a reasonable period of time.

This policy is reviewed through our review and analysis of the financial reports, and through our field examinations.

Senator PROXMIRE. Yes. I am talking about something quite different from Senator Dominick. He was talking about a private company and Du Pont or some other company investing in a small business firm which is I think another issue and may be all right. I am talking about the SBIC taking over and acting as a holding company with complete ownership.

Mr. PARRIS. That is a temporary position. They are now allowed to maintain that.

Mr. HORNE. I do not know if there is any case at all, Mr. Chairman, in which they have complete ownership.

Senator PROXMIRE. As far as I am concerned, 51 percent is enough.

Then I would like the growth of the SBIC's year by year, the number, the amount, the size, statistics on that. You have those available, do you not?

Mr. HORNE. Yes, sir.

(The information requested follows:)

SMALL BUSINESS ADMINISTRATION, INVESTMENT DIVISION

Small business investment company licenses, by year

[Initial capitalization]

Year	\$300,000 to \$500,000	\$500,000 to \$1,000,000	\$1,000,000 to \$5,000,000	\$5,000,000 and over	Total
1959.....	56	2	3	1	62
1960.....	107	4	1	1	113
1961.....	265	4	4	-----	273
1962.....	204	9	3	-----	216
1963 (through Apr. 30).....	24	3	-----	-----	27
Total.....	656	22	11	2	691

License surrenders—Capitalization

[Total paid-in capital and surplus including subdebs]

Year	\$300,000- \$500,000	\$500,000- \$1,000,000	\$1,000,000- \$5,000,000	\$5,000,000 and over	Total
1960.....	3	1	-----	-----	4
1961.....	1	1	-----	-----	2
1962.....	11	2	1	1	15
1963 (through May 1).....	2	9	-----	-----	9
Total.....	24	4	1	1	30

¹ Merged with another SBIC; no loss of capital to program represented.

² Includes one merged with another SBIC; no loss of capital to program represented.

Senator PROXMIRE. Just one question. That is this: You talk about the stock market now being in the worst shape in history for SBIC's. The fact is the stock market is in pretty good shape for everything else. The Dow-Jones index compares favorably—

Mr. PARRIS. The Dow-Jones covering the big exchange is in good shape, yes, sir. But we are talking about the over-the-counter market which is depressed.

Senator PROXMIRE. We have a very, very brief record. We have no real history at all of the SBIC's because they are a new institution. It may be the SBIC's are now doing very well compared to what they are going to do in the future. We have to look at it both ways.

Mr. HORNE. They are not making much money, Mr. Chairman; there is no question about that.

What we are trying to do is encourage and save the industry because it has such a potential. Congress decided the gap needed to be filled. We are trying to help it stay alive, grow, and become stabilized to fill this gap.

Senator PROXMIRE. I want to take a look at the statistics to see how this industry has grown and developed and so forth. Those statistics, of course, will be put in the record.

(The statistics referred to follow:)

SMALL BUSINESS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., August 19, 1960.

To All Licensed Small Business Investment Companies:

The figures derived from the financial reports as of March 31, 1960, from the licensed small business investment companies are now available. The experience of these companies should be most helpful as a guide to individual operations. Combined financial and operating statements for the 80 reporting companies as of March 31, 1960, are attached.

On the statement date the combined assets of these companies amounted to \$43.3 million. Also on the statement date these companies have made long-term loans to, or held convertible debentures and capital stock of, 240 small business concerns in the total amount of \$9.9 million, after deducting participations by others, representing 23 percent of the total resources. It will be observed that the cash and U.S. Government obligations of \$32.6 million, less the undisbursed loan commitments of \$4.5 million, are available for further financing of small businesses.

The private capitalization amounted to slightly more than \$39.7 million and represented 91 percent of total resources; SBA supplied an additional \$2.6 million of initial statutory capital through the purchase of subordinated debentures. SBA also has made commitments to purchase \$4.8 million in debentures as the need for loan funds develops and the investment companies make application. The total long-term liabilities of the investment companies to SBA and others at the date of the financial statements amounted to \$2.9 million, or only 7 percent of all funds available to small business. It is readily apparent that SBA either already has or will in the future supply about \$7.6 million to supplement the private capital of \$39.7 million of these 80 licensed investment companies.

The operations of these companies have been generally profitable. The combined statement of income and expense shows that the actual net income from operations amounted to \$44,137 after setting up \$67,078 against anticipated possible losses on loans and equity financing. The net realized losses on security transactions totaled \$29,154 after giving effect to a nonrecurring loss of \$43,611. Thus the net retained earnings were \$14,983 after Federal and State taxes for these 80 investment companies from organization to March 31, 1960.

You will recall that we have asked for an interim report as of June 30, 1960, exhibiting the data covered by part I of SBA form 468. This material will be available and distributed before the end of September. We do not want to make any request for reports or for any material that is not important and of immediate use. These reports that you have been so kind in supplying promptly not only serve an important purpose as an aid to other companies but provide a source of authentic statistical information to present to the Congress in connection with the progress of this program. We would appreciate any suggestions you may care to offer concerning these reports and we will try to answer any questions that may arise.

A. D. HARVEY,
Acting Deputy Administrator, Investment Division.

Licensed small business investment companies—Combined statement of financial condition of 80 reporting companies as of Mar. 31, 1960

	Amount	Percent
ASSETS		
Cash and U.S. Government obligations.....	\$32, 594, 322	75
Loans and investments:		
Loans to small business concerns (sec. 305).....	5, 917, 294	
Less participation by others.....	332, 507	
Net loans.....	5, 584, 787	
Debenture bonds of SBC's (sec. 304).....	4, 236, 177	
Capital stock of SBC's.....	87, 740	
Total.....	9, 908, 704	
Less allowance for losses.....	67, 078	
Net loans and investments.....	9, 841, 626	23
Other assets.....	901, 645	2
Total assets.....	43, 337, 593	100
LIABILITIES, CAPITAL STOCK, AND SURPLUS		
Current liabilities.....	706, 842	2
Long-term liabilities:		
Subordinated debentures issued to SBA (sec. 302).....	2, 626, 500	
Funds borrowed from SBA (sec. 303).....	150, 000	
Total SBA obligations.....	2, 776, 500	
Funds borrowed from others.....	121, 000	
Total.....	2, 897, 500	7
Total liabilities.....	3, 604, 342	9
Capital stock and surplus:		
Capital stock.....	19, 075, 518	
Paid-in surplus.....	20, 642, 750	
Subtotal.....	39, 718, 268	
Retained earnings:		
Net operating income.....	44, 137	
Net realized gain on investments.....	(29, 154)	
Subtotal.....	14, 983	
Total capital stock and surplus.....	39, 733, 251	91
Total liabilities, capital stock, and surplus.....	43, 337, 593	100
Memorandums:		
Undisbursed commitments of SBIC's to SBC's.....	4, 450, 150	
Unadvanced commitments of SBA to SBIC's (sec. 302).....	4, 824, 000	
Loan participations with others.....	121, 125	

Licensed small business investment companies—Combined statement of income and expense of 80 reporting companies from organization to Mar. 31, 1960

	Amount	Percent
INCOME		
Interest on loans.....	\$145,263	13
Interest on debenture bonds.....	84,075	8
Total.....	229,338	21
Interest on U.S. Government obligations.....	766,488	69
Fee income.....	97,467	9
All other income.....	10,988	1
Total.....	874,943	79
Total income.....	1,104,281	100
EXPENSE		
Interest on SBA obligations and commitment fees.....	62,178	6
Interest on other obligations.....	16,402	2
Total.....	78,580	8
Operating expenses:		
Salaries.....	199,931	19
Advertising and promotional.....	50,778	5
All other.....	587,305	55
Total.....	838,014	79
Income taxes:		
Federal.....	127,874	12
State.....	15,676	1
Total.....	143,550	13
Total expense.....	1,060,144	100
Net income.....	44,137	295
Realized gains and losses on investments.....	(29,154)	(195)
Net retained earnings.....	14,983	100

SMALL BUSINESS ADMINISTRATION,
Washington, D.C., November 23, 1960.

To All Licensed Small Business Investment Companies:

From the figures reported by the licensed small business investment companies for the 6 months ending September 30, 1960, combined statements of the financial condition and of the income and expense have been made up. The accuracy and quality of the reports received have improved very greatly since the first ones were made in March; the majority of companies sent in their data within the stated 30-day period. This report to you, therefore, is more complete, will reach you promptly, and hence we trust will be of greater service than previous ones.

Figures are presented to cover three size groupings according to statutory capital and surplus; namely:

- (1) Small companies, not more than \$325,000.
- (2) Medium companies, from \$325,000 to \$1 million.
- (3) Large companies, more than \$1 million.

Since operating experience is known to be an important factor in this financial field, separate figures are presented:

- (1) For all licensees reporting on their operations for the 6 months ended September 30, 1960; and
- (2) For reporting companies licensed for 6 months or longer.

Blank columns have been provided in which your company may record its own comparable figures. In addition to the dollar figures, ratios are presented for all items as a percentage of total assets or of total income.

The rate of formation of small business investment companies, as measured by the proposals that we are receiving, has shown an important increase in recent months both in comparison with 1959 and from month to month in 1960:

Receipt of proposals—Number by months

	1960	1959
November.....	132	9
October.....	24	8
September.....	19	10
August.....	18	7
July.....	12	11
June.....	19	13

¹ Partially estimated.

The figures currently reported by companies licensed for 6 months or more when compared with those derived from reports as of March 31, 1960, bring out clearly the changes that have taken place in the operations of licensees during the 6-month period:

Operating ratios (percentage of total assets or of total income)

	Companies of all sizes		Small companies	
	September ¹	March ²	September ¹	March ²
Assets:				
Cash and Government securities.....	67	75	32	63
Small business financing.....	32	23	66	35
Other assets.....	1	2	2	2
Total.....	100	100	100	100
Liabilities:				
Current liabilities.....	1	2	2	3
Borrowings.....	8	7	35	18
Capital and surplus.....	91	91	63	79
Total.....	100	100	100	100
Income:				
Interest from Government securities.....	36	69	16	39
Interest from small businesses financed.....	46	21	65	44
Income from fees.....	9	9	16	16
All other income.....	9	1	3	1
Total.....	100	100	100	100
Expense:				
Financial expense, interest paid, etc.....	12	7	24	24
Operating expense.....	58	70	59	74
Total expense.....	70	77	83	98
Net income before tax and loss provisions.....	30	23	17	2
Provisions for losses and taxes.....	28	19	10	23
Net income.....	2	4	7	(³)

¹ Companies licensed 6 months or more reporting at Sept. 30, 1960.

² All reporting licensees at Mar. 31, 1960.

³ Loss.

Particularly in the case of the small companies, a strong shift has occurred; assets predominantly in the form of cash and Government securities in March, now appear as investments in and financing of small business concerns. This, in turn, has increased income to the investment companies paid by the small businesses financed. Expenses appear well controlled. There have been substantial increases in net income before provisions for losses and taxes. In general, a definite trend toward putting capital to work and toward earnings improvement is observed.

The figures now available will be analyzed further to bring out additional information, and from time to time such analyses will be presented. Meantime your comments and suggestions will be welcomed. We trust you will find these reports informative and helpful to you in conducting your own affairs.

Yours truly,

A. D. HARVEY,
Director, Office of Investment.

Licensed small business investment companies, combined statement of financial condition as of Sept. 30, 1960

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1960 (130 reporting companies as of Nov. 8, 1960; 136 licenses in force)		Companies licensed for 6 months or more (79 reporting companies as of Nov. 8, 1960; 83 licenses in force)	
		Amount	Percent	Amount	Percent
	ASSETS				
P. 1:					
1	Cash	\$27,726,778	22.0	\$23,466,302	29.4
2	U.S. Government obligations	64,711,863	51.4	29,861,767	37.4
	Total cash and U.S. Government obligations	92,438,641	73.4	53,328,069	66.8
	Loans and Investments:				
7, 13	Loans to small businesses (sec. 305)	16,340,427	13.0	13,041,253	16.3
7(a), 13(a)	Less participation by others	681,923	.5	666,998	.8
	Net loans	15,658,504	12.5	12,374,255	15.5
9, 14	Convertible debentures of SBC's (sec. 304)	15,498,179	12.3	12,658,879	15.8
15	Capital stock of SBC's	892,930	.7	556,130	.7
	Gross loans and investments	32,049,613	25.5	25,580,264	32.0
14(c)	Less allowance for losses	427,778	.3	323,385	.4
	Net loans and investments	31,621,835	25.2	25,265,879	31.6
	All other assets	1,857,801	1.4	1,254,937	1.6
27	Total assets	125,918,277	100.0	79,848,885	100.0
	LIABILITIES, CAPITAL STOCK AND SURPLUS				
P. 2:					
30-42	Accounts payable, accrued and deferred items	1,131,188	.9	904,612	1.1
	Term liabilities:				
49	Subordinated debentures issued to SBA (sec. 302)	6,212,454	4.9	4,712,794	5.9
28, 44(a)	Funds borrowed from SBA (sec. 303)	1,110,000	.9	960,000	1.2
	Total SBA obligations	7,322,454	5.8	5,672,794	7.1
29, 44(b)	Funds borrowed from others than SBA	686,851	.6	636,851	.8
	Total borrowings	8,009,305	6.4	6,309,645	7.9
45-48	All other liabilities	31,229		31,229	
	Total liabilities	9,171,722	7.3	7,245,486	9.0
50	Capital stock and surplus:				
51(c), 54	Capital stock	33,202,828	26.4	25,095,001	31.4
	Surplus:				
52(a)	Paid-in surplus	83,539,127	66.3	47,468,912	59.5
	Retained earnings:				
52(b)	Net operating earnings	14,403		50,072	.1
52(c)	Net realized gain or (loss) on investments	(9,803)		(10,586)	
	Total surplus	83,543,727	66.3	47,508,398	59.6
	Total capital stock and surplus	116,746,555	92.7	72,603,399	91.0
55	Total liabilities, capital stock and surplus	125,918,277	100.0	79,848,885	100.0

Combined statement of financial condition as of Sept. 30, 1960, licensed small business investment companies having statutory capital and surplus of not more than \$325,000

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1960 (99 reporting com- panies as of Nov. 8, 1960)		Companies licensed for 6 months or more (53 reporting com- panies as of Nov. 8, 1960)	
		Amount	Percent	Amount	Percent
	ASSETS				
P. 1:					
1	Cash.....	\$4, 110, 068	17. 0	\$1, 016, 891	6. 8
2	U.S. Government obligations.....	5, 789, 773	23. 9	3, 759, 746	25. 3
	Total, cash and U.S. Government obligations.....	9, 899, 841	40. 9	4, 776, 637	32. 1
	Loans and investments:				
7, 13	Loans to small businesses (sec. 305).....	11, 558, 523	47. 7	8, 259, 349	55. 6
7(a), 13(a)	Less participation by others.....	413, 430	1. 7	398, 505	2. 7
	Net loans.....	11, 145, 093	46. 0	7, 860, 844	52. 9
9, 14	Convertible debentures of SBC's (sec. 304).....	2, 606, 016	10. 8	1, 914, 516	12. 9
15	Capital stock of SBC's.....	138, 940	. 6	52, 140	. 4
	Gross loans and investments.....	13, 890, 049	57. 4	9, 827, 500	66. 2
14(c)	Less allowance for losses.....	107, 610	. 4	79, 217	. 5
	Net loans and investments.....	13, 782, 439	57. 0	9, 748, 283	65. 7
	All other assets.....	520, 802	2. 1	324, 485	2. 2
27	Total assets.....	24, 203, 082	100. 0	14, 849, 405	100. 0
	LIABILITIES, CAPITAL STOCK, AND SURPLUS				
P. 2:					
30-42	Accounts payable, accrued and deferred items.....	431, 554	1. 8	298, 732	2. 0
	Term liabilities:				
49	Subordinated debentures issued to SBA (sec. 302).....	5, 633, 454	23. 3	4, 133, 794	27. 8
28, 44(a)	Funds borrowed from SBA (sec. 303).....	860, 000	3. 6	710, 000	4. 8
	Total SBA obligations.....	6, 493, 454	26. 9	4, 843, 794	32. 6
29, 44(b)	Funds borrowed from others than SBA.....	386, 139	1. 6	336, 139	2. 3
	Total borrowings.....	6, 879, 593	28. 5	5, 179, 933	34. 9
45-48	All other liabilities.....	31, 229	. 1	31, 229	. 2
50	Total liabilities.....	7, 342, 376	30. 4	5, 509, 894	37. 1
51(c), 54	Capital stock and surplus:				
	Capital stock.....	12, 561, 269	51. 9	7, 081, 437	47. 7
	Surplus:				
52(a)	Paid-in surplus.....	4, 390, 785	18. 1	2, 296, 508	15. 5
	Retained earnings:				
52(b)	Net operating earnings.....	(105, 598)	(. 4)	(52, 076)	(. 4)
52(c)	Net realized gain or (loss) on investments.....	14, 250	. 1	13, 642	. 1
	Total surplus.....	4, 299, 437	17. 7	2, 258, 074	15. 2
	Total, capital stock and surplus.....	16, 860, 706	69. 6	9, 339, 511	62. 9
55	Total, liabilities, capital stock and surplus.....	24, 203, 082	100. 0	14, 849, 405	100. 0

Combined statement of financial condition as of Sept. 30, 1960, licensed small business investment companies having statutory capital and surplus of from \$325,000 to \$1,000,000

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1960 (16 reporting com- panies as of Nov. 8, 1960)		Companies licensed for 6 months or more (14 reporting com- panies as of Nov. 8, 1960)	
		Amount	Percent	Amount	Percent
	ASSETS				
P. 1:					
1	Cash	\$1,803,526	21.2	\$1,146,628	15.3
2	U.S. Government obligations	3,046,372	35.8	2,748,270	36.7
	Total, cash and U.S. Government obligations	4,849,898	57.0	3,894,898	52.0
	Loans and investments:				
7, 13	Loans to small businesses (sec. 305)	1,476,621	17.4	1,476,621	19.7
7(a), 13(a)	Less participation by others	268,493	3.2	268,493	3.6
	Net loans	1,208,128	14.2	1,208,128	16.1
9, 14	Convertible debentures of SBC's (sec. 304)	2,140,863	25.2	2,090,863	28.0
15	Capital stock of SBC's	138,990	1.6	138,990	1.8
	Gross loans and investments	3,487,981	41.0	3,437,981	45.9
14(c)	Less allowance for losses	5,000		5,000	
	Net loans and investments	3,482,981	41.0	3,432,981	45.9
	All other assets	168,801	2.0	158,421	2.1
27	Total assets	8,501,680	100.0	7,486,300	100.0
	LIABILITIES, CAPITAL STOCK AND SURPLUS				
P. 2:					
30-42	Accounts payable, accrued and deferred items	229,523	2.7	219,523	2.9
	Term liabilities:				
49	Subordinated debentures issued to SBA (sec. 302)	442,000	5.2	442,000	5.9
28, 44(a)	Funds borrowed from SBA (sec. 303)	250,000	2.9	250,000	3.4
	Total SBA obligations	692,000	8.1	692,000	9.3
29, 44(b)	Funds borrowed from others than SBA	50,000	.6	50,000	.7
	Total borrowings	742,000	8.7	742,000	10.0
45-48	All other liabilities	0		0	
50	Total liabilities	971,523	11.4	961,523	12.9
	Capital stock and surplus:				
51(c), 54	Capital stock	4,263,190	50.1	4,162,690	55.6
	Surplus:				
52(a)	Paid-in surplus	3,254,069	38.3	2,349,569	31.3
	Retained earnings				
52(b)	Net operating earnings	4,350	.1	3,970	.1
52(c)	Net realized gain or (loss) on investments	8,548	.1	8,548	.1
	Total surplus	3,266,967	38.5	2,362,087	31.5
	Total capital stock and surplus	7,530,157	88.6	6,524,777	87.1
55	Total liabilities, capital stock and surplus	8,501,680	100.0	7,486,300	100.0

Combined statement of financial condition as of Sept. 30, 1960, licensed small business investment companies having statutory capital and surplus of more than \$1,000,000

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1960 (15 reporting companies as of Nov. 8, 1960)		Companies licensed for 6 months or more (12 reporting companies as of Nov. 8, 1960)	
		Amount	Percent	Amount	Percent
	ASSETS				
P. 1:					
1	Cash	\$21,813,184	23.4	\$21,302,783	37.0
2	U.S. Government obligations	55,875,718	59.9	23,353,751	40.6
	Total cash and U.S. Government obligations.	77,688,902	83.3	44,656,534	77.6
	Loans and investments:				
7, 13	Loans to small businesses (sec. 305)	3,305,283	3.5	3,305,283	5.8
7(a), 13(a)	Less participation by others	0		0	
	Net loans	3,305,283	3.5	3,305,283	5.8
9, 14	Convertible debentures of SBC's (sec. 304)	10,751,300	11.5	8,653,500	15.1
15	Capital stock of SBC's	615,000	.7	365,000	.6
	Gross loans and investments	14,671,583	15.7	12,323,783	21.5
14(c)	Less allowance for losses	315,168	.3	239,168	.4
	Net loans and investments	14,356,415	15.4	12,084,615	21.1
	All other assets	1,168,198	1.3	772,031	1.3
27	Total assets	93,213,515	100.0	57,513,180	100.0
	LIABILITIES, CAPITAL STOCK, AND SURPLUS				
P. 2:					
30 through 42.	Accounts payable, accrued and deferred items.	470,111	.5	386,357	.6
	Term liabilities:				
49	Subordinated debentures issued to SBA (sec. 302)	137,000	.1	137,000	.2
28, 44(a)	Funds borrowed from SBA (sec. 303)	0		0	
	Total SBA obligations	137,000	.1	137,000	.2
29, 44(b)	Funds borrowed from others than SBA	250,712	.3	250,712	.5
	Total borrowings	387,712	.4	387,712	.7
45 through 48.	All other liabilities	0		0	
50	Total liabilities	857,823	.9	774,069	1.3
	Capital stock and surplus:				
51(c), 54	Capital stock	16,378,369	17.6	13,850,874	24.1
	Surplus:				
52(a)	Paid-in surplus	75,894,273	81.4	42,822,835	74.5
	Retained earnings:				
52(b)	Net operating earnings	115,651	.1	98,178	.2
52(c)	Net realized gain or (loss) on investments	(32,601)		(32,776)	(.1)
	Total surplus	75,977,323	81.5	42,888,237	74.6
	Total capital stock and surplus	92,355,692	99.1	56,739,111	98.7
55	Total liabilities, capital stock, and surplus.	93,213,515	100.0	57,513,180	100.0

Licensed small business investment companies, combined statement of income and expense for the 6 months ended Sept. 30, 1960

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1960 (130 reporting companies as of Nov. 8, 1960; 136 licenses in force)		Companies licensed for 6 months or more (79 reporting companies as of Nov. 8, 1960; 83 licenses in force)	
		Amount	Percent	Amount	Percent
	INCOME				
P. 3:					
2	Interest on loans (sec. 305)	\$465,236	24.8	\$413,145	26.2
3	Interest on convertible debentures (sec. 304)	333,882	17.8	306,725	19.5
4	Interest on U.S. Government securities	705,657	37.6	565,916	36.0
	Total interest income	1,504,775	80.2	1,285,786	81.7
11, 12	Dividends and contingent earnings	2,643	.1	2,643	.2
8, 9, 10	Fees (management, counseling, etc.)	168,021	8.9	149,690	9.5
1, 5, 6, 7, 13, 14	Other income	201,467	10.8	134,915	8.6
	Total fees, other income, dividends, etc.	372,131	19.8	287,248	18.3
	Total income	1,876,906	100.0	1,573,034	100.0
	EXPENSES				
16, 17	Interest and commitment fees on SBA obligations	164,900	8.8	141,327	9.0
18	Interest and commitment fees on other obligations	11,054	.7	10,337	0.6
19, 20, 21, 23, 24	Other financial expenses	43,368	2.3	40,515	2.6
	Total financial expense	219,322	11.8	192,179	12.2
P. 5:	Operating expenses:				
15	Salaries, officers	246,314	13.1	183,714	11.7
16	Salaries, employees	150,716	8.0	121,909	7.8
1	Advertising and promotion	50,269	2.7	41,234	2.6
5, 6, 7, 13, 14	Space occupied and office expense	147,849	7.9	119,900	7.6
3	Auditing and examination costs	45,181	2.4	42,485	2.7
12	Legal services	89,391	4.8	74,689	4.7
2, 10	Appraisal, consulting and engineering costs	32,259	1.7	26,708	1.7
11	Investment advisory and supervisory costs	136,912	7.3	121,341	7.7
4, 18	Travel and communications	77,730	4.1	66,615	4.2
8, 9, 17, 19, 20, 22	All other	140,150	7.4	112,338	7.2
30	Total operating expenses	1,116,771	59.4	910,933	57.9
	Total expenses	1,336,093	71.2	1,103,112	70.1
P. 3:	Net income before provision for losses and including taxes	540,813	28.8	469,922	29.9
21	Estimated provision for losses	372,929	19.9	269,744	17.1
27	Provision for income taxes	178,755	9.5	171,437	10.9
	Total	551,684	29.4	441,181	28.0
28	Net income from operations	(10,871)	(.6)	28,741	1.9
6	Realized gain (loss) from investments	23,822		22,927	
7	Less provision for income taxes	4,647		4,534	
8	Net realized gain (loss) from investments	19,175		18,393	
	Total net income (loss)	8,304		47,134	

Combined statement of income and expense for the 6 months ended Sept. 30, 1960, licensed small business investment companies having statutory capital and surplus of not more than \$325,000

Item No. SBA form 468	Item	Companies with licenses in force Sept. 30, 1960 (99 reporting com- panies as of Nov. 8, 1960)		Companies licensed for 6 months or more (53 reporting com- panies as of Nov. 8, 1960)	
		Amount	Percent	Amount	Percent
	INCOME				
P. 3:					
2	Interest on loans (sec. 305)	\$317,977	55.4	\$265,886	55.8
3	Interest on convertible debentures (sec. 304)	45,526	7.9	41,240	8.7
4	Interest on U.S. Government securities	94,494	16.5	79,042	16.6
	Total interest income	457,997	79.8	386,168	81.1
11, 12	Dividends and contingent earnings	887	.2	887	.2
8, 9, 10	Fees (management, counseling, etc.)	92,640	16.1	75,537	15.9
1, 5, 6, 7, 13, 14.	Other income	22,513	3.9	13,461	2.8
	Total fees, other income, dividends, etc.	116,040	20.2	89,885	18.9
15	Total income	574,037	100.0	476,053	100.0
	EXPENSE				
16, 17	Interest and commitment fees on SBA obli- gations.	124,605	21.7	104,282	21.9
18	Interest and commitment fees on other obligations.	6,248	1.1	5,531	1.2
19, 20, 21, 23, 24.	Other financial expenses	7,047	1.2	4,194	.9
	Total financial expense	137,900	24.0	114,007	24.0
P. 5:	Operating expenses:				
15	Salaries, officers	109,369	19.1	77,102	16.2
16	Salaries, employees	40,697	7.1	33,765	7.1
1	Advertising and promotion	16,503	2.9	13,052	2.7
5, 6, 7, 13, 14.	Space occupied and office expense	50,462	8.8	39,225	8.2
3	Auditing and examination costs	22,215	3.9	19,519	4.1
12	Legal services	33,919	5.9	20,326	4.3
2, 10	Appraisal, consulting and engineering costs.	12,251	2.1	7,400	1.6
11	Investment advisory and supervisory costs.	15,100	2.6	12,931	2.7
4, 18	Travel and communications	23,771	4.1	19,464	4.1
8, 9, 17, 19, 20, 22.	All other	55,333	9.6	39,095	8.2
30	Total operating expenses	379,620	66.1	281,879	59.2
	Total expenses	517,520	90.1	395,886	83.2
P. 3:	Net income before provision for losses and income taxes.	56,517	9.9	80,167	16.8
21	Estimated provision for losses	52,893	9.2	25,708	5.4
27	Provision for income taxes	31,058	5.4	23,840	5.0
	Total	83,951	14.6	49,548	10.4
28	Net income from operations	(27,434)	(4.7)	30,619	6.4
6	Realized gain (loss) from investments	7,205		6,484	
7	Less provision for income taxes	221		108	
8	Net realized gain (loss) from investments	6,984		6,376	
	Total net income (loss)	(20,450)		36,995	

Combined statement of income and expense for the 6 months ended Sept. 30, 1960, licensed small business investment companies having statutory capital and surplus of from \$325,000 to \$1,000,000

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1960 (16 reporting com- panies as of Nov. 8, 1960)		Companies licensed for 6 months or more (14 reporting com- panies as of Nov. 8, 1960)	
		Amount	Percent	Amount	Percent
	INCOME				
P. 3:					
2-----	Interest on loans (sec. 305)-----	\$51,913	33.0	\$51,913	33.1
3-----	Interest on convertible debentures (sec. 304)-----	50,525	32.1	50,400	32.2
4-----	Interest on U.S. Government securities-----	44,865	28.5	44,427	28.3
	Total interest income-----	147,303	93.6	146,740	93.6
11,12-----	Dividends and contingent earnings-----	0		0	
8, 9, 10-----	Fees (management, counseling, etc.)-----	4,059	2.6	4,059	2.6
1, 5, 6, 7, 13, 14-----	Other income-----	5,977	3.8	5,977	3.8
	Total fees, other income, dividends, etc.-----	10,036	6.4	10,036	6.4
15-----	Total income-----	157,339	100.0	156,776	100.0
	EXPENSE				
16, 17-----	Interest and commitment fees on SBA obligations-----	15,424	9.8	15,424	9.8
18-----	Interest and commitment fees on other obligations-----	3,149	2.0	3,149	2.0
19, 20, 21, 23, 24-----	Other financial expenses-----	2,033	1.3	2,033	1.3
	Total financial expense-----	20,606	13.1	20,606	13.1
P. 5:	Operating expenses:				
15-----	Salaries, officers-----	14,396	9.1	14,196	9.2
16-----	Salaries, employees-----	8,725	5.5	8,725	5.6
1-----	Advertising and promotion-----	993	.6	993	.6
5, 6, 7, 13, 14-----	Space occupied and office expense-----	15,672	10.0	15,672	10.0
3-----	Auditing and examination costs-----	4,687	3.0	4,687	3.0
12-----	Legal services-----	12,398	7.9	12,398	7.9
2, 10-----	Appraisal, consulting and engineering costs-----	3,409	2.2	3,409	2.2
11-----	Investment advisory and supervisory costs-----	4,643	3.0	4,643	3.0
4, 18-----	Travel and communications-----	4,772	3.0	4,772	3.0
8, 9, 17, 19, 20, 22-----	All other-----	16,802	10.7	16,719	10.7
30-----	Total operating expenses-----	86,497	55.0	86,114	55.2
	Total expenses-----	107,103	68.1	107,020	68.3
P. 3:	Net income before provision for losses and including taxes-----	50,236	31.9	49,756	31.7
21-----	Estimated provision for losses-----	0		0	
27-----	Provision for income taxes-----	15,437	9.8	15,337	9.8
	Total-----	15,437	9.8	15,337	9.8
28-----	Net income from operations-----	34,799	22.1	34,419	21.9
6-----	Realized gain (loss) from investments-----	4,853		4,853	
7-----	Less provision for income taxes-----	0		0	
8-----	Net realized gain (loss) from investments-----	4,853		4,853	
	Total net income (loss)-----	39,652		39,272	

Combined statement of income and expense for the 6 months ended Sept. 30, 1960, licensed small business investment companies having statutory capital and surplus of more than \$1,000,000

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1960 (15 reporting com- panies as of Nov. 8, 1960)		Companies licensed for 6 months or more (12 reporting com- panies as of Nov. 8, 1960)	
		Amount	Percent	Amount	Percent
	INCOME				
P. 3:					
2-----	Interest on loans (sec. 305)-----	\$95,346	8.3	\$95,346	10.1
3-----	Interest on convertible debentures (sec. 304)-----	237,831	20.5	215,085	22.9
4-----	Interest on U.S. Government securities-----	566,298	49.7	442,447	47.1
	Total interest income-----	899,475	78.5	752,878	80.1
11, 12-----	Dividends and contingent earnings-----	1,756	.2	1,756	.2
8, 9, 10-----	Fees (management, counseling, etc.)-----	71,322	6.2	70,094	7.5
1, 5, 6, 7, 13, 14-----	Other income-----	172,977	15.1	115,477	12.2
	Total fees, other income, dividends, etc.-----	246,055	21.5	187,327	19.9
15-----	Total income-----	1,145,530	100.0	940,205	100.0
	EXPENSE				
16, 17-----	Interest and commitment fees on SBA obligations-----	24,871	2.2	21,621	2.3
18-----	Interest and commitment fees on other obligations-----	1,657	0.1	1,657	.2
19, 20, 21, 23, 24-----	Other financial expenses-----	34,288	3.0	34,288	3.6
	Total financial expense-----	60,816	5.3	57,566	6.1
P. 5:	Operating expenses:				
15-----	Salaries, officers-----	122,549	10.7	92,216	9.8
16-----	Salaries, employees-----	101,294	8.8	79,419	8.5
1-----	Advertising and promotion-----	32,773	2.9	27,189	2.9
5, 6, 7, 13, 14-----	Space occupied and office expense-----	81,715	7.1	65,003	6.9
3-----	Auditing and examination costs-----	18,279	1.6	18,279	1.9
12-----	Legal services-----	43,074	3.8	41,965	4.5
2, 10-----	Appraisal, consulting and engineering costs-----	16,599	1.4	15,899	1.7
11-----	Investment advisory and supervisory costs-----	117,169	10.2	103,767	11.0
4, 18-----	Travel and communications-----	49,187	4.3	42,379	4.5
8, 9, 17, 19, 20, 22-----	All other-----	68,015	6.0	56,524	6.0
30-----	Total operating expenses-----	650,654	56.8	542,640	57.7
	Total expenses-----	711,470	62.1	600,206	63.8
P. 3:	Net income before provision for losses and income taxes-----	434,060	37.9	339,999	36.2
21-----	Estimated provision for losses-----	320,036	27.9	244,036	26.0
27-----	Provision for income taxes-----	132,260	11.5	132,260	14.0
	Total-----	452,296	39.4	376,296	40.0
28-----	Net income from operations-----	(18,236)	(1.5)	(36,297)	(3.8)
6-----	Realized gain (loss) from investments-----	11,764		11,590	
7-----	Less provision for income taxes-----	4,426		4,426	
8-----	Net realized gain (loss) from investments-----	7,338		7,164	
	Total net income (loss)-----	(10,898)		(29,133)	

SMALL BUSINESS ADMINISTRATION,
Washington, D.C., October 2, 1961.

To All Licensed Small Business Investment Companies:

There are attached combined statements of financial condition as of March 31, 1961, and combined statements of income and expense for the fiscal year ended March 31, 1961, for all reporting small business investment companies. Both dollar amounts and percentages are shown on each of the two financial statements.

These combined statements should be useful to you in visualizing the growth of the small business investment company program since December 31, 1960, as of which date the most recent prior statements were distributed to licensees. It may also be worthwhile, in reviewing the past progress and future plans of your own company, to compare the percentages in these statements with corresponding percentages for your company.

PHIL DAVID FINE,
Deputy Administrator.

Licensed small business investment companies combined statements of financial condition as of Mar. 31, 1961

Item No., SBA form 468	Item	Companies with licenses in force Mar. 31, 1961 (204 reporting companies out of 206 licenses in force)		Companies licensed for 1 year or more (all 82 companies reporting with licenses in force Mar. 31, 1961)	
		Amount	Percent	Amount	Percent
	ASSETS				
P. 1:					
1	Cash	\$38,983,745	19.9	\$19,436,634	21.7
2	U.S. Government obligations	74,268,023	38.0	23,030,900	25.7
	Total cash and U.S. Government obligations	113,251,768	57.9	42,467,534	47.4
	Loans and investments:				
6, 12	Loans to small businesses (sec. 305)	31,289,524	16.0	17,703,923	19.8
6a, 6b, 12a, 12b.	Less participation by others	697,694	0.3	683,232	0.8
	Net loans	30,591,830	15.7	17,020,691	19.0
7-13f	Debt securities of SBC's (sec. 304)	41,043,368	21.0	26,610,500	29.7
14 (a, b, and c).	Capital stock of SBC's	7,801,935	4.0	1,915,634	2.2
	Gross loans and investments	79,437,133	40.7	45,546,825	50.9
12d, 13g, 14d.	Less allowance for losses	1,360,661	0.7	713,644	0.8
	Net loans and investments	78,076,472	40.0	44,833,181	50.1
3, 4, 5, 8, 9, 10, 15, 16, 18-23.	All other assets	4,156,285	2.1	2,203,459	2.5
24.	Total assets	195,484,525	100.0	89,504,174	100.0
	LIABILITIES, CAPITAL STOCK AND SURPLUS				
P. 2:					
27-30	Accounts payable, accrued and deferred items	2,375,233	1.2	1,005,209	1.1
	Term liabilities:				
46	Subordinated debentures issued to SBA (sec. 302)	11,681,437	6.0	7,447,095	8.3
25, 41a	Funds borrowed from SBA (sec. 303)	6,005,000	3.1	3,105,000	3.5
	Total SBA obligations	17,686,437	9.1	10,552,095	11.8
26, 41b	Funds borrowed from others than SBA	833,690	0.4	649,745	0.7
	Total borrowings	18,520,127	9.5	11,201,840	12.5
42, 43, 44, 45	All other liabilities	31,590	0.0	22,093	0.1
47	Total liabilities	20,926,950	10.7	12,229,142	13.7
48, 52	Capital stock and surplus: Capital stock	44,920,481	23.0	24,963,603	27.9
500	Less Treasury stock	11,129	0.0	11,129	0.0
	Net capital stock	44,909,352	23.0	24,952,474	27.9
	Surplus:				
49	Paid-in surplus	129,715,981	66.4	52,124,619	58.2
	Retained earnings:				
56	Net operating earnings (loss)	(259,725)	(0.2)	87,612	0.1
55	Net realized gain or (loss) on investments	191,967	0.1	110,327	0.1
	Total surplus	129,648,223	66.3	52,322,558	58.4
57	Total capital stock and surplus	174,557,575	89.3	77,275,032	86.3
58	Total liabilities, capital stock, and surplus	195,484,525	100.0	89,504,174	100.0

Licensed small business investment companies, combined statements of income and expense as of Mar. 31, 1961

Item No., SBA form 468	Item	Companies with licenses in force Mar. 31, 1961 (204 reporting companies out of 206 licenses in force)		Companies licensed for 1 year or more (all 82 companies reporting with licenses in force Mar. 31, 1961)	
		Amount	Percent	Amount	Percent
	INCOME				
P. 3:					
2	Interest on loans (sec. 305)-----	1,493,141	26.3	1,115,946	29.6
3	Interest on debt securities (sec. 304)-----	1,563,243	27.6	1,047,975	27.8
4	Interest on U.S. Governments-----	1,704,143	30.1	964,967	25.6
	Total interest income-----	4,760,527	84.0	3,128,888	83.0
11, 12	Dividends and contingent earnings-----	28,947	.5	12,770	.4
8, 9, 10	Fees (management, counseling, etc.)-----	309,038	5.4	200,299	5.3
1, 5, 6, 7, 13, 14	Other income-----	571,798	10.1	426,368	11.3
	Total fees, other income, dividends, etc.	909,783	16.0	639,367	17.0
15	Total income-----	5,670,310	100.0	3,768,255	100.0
	EXPENSE				
16, 17	Interest and commitment fees on SBA obligations-----	499,805	8.8	358,329	9.5
18	Interest and commitment fees on other obligations-----	26,926	.5	25,240	.7
19-22, 24	Other financial expenses-----	177,366	3.1	132,736	3.5
	Total financial expense-----	704,097	12.4	516,305	13.7
P. 5:	Operating expenses:				
14	Salaries, officers-----	837,058	14.7	483,545	12.8
15	Salaries, employees-----	429,108	7.7	293,808	7.8
1	Advertising and promotion-----	141,360	2.5	79,964	2.1
5, 6, 7, 13, 22	Space occupied and office expense-----	459,555	8.1	310,039	8.3
3	Auditing and examination costs-----	111,116	2.0	84,187	2.2
12	Legal services-----	247,989	4.4	143,027	3.8
2, 10	Appraisal, consulting and engineering costs-----	120,690	2.1	70,045	1.9
11	Investment advisory and supervisory costs-----	393,973	6.9	242,245	6.4
4, 17	Travel and communications-----	271,066	4.8	149,819	4.0
8, 9, 16, 23, 24	All other-----	551,834	9.7	373,467	9.9
	Total operating expenses-----	3,563,749	62.9	2,230,146	59.2
	Total expenses-----	4,267,846	75.3	2,746,451	72.9
	Net income before provision for losses and income taxes-----	1,402,464	24.7	1,021,804	27.1
18-21, 25-27	Estimated provision for losses-----	1,366,738	24.1	718,815	19.1
P. 3-27	Provision for income taxes-----	350,456	6.2	271,721	7.2
	Total-----	1,717,194	30.3	990,536	26.3
	Net income from operations-----	(314,730)	(5.6)	31,268	.8
	Realized gain (loss) from investments-----	212,280	-----	130,264	-----
	Less provision for income taxes-----	36,045	-----	35,711	-----
	Net realized gain (loss) from investments-----	176,235	-----	94,553	-----
	Total net income-----	(138,495)	-----	125,821	-----

SMALL BUSINESS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., December 8, 1961.

To All Licensed Small Business Investment Companies:

There are enclosed herewith combined statements of financial condition as of September 30, 1961, and combined statements of income and expense for the 6 months ended September 30, 1961, for all reporting small business investment companies.

Combined financial statements are also enclosed for three size groupings of companies according to their total statutory capital and surplus, as follows:

- (a) Small companies, not more than \$325,000.
- (b) Medium companies, from \$325,000 to \$1 million.
- (c) Large companies, more than \$1 million.

Separate amounts and percentages are shown on each financial statement for all reporting companies and for the reporting companies which had been licensed for 1 year or more at September 30, 1961.

Condensed comparative financial statements for September 30, 1960, and for September 30, 1961 (showing also the increase or decrease between those dates in item amounts and percentages), prepared separately for all reporting companies and for those reporting companies in the above size groups, are enclosed for ready comparison of significant items.

These combined statements should be useful to you in visualizing the growth of the small business investment company program. It may also be worthwhile, in reviewing the past progress and future plans of your own company, to compare the percentages in these statements with corresponding percentages for your company.

PHIL DAVID FINE,
Deputy Administrator.

Condensed comparative financial statements, all reporting small business investment companies

	(Dollar amounts in millions)					
	Sept. 30, 1960 (130 reporting companies)		Sept. 30, 1961 (364 reporting companies)		Change, increase or decrease	
	Amount	Percent	Amount	Percent	Amount	Percent
ASSETS						
Cash and U.S. Government obligations.....	\$92.4	73.4	\$212.5	56.3	\$120.1	130.0
Net loans and investments.....	31.6	25.2	150.1	39.7	118.5	375.0
All other assets.....	1.9	1.4	14.9	4.0	13.0	684.2
Total assets.....	125.9	100.0	377.5	100.0	251.6	200.0
LIABILITIES, CAPITAL STOCK, AND SURPLUS						
Accounts payable, accrued and deferred items..	1.2	.9	2.1	.6	.9	75.0
Funds borrowed from SBA.....	7.3	5.8	31.2	8.3	23.9	327.4
Funds borrowed from others than SBA.....	.7	.6	2.3	.6	1.6	228.6
All other liabilities.....			.2		.2	
Total liabilities.....	9.2	7.3	35.8	9.5	26.6	289.1
Capital stock.....	33.2	26.4	97.3	25.8	64.1	193.1
Paid-in surplus.....	83.5	66.3	243.5	64.5	160.0	191.6
Retained earnings.....			.9	.2	.9	
Total capital stock and surplus.....	116.7	92.7	341.7	90.5	225.0	192.8
Total liabilities, capital stock, and surplus.....	125.9	100.0	377.5	100.0	251.6	199.8
(Dollar amounts in thousands)						
INCOME						
Interest on loans (sec. 305).....	\$465.2	24.8	\$1,989.8	31.2	\$1,524.6	327.7
Interest on debt securities (sec. 304).....	333.9	17.8	2,015.2	31.6	1,681.3	503.5
Interest on U.S. Government securities.....	705.7	37.6	1,391.9	21.8	686.2	97.2
Total interest income.....	1,504.8	80.2	5,396.9	84.6	3,892.1	258.6
Fees (management, counseling, etc.).....	168.0	8.9	401.9	6.3	233.9	139.2
All other income.....	204.1	10.9	580.6	9.1	376.5	184.5
Total income.....	1,876.9	100.0	6,379.4	100.0	4,502.5	239.9
EXPENSE						
Interest and commitment fees on SBA obligations.....	164.9	8.8	629.2	9.9	464.3	281.6
All other financial expense.....	54.4	2.9	244.8	3.8	190.4	350.0
Total financial expense.....	219.3	11.7	874.0	13.7	654.7	298.5
Operating expense.....	1,116.8	59.5	3,869.0	60.6	2,752.2	246.4
Total expense.....	1,336.1	71.2	4,743.0	74.3	3,406.9	255.0
Net income before provision for losses and income taxes.....	540.8	28.8	1,636.4	25.7	1,095.6	202.6
Provision for losses and income taxes.....	551.7	29.4	1,050.9	16.5	499.2	90.5
Net income (loss) from operations.....	(10.9)	(.6)	585.5	9.2	596.4	-----
Net realized gain from investments.....	19.2	1.0	523.5	8.2	504.3	-----
Total net income (loss).....	8.3	.4	1,109.0	17.4	1,100.7	-----

Condensed financial statements, all reporting small business investment companies having statutory capital and surplus of not more than \$325,000

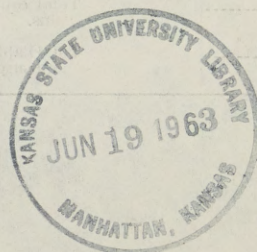
	(Dollar amounts in millions)					
	Sept. 30, 1960 (99 reporting companies)		Sept. 30, 1961 (285 reporting companies)		Change, increase or (decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
ASSETS						
Cash and U.S. Government obligations.....	\$9.9	40.9	\$26.5	37.6	\$16.6	167.7
Net loans and investments.....	13.8	57.0	40.8	58.0	27.0	195.7
All other assets.....	.5	2.1	3.1	4.4	2.6	520.0
Total assets.....	24.2	100.0	70.4	100.0	46.2	190.9
LIABILITIES, CAPITAL STOCK, AND SURPLUS						
Accounts payable, accrued and deferred items..	.4	1.8	.7	1.2	.3	75.0
Funds borrowed from SBA.....	6.5	27.0	23.0	32.6	16.5	253.8
Funds borrowed from others than SBA.....	.4	1.6	1.0	1.5	.6	150.0
All other liabilities.....			.2	.1	.2	-----
Total liabilities.....	7.3	30.4	24.9	35.4	17.6	241.1
Capital stock.....	12.6	51.9	32.0	45.5	19.4	154.0
Paid-in surplus.....	4.4	18.1	13.8	19.5	9.4	213.6
Retained earnings.....	(.1)	(.4)	(.3)	(.4)	(.2)	(200.0)
Total capital stock and surplus.....	16.9	69.6	45.5	64.6	28.6	169.2
Total liabilities, capital stock, and surplus.....	24.2	100.0	70.4	100.0	46.2	190.9
(Dollar amounts in thousands)						
INCOME						
Interest on loans (sec. 305).....	\$318.0	55.4	\$966.5	60.6	\$648.5	203.9
Interest on debt securities (sec. 304).....	45.5	7.9	229.5	14.4	184.0	404.4
Interest on U.S. Government securities.....	94.5	16.5	114.6	7.2	20.1	21.3
Total interest income.....	458.0	79.8	1,310.6	82.2	852.6	186.2
Fees (management, counseling, etc.).....	92.6	16.1	157.5	9.9	64.9	70.1
All other income.....	23.4	4.1	125.6	7.9	102.2	436.8
Total income.....	574.0	100.0	1,593.7	100.0	1,019.7	177.6
EXPENSE						
Interest and commitment fees on SBA obligations.....	124.6	21.7	464.1	29.1	339.5	272.5
All other financial expense.....	13.3	2.3	22.8	1.4	9.5	71.4
Total financial expense.....	137.9	24.0	486.9	30.5	349.0	253.1
Operating expense.....	379.6	66.1	924.0	58.0	544.4	143.4
Total expense.....	517.5	90.1	1,410.9	88.5	893.4	172.6
Net income before provision for losses and income taxes.....	56.5	9.9	182.8	11.5	126.3	223.5
Provision for losses and income taxes.....	83.9	14.6	275.8	17.3	191.9	228.7
Net income (loss) from operations.....	(27.4)	(4.7)	(93.0)	(5.8)	(65.0)	-----
Net realized gain from investments.....	7.0	1.2	12.7	.8	5.7	-----
Total net income (loss).....	(20.4)	(3.5)	(80.3)	(5.0)	(59.9)	-----

Condensed comparative financial statements, all reporting small business investment companies having statutory capital and surplus of from \$325,000 to \$1,000,000

	(Dollar amounts in millions)					
	Sept. 30, 1960 (16 reporting companies)		Sept. 30, 1961 (36 reporting companies)		Change (increase or decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
ASSETS						
Cash and U.S. Government obligations.....	\$4.8	\$57.0	\$8.9	\$42.1	\$4.1	\$85.4
Net loans and investments.....	3.5	41.0	11.2	52.7	7.7	220.0
All other assets.....	0.2	2.0	1.1	5.2	0.9	450.0
Total assets.....	8.5	100.0	21.2	100.0	12.7	149.4
LIABILITIES, CAPITAL STOCK, AND SURPLUS						
Accounts payable, accrued and deferred items.....	0.2	2.7	0.3	1.1	0.1	50.0
Funds borrowed from SBA.....	0.7	8.1	3.7	17.4	3.0	428.6
Funds borrowed from others than SBA.....	0.1	0.6	0.6	3.0	0.5	500.0
All other liabilities.....						
Total liabilities.....	1.0	11.4	4.6	21.5	3.6	360.0
Capital stock.....	4.2	50.1	8.7	41.3	4.5	107.1
Paid-in surplus.....	3.3	38.5	7.8	36.7	4.5	136.4
Retained earnings.....			0.1	0.5	0.1	
Total capital stock and surplus.....	7.5	88.6	16.6	78.5	9.1	121.3
Total liabilities, capital stock and surplus.....	8.5	100.0	21.2	100.0	12.7	149.4
(Dollar amounts in thousands)						
INCOME						
Interest on loans (sec. 305).....	51.9	33.0	206.6	40.7	154.7	298.1
Interest on debt securities (sec. 304).....	50.5	32.1	135.0	26.6	84.5	167.3
Interest on U.S. Government securities.....	44.9	28.5	55.5	10.9	10.6	23.6
Total interest income.....	147.3	93.6	397.1	78.2	249.8	169.6
Fees (management, counseling, etc.).....	4.0	2.6	65.1	12.8	61.1	1,527.5
All other income.....	6.0	3.8	45.5	9.0	39.5	658.3
Total income.....	157.3	100.0	507.7	100.0	350.4	222.8
EXPENSE						
Interest and commitment fees on SBA obligations.....	15.4	9.8	74.7	14.7	59.3	385.1
All other financial expense.....	5.2	3.3	18.3	3.6	13.1	251.9
Total financial expense.....	20.6	13.1	93.0	18.3	72.4	351.5
Operating expense.....	86.5	55.0	308.7	60.8	222.2	256.9
Total expense.....	107.1	68.1	401.7	79.1	294.6	275.1
Net income before provision for losses and income taxes.....	50.2	31.9	106.0	20.9	55.8	111.2
Provision for losses and income taxes.....	15.4	9.8	114.2	22.5	98.8	641.6
Net income (loss) from operations.....	34.8	22.1	(8.2)	(1.6)	(43.0)	
Net realized gain from investments.....	4.9	3.1	1.3	0.3	(3.6)	
Total net income (loss).....	39.7	25.2	(6.9)	(1.3)	(46.6)	

Condensed comparative financial statements, all reporting small business investment companies having statutory capital and surplus of more than \$1,000,000

	(Dollar amounts in millions)					
	Sept. 30, 1960 (15 reporting companies)		Sept. 30, 1961 (43 reporting companies)		Change. increase or (decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
ASSETS						
Cash and U.S. Government obligations.....	\$77.7	83.3	\$177.1	62.0	\$99.4	127.9
Net loans and investments.....	14.4	15.4	98.2	34.3	83.8	581.9
All other assets.....	1.1	1.3	10.7	3.7	9.6	872.7
Total assets.....	93.2	100.0	286.0	100.0	192.8	206.9
LIABILITIES, CAPITAL STOCK, AND SURPLUS						
Accounts payable, accrued, and deferred items..	.5	.5	1.0	.3	.5	100.0
Funds borrowed from SBA.....	.1	.1	4.5	1.6	4.4	4,400.0
Funds borrowed from others than SBA.....	.3	.3	.7	.2	.4	133.3
All other liabilities.....			.1	.1	.1	
Total liabilities.....	.9	.9	6.3	2.2	5.4	600.0
Capital stock.....	16.3	17.6	56.6	19.8	40.3	247.2
Paid-in surplus.....	75.9	81.4	222.0	77.6	146.1	192.5
Retained earnings.....	.1	.1	1.1	.4	1.0	1,000.0
Total capital stock and surplus.....	92.3	99.1	279.7	97.8	187.4	203.0
Total liabilities, capital stock and surplus.....	93.2	100.0	286.0	100.0	192.8	206.9
INCOME						
Interest on loans (sec. 305).....	\$95.4	8.3	\$816.7	19.1	\$721.3	756.1
Interest on debt securities (sec. 304).....	237.8	20.5	1,650.7	38.5	1,412.9	594.2
Interest on U.S. Government securities.....	566.3	49.7	1,221.7	28.6	655.4	115.7
Total interest income.....	899.5	78.5	3,689.1	86.2	2,789.6	310.1
Fees (management, counseling, etc.).....	71.3	6.2	179.4	4.2	108.1	151.6
All other income.....	174.7	15.3	409.4	9.6	234.7	134.3
Total income.....	1,145.5	100.0	4,277.9	100.0	3,132.4	273.5
EXPENSE						
Interest and commitment fees on SBA obligations.....	24.9	2.2	90.5	2.1	65.6	263.5
All other financial expense.....	35.9	3.1	203.6	4.8	167.7	467.1
Total financial expense.....	60.8	5.3	294.1	6.9	233.3	383.7
Operating expense.....	650.7	56.8	2,636.4	61.6	1,985.7	305.1
Total expense.....	711.5	62.1	2,930.5	68.5	2,219.0	311.9
Net income before provision for losses and income taxes.....	434.0	37.9	1,347.4	31.5	913.4	210.5
Provision for losses and income taxes.....	452.3	39.4	660.7	15.4	208.4	45.1
Net income (loss) from operations.....	(18.3)	(1.5)	686.7	16.1	705.0	
Net realized gain from investments.....	7.3	.6	509.5	11.9	502.2	
Total net income (loss).....	(11.0)	(.9)	1,196.2	28.0	1,207.2	



Licensed small business investment companies, combined statement of financial condition as of Sept. 30, 1961

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1961 (364 reporting companies out of 377 licenses in force)		Companies licensed for 1 year or more (all 138 companies reporting with licenses in force Sept. 30, 1961)	
		Amount	Percent	Amount	Percent
	ASSETS				
P. 1:					
1	Cash	\$56,920,576	15.1	\$15,960,318	7.0
2	U.S. Government obligations	155,616,414	41.2	92,666,705	40.4
	Total cash and U.S. Government obligations	212,536,990	56.3	108,627,023	47.4
	Loans and investments:				
6, 12	Loans to small businesses (sec. 305)	55,602,719	14.7	35,397,749	15.5
6a, 6b, 12a, 12b.	Less: Participation by others	940,567	.2	728,585	.4
	Net loans	54,662,152	14.5	34,669,164	15.1
7-13f	Debt securities of SBC's (sec. 304)	79,674,095	21.1	63,097,430	27.6
14 (a, b, and c).	Capital stock of SBC's	17,868,662	4.7	12,852,224	5.6
	Gross loans and investments	152,177,909	40.3	110,618,818	48.3
12d, 13g, 14d.	Less: Allowance for losses	2,080,582	.6	1,935,400	.8
	Net loans and investments	150,097,327	39.7	108,683,418	47.5
3, 4, 5, 8, 9, 10, 15, 16, 18-23, 24.	All other assets	14,874,629	4.0	11,713,201	5.1
	Total assets	377,508,946	100.0	229,023,642	100.0
	LIABILITIES, CAPITAL STOCK, AND SURPLUS				
P. 2:					
27-39	Accounts payable, accrued and deferred items	2,081,066	.6	1,283,932	.6
	Term liabilities:				
46	Subordinated debentures issued to SBA (sec. 302)	20,065,925	5.3	12,794,375	5.6
25, 41a	Funds borrowed from SBA (sec. 303)	11,135,583	3.0	9,631,500	4.2
	Total SBA obligations	31,201,508	8.3	22,425,875	9.8
26, 41b	Funds borrowed from others than SBA	2,346,863	.6	1,949,743	.8
	Total borrowings	33,548,371	8.9	24,375,618	10.6
42, 43, 44, 45 47.	All other liabilities	180,850		134,561	.1
	Total liabilities	35,810,287	9.5	25,794,111	11.3
	Capital stock and surplus:				
48, 52	Capital stock	97,743,088	25.9	60,363,347	26.3
50	Less: Treasury stock	421,135	.1	241,135	.1
	Net capital stock	97,321,953	25.8	60,122,212	26.2
	Surplus:				
49	Paid-in surplus	243,543,444	64.5	142,171,827	62.1
	Retained earnings:				
56	Net operating earnings (loss)	(329,411)	(.1)	(227,363)	(.1)
55	Net realized gain or (loss) on investments	652,908	.2	642,065	.3
	Appropriated retained earnings	509,765	.1	520,790	.2
	Total surplus	244,376,706	64.7	143,107,319	62.5
57	Total capital stock and surplus	341,698,659	90.5	203,229,531	88.7
58	Total liabilities, capital stock, and surplus	377,508,946	100.0	229,023,642	100.0

Licensed small business investment companies having statutory capital and surplus of not more than \$325,000 combined statement of financial condition as of Sept. 30, 1961

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1961 (285 reporting companies out of 298 licenses in force)		Companies licensed for 1 year or more (all 83 companies reporting with licenses in force Sept. 30, 1961)	
		Amount	Percent	Amount	Percent
	ASSETS				
P. 1:					
1	Cash	\$15,676,901	22.3	\$3,529,423	12.2
2	U.S. Government obligations	10,812,305	15.3	2,946,513	10.2
	Total cash and U.S. Government obligations	26,489,206	37.6	6,475,936	22.4
	Loans and investments:				
6, 12	Loans to small businesses (sec. 305)	29,969,284	42.6	16,599,812	57.5
6a, 6b, 12a, 12b	Less participation by others	617,116	.9	417,449	1.4
	Net loans	29,352,168	41.7	16,182,363	56.1
7-13f	Debt securities of SBC's (sec. 304)	8,254,296	11.7	3,940,711	13.7
14 (a, b, and c)	Capital stock of SBC's	3,736,172	5.3	1,429,428	5.0
	Gross loans and investments	41,342,636	58.7	21,552,502	74.8
12d, 13g, 14d	Less allowance for losses	540,323	.7	395,641	1.4
	Net loans and investments	40,802,313	58.0	21,156,861	73.4
3, 4, 5, 8, 9, 10, 15, 16, 18-23, 24	All other assets	3,103,774	4.4	1,200,849	4.2
	Total assets	70,395,293	100.0	28,833,646	100.0
	LIABILITIES, CAPITAL STOCK AND SURPLUS				
P. 2:					
27-39	Accounts payable, accrued and deferred items	856,207	1.2	437,895	1.5
	Term liabilities:				
46	Subordinated debentures issued to SBA (sec. 302)	17,568,991	24.9	10,447,441	36.2
25, 41a	Funds borrowed from SBA (sec 303)	5,392,583	7.7	3,888,500	13.5
	Total SBA obligations	22,961,574	32.6	14,335,941	49.7
26, 41b	Funds borrowed from others than SBA	1,036,228	1.5	656,313	2.3
	Total borrowings	23,997,802	34.1	14,992,254	52.0
42, 43, 44, 45	All other liabilities	72,768	.1	26,479	.1
47	Total liabilities	24,926,777	35.4	15,456,628	53.6
	Capital stock and surplus:				
48, 52	Capital stock	32,201,884	45.7	9,621,854	33.4
50	Less Treasury stock	181,000	.2	1,000	---
	Net capital stock	32,020,884	45.5	9,620,854	33.4
	Surplus:				
49	Paid-in surplus	13,772,166	19.5	3,823,985	13.3
	Retained earnings:				
56	Net operating earnings (loss)	(312,437)	(.4)	(57,256)	(.2)
55	Net realized gain or (loss) on investments	(5,077)	---	(14,570)	(.1)
	Appropriated retained earnings	(7,020)	---	4,005	---
	Total surplus	13,447,632	19.1	3,756,164	13.0
57	Total capital stock and surplus	45,468,516	64.6	13,377,018	46.4
58	Total liabilities, capital stock and surplus	70,395,293	100.0	28,833,646	100.0

Licensed small business investment companies having statutory capital and surplus of \$325,000 to \$1,000,000, combined statement of financial condition as of Sept. 30, 1961

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1961 (all 36 companies reporting)		Companies licensed for 1 year or more (all 26 companies reporting with licenses in force Sept. 30, 1961)	
		Amount	Percent	Amount	Percent
	ASSETS				
P. 1:					
1	Cash	\$3, 478, 287	16. 4	\$1, 417, 673	9. 3
2	U.S. Government obligations	5, 428, 926	25. 7	2, 335, 437	15. 4
	Total cash and U.S. Government obligations	8, 907, 213	42. 1	3, 753, 110	24. 7
	Loans and investments:				
6, 12	Loans to small businesses (sec. 305)	4, 993, 213	23. 6	4, 541, 324	30. 0
6a, 6b, 12a, 12b	Less: Participation by others	228, 270	1. 0	223, 589	1. 5
	Net loans	4, 764, 943	22. 6	4, 317, 735	28. 5
7-13f	Debt securities of SBC's (sec. 304)	4, 735, 932	22. 4	4, 650, 932	30. 7
14(a, b, and c)	Capital stock of SBC's	1, 848, 295	8. 7	1, 728, 514	11. 4
	Gross loans and investments	11, 349, 170	53. 7	10, 697, 181	70. 6
12d, 13g, 14d	Less: Allowance for losses	214, 042	1. 0	213, 542	1. 4
	Net loans and investments	11, 135, 128	52. 7	10, 483, 639	69. 2
3, 4, 5, 8, 9, 10, 15, 16	All other assets	1, 109, 302	5. 2	928, 962	6. 1
18-23, 24	Total assets	21, 151, 643	100. 0	15, 165, 711	100. 0
	LIABILITIES, CAPITAL STOCK AND SURPLUS				
P. 2:					
27-39	Accounts payable, accrued, and deferred items	267, 883	1. 1	223, 027	1. 5
	Term liabilities:				
46	Subordinated debentures issued to SBA (sec. 302)	2, 067, 934	9. 8	1, 917, 934	12. 7
25, 41a	Funds borrowed from SBA (sec. 303)	1, 608, 000	7. 6	1, 608, 000	10. 6
	Total SBS obligations	3, 675, 934	17. 4	3, 525, 934	23. 3
26, 41b	Funds borrowed from others than SBA	640, 290	3. 0	640, 290	4. 2
	Total borrowings	4, 316, 224	20. 4	4, 166, 224	27. 5
42, 43, 44, 45	All other liabilities	1, 400		1, 400	
47	Total liabilities	4, 585, 507	21. 5	4, 390, 651	29. 0
	Capital stock and surplus				
48, 52	Capital stock	8, 760, 409	41. 5	6, 634, 290	43. 7
50	Less: Treasury stock	50, 000	. 2	50, 000	. 3
	Net capital stock	8, 710, 409	41. 3	6, 584, 290	43. 4
	Surplus:				
49	Paid-in surplus	7, 754, 958	36. 7	4, 083, 176	26. 9
	Retained earnings:				
56	Net operating earnings (loss)	11, 946	. 1	20, 121	. 1
55	Net realized gain or (loss) on investments	88, 823	. 4	87, 473	. 6
	Appropriated retained earnings				
	Total surplus	7, 855, 727	37. 2	4, 190, 770	27. 6
57	Total capital stock and surplus	16, 566, 136	78. 5	10, 775, 060	71. 0
58	Total liabilities, capital stock, and surplus	21, 151, 643	100. 0	15, 165, 711	100. 0

Licensed small business investment companies having statutory capital and surplus of more than \$1,000,000—Combined statement of financial condition as of Sept. 30, 1961

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1961 (all 43 companies reporting)		Companies licensed for 1 year or more (all 29 companies reporting with licenses in force Sept. 30, 1961)	
		Amount	Percent	Amount	Percent
	ASSETS				
P. 1:					
1	Cash	\$37,765,388	13.2	\$11,013,222	6.0
2	U.S. Government obligations	139,375,183	48.8	87,384,755	47.2
	Total cash and U.S. Government obligations	177,140,571	62.0	98,397,977	53.2
	Loans and investments:				
6, 12	Loans to small businesses (sec. 305)	20,640,222	7.2	14,256,613	7.7
6a, 6b, 12a, 12b	Less participation by others	95,181		87,547	
	Net loans	20,545,041	7.2	14,169,066	7.7
7-13f	Debt securities of SBC's (sec. 304)	66,656,867	23.3	54,505,787	29.4
14(a, b, & c)	Capital stock of SBCs	12,284,195	4.3	9,694,282	5.2
	Gross loans and investments	99,486,103	34.8	78,369,135	42.3
12d, 13g, 14d	Less allowance for losses	1,326,217	.5	1,326,217	.7
	Net loans and investments	98,159,886	34.3	77,042,918	41.6
3, 4, 5, 8, 9, 10, 15, 16, 18 through 23	All other assets	10,661,553	3.7	9,583,390	5.2
24	Total assets	285,962,010	100.0	185,024,285	100.0
P. 2:	LIABILITIES, CAPITAL STOCK, AND SURPLUS				
27 through 39	Accounts payable, accrued and deferred items	956,976	.3	623,010	.3
	Term liabilities:				
46	Subordinated debentures issued to SBA (sec. 302)	429,000	.2	429,000	.2
25, 41a	Funds borrowed from SBA (sec. 303)	4,135,000	1.4	4,135,000	2.3
	Total SBA obligations	4,564,000	1.6	4,564,000	2.5
26, 41b	Funds borrowed from others than SBA	670,345	.2	653,140	.3
	Total borrowings	5,234,345	1.8	5,217,140	2.8
42, 43, 44, 45	All other liabilities	106,682	.1	106,682	.1
47	Total liabilities	6,298,003	2.2	5,946,832	3.2
	Capital stock and surplus:				
48, 52	Capital stock	56,780,795	19.9	44,107,203	23.8
50	Less Treasury stock	190,135	.1	190,135	.1
	Net capital stock	56,590,660	19.8	43,917,068	23.7
	Surplus:				
49	Paid-in surplus	222,016,320	77.6	134,264,666	72.6
	Retained earnings:				
56	Net operating earnings (loss)	(28,920)		(190,228)	(.1)
55	Net realized gain or (loss) on investments	569,162	.2	569,162	.3
	Appropriated retained earnings	5,16,785	.2	516,785	.3
	Total surplus	223,073,347	78.0	135,160,385	73.1
57	Total capital stock and surplus	279,664,007	97.8	179,077,453	96.8
58	Total liabilities, capital stock, and surplus	285,962,010	100.0	185,024,285	100.0

Licensed small business investment companies, combined statement of income and expense for the 6 months ended Sept. 30, 1961

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1961 (364 reporting companies out of 377 licenses in force)		Companies licensed for 1 year or more (all 138 companies reporting with licenses in force Sept. 30, 1961)	
		Amount	Percent	Amount	Percent
	INCOME				
P. 3:					
2	Interest on loans (sec. 305)	\$1,989,789	31.2	\$1,445,943	30.6
3	Interest on debt securities (sec. 304)	2,015,234	31.6	1,816,873	38.5
4	Interest on U.S. Government obligations	1,391,866	21.8	900,961	19.1
	Total interest income	5,396,889	84.6	4,163,777	88.2
11, 12	Dividends and contingent earnings	33,095	0.5	32,315	0.7
8, 9, 10	Fees (management, counseling, etc.)	401,943	6.3	260,716	5.5
1, 5, 6, 7, 13, 14	Other income	547,428	8.6	266,644	5.6
	Total fees, other income, dividends, etc.	982,466	15.4	559,675	11.8
15	Total income	6,379,355	100.0	4,723,452	100.0
	EXPENSE				
16, 17	Interest and commitment fees on SBA obligations	629,247	9.9	480,071	10.2
18	Interest and commitment fees on other obligations	57,710	0.9	49,511	1.0
19-22, 24	Other financial expenses	187,048	2.9	132,779	2.8
	Total financial expense	874,005	13.7	662,361	14.0
P. 5:	Operating expenses:				
14	Salaries, officers	949,530	14.9	616,551	13.2
15	Salaries, employees	468,901	7.4	337,837	7.2
1	Advertising and promotion	182,445	2.8	105,748	2.2
5, 6, 7, 13, 22	Space occupied and office expense	434,546	6.8	289,990	6.1
3	Auditing and examination costs	170,302	2.7	128,573	2.7
12	Legal services	216,281	3.4	139,231	2.9
2, 10	Appraisal, consulting, and engineering costs	181,762	2.8	129,595	2.7
11	Investment advisory and supervisory costs	301,958	4.7	260,310	5.5
4, 17	Travel and communications	288,817	4.5	187,535	4.0
8, 9, 16, 23, 24	All other	674,468	10.6	476,190	10.1
	Total operating expenses	3,869,010	60.6	2,671,560	56.6
	Total expenses	4,743,015	74.3	3,333,921	70.6
	Net income before provision for losses and income taxes	1,636,340	25.7	1,389,531	29.4
18-21, 25-27	Estimated provision for losses	622,553	9.8	499,573	10.6
P. 3-27	Provision for income taxes	428,274	6.7	241,127	5.1
	Total	1,050,827	16.5	740,700	15.7
	Net income from operations	585,513	9.2	648,831	13.7
	Realized gain (loss) from investments	652,039		640,229	
	Less: Provision for income taxes	128,508		127,478	
	Net realized gain (loss) from investments	523,531		512,751	
	Total net income (loss)	1,109,044		1,161,582	

Licensed small business investment companies having statutory capital and surplus of not more than \$325,000, combined statement of income and expense for the 6 months ended Sept. 30, 1961

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1961 (285 reporting companies out of 298 licenses in force)		Companies licensed for 1 year or more (all 83 companies reporting with licenses in force Sept. 30, 1961)	
		Amount	Percent	Amount	Percent
	INCOME				
P. 3:					
2.....	Interest on loans (sec. 305).....	\$966,490	60.6	\$691,090	66.7
3.....	Interest on debt securities (sec. 304).....	229,527	14.4	135,037	13.0
4.....	Interest on U.S. Government obligations.....	114,638	7.2	49,114	4.7
	Total interest income.....	1,310,655	82.2	875,241	84.4
11, 12.....	Dividends and contingent earnings.....	6,392	.4	5,612	.5
8, 9, 10.....	Fees (management, counseling, etc.).....	157,470	9.9	101,183	9.8
1, 5, 6, 7, 13, 14.....	Other income.....	119,206	7.5	55,485	5.3
	Total fees, other income, dividends, etc.....	283,068	17.8	162,280	15.6
15.....	Total income.....	1,593,723	100.0	1,037,521	100.0
	EXPENSE				
16, 17.....	Interest and commitment fees on SBA obligations.....	464,104	29.1	315,428	30.4
18.....	Interest and commitment fees on other obligations.....	19,554	1.2	17,555	1.7
19-22 and 24.....	Other financial expenses.....	3,221	.2	336	-----
	Total financial expense.....	486,879	30.5	333,319	32.1
P. 5:	Operating expenses:				
14.....	Salaries, officers.....	244,386	15.3	127,973	12.3
15.....	Salaries, employees.....	77,510	4.9	48,977	4.7
1.....	Advertising and promotion.....	34,908	2.2	9,024	.9
5, 6, 7, 13, 22.....	Space occupied and office expenses.....	133,130	8.4	61,802	5.9
3.....	Auditing and examination costs.....	60,803	3.8	37,336	3.6
12.....	Legal services.....	66,195	4.1	22,201	2.2
2, 10.....	Appraisal, consulting, and engineering costs.....	32,186	2.0	13,904	1.3
11.....	Investment advisory and supervisory costs.....	28,380	1.8	18,612	1.8
4, 17.....	Travel and communications.....	74,978	4.7	37,718	3.7
8, 9, 16, 23, 24.....	All other.....	171,545	10.8	76,071	7.3
	Total operating expenses.....	924,021	58.0	453,618	43.7
	Total expenses.....	1,410,900	88.5	786,937	75.8
	Net income before provision for losses and income taxes.....	182,823	11.5	250,584	24.2
18-21 and 25-27.....	Estimated provision for losses.....	187,715	11.8	77,993	7.5
P. 3-27.....	Provision for income taxes.....	88,153	5.5	59,037	5.7
	Total.....	275,868	17.3	137,030	13.2
	Net income from operations.....	(93,045)	(5.8)	113,554	11.0
	Realized gain (loss) from investments.....	13,958	-----	3,664	-----
	Less provision for income taxes.....	1,178	-----	598	-----
	Net realized gain (loss) from investments.....	12,780	-----	3,066	-----
	Total net income (loss).....	(80,265)	-----	116,620	-----

Licensed small business investment companies having statutory capital and surplus of \$325,000 to \$1,000,000—Combined statement of income and expense for the 6 months ended Sept. 30, 1961

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1961 (all 36 companies reporting)		Companies licensed for 1 year or more (all 26 companies reporting with licenses in force Sept. 30, 1961)	
		Amount	Percent	Amount	Percent
	INCOME				
P. 3:					
2-----	Interest on loans (sec. 305)-----	\$206,624	40.7	\$202,723	43.0
3-----	Interest on debt securities (sec. 304)-----	134,988	26.6	134,388	28.5
4-----	Interest on U.S. Government obligations-----	55,479	10.9	24,231	5.1
	Total interest income-----	397,091	78.2	361,342	76.6
11, 12-----	Dividends and contingent earnings-----	10,762	2.2	10,762	2.2
8, 9, 10-----	Fees (management, counseling, etc.)-----	65,108	12.8	65,108	13.8
1, 5, 6, 7, 13, 14-----	Other income-----	34,757	6.8	34,757	7.4
	Total fees, other income, dividends, etc.-----	110,627	21.8	110,627	23.4
15-----	Total income-----	507,718	100.0	471,969	100.0
	EXPENSE				
16, 17-----	Interest and commitment fees on SBA obligations-----	74,684	14.7	74,684	15.9
18-----	Interest and commitment fees on other obligations-----	11,432	2.2	11,432	2.4
19-22 and 24-----	Other financial expenses-----	6,924	1.4	6,104	1.3
	Total financial expense-----	93,040	18.3	92,220	19.6
P. 5:	Operating expenses:				
	Salaries:				
14-----	Officers-----	62,207	12.3	54,382	11.5
15-----	Employees-----	36,897	7.3	28,810	6.1
1-----	Advertising and promotion-----	11,786	2.3	6,214	1.3
5, 6, 7, 13, 22-----	Space occupied and office expense-----	58,324	11.5	50,535	10.7
3-----	Auditing and examination costs-----	22,754	4.5	21,504	4.6
12-----	Legal services-----	13,421	2.6	13,421	2.9
2, 10-----	Appraisal, consulting, and engineering costs-----	21,108	4.1	20,778	4.4
11-----	Investment advisory and supervisory costs-----	16,588	3.3	16,588	3.5
4, 17-----	Travel and communications-----	20,780	4.1	19,010	4.0
8, 9, 16, 23, 24-----	All other-----	44,761	8.8	36,034	7.6
	Total operating expenses-----	308,626	60.8	267,276	56.6
	Total expenses-----	401,666	79.1	359,496	76.2
	Net income before provision for losses and income taxes-----	106,052	20.9	112,473	23.8
18-21 and 25-27-----	Estimated provision for losses-----	95,538	18.8	95,538	20.2
P. 3-27-----	Provision for income taxes-----	18,681	3.7	16,011	3.4
	Total-----	114,219	22.5	111,549	23.6
	Net income from operations-----	(8,167)	(1.6)	924	.2
	Realized gain (loss) from investments-----	1,679		163	
	Less: Provision for income taxes-----	450			
	Net realized gain (loss) from investments-----	1,229		163	
	Total net income (loss)-----	(6,938)		1,087	

Licensed small business investment companies having statutory capital and surplus of more than \$1,000,000—Combined statement of income and expense for the 6 months ended Sept. 30, 1961

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1961 (all 43 companies reporting)		Companies licensed for 1 year or more (all 29 companies reporting with licenses in force Sept. 30, 1961)	
		Amount	Percent	Amount	Percent
	INCOME				
P. 3:					
2.....	Interest on loans (sec. 305).....	\$816,675	19.1	\$552,130	17.2
3.....	Interest on debt securities (sec. 304).....	1,650,719	38.5	1,547,448	48.1
4.....	Interest on U.S. Government obligations.....	1,221,749	28.6	827,616	25.8
	Total interest income.....	3,689,143	86.2	2,927,194	91.1
11, 12.....	Dividends and contingent earnings.....	15,941	.4	15,941	.5
8, 9, 10.....	Fees (management, counseling, etc.).....	179,365	4.2	94,425	2.9
1, 5, 6, 7, 13, 14.....	Other income.....	393,465	9.2	176,402	5.5
	Total fees, other income, dividends, etc.	588,771	13.8	286,768	8.9
15.....	Total income.....	4,277,914	100.0	3,213,962	100.0
	EXPENSE				
16, 17.....	Interest and commitment fees on SBA obligations.	90,459	2.1	89,959	2.8
18.....	Interest and commitment fees on other obligations.	26,724	.6	20,524	.6
19 through 22 and 24.	Other financial expenses.....	176,903	4.2	126,339	4.0
	Total financial expenses.....	294,086	6.9	236,822	7.4
P. 5:	Operating expenses:				
14.....	Salaries, officers.....	642,937	15.0	434,196	13.5
15.....	Salaries, employees.....	354,494	8.3	260,050	8.1
1.....	Advertising and promotion.....	135,751	3.2	90,510	2.8
5, 6, 7, 13, 22.	Space occupied and office expense.....	243,092	5.7	177,653	5.5
3.....	Auditing and examination costs.....	86,745	2.0	69,733	2.2
12.....	Legal services.....	136,665	3.2	103,609	3.2
2, 10.....	Appraisal, consulting, and engineering costs.	128,468	3.0	94,913	3.0
11.....	Investment advisory and supervisory costs.	256,990	6.0	225,110	7.0
4, 17.....	Travel and communications.....	193,059	4.5	130,807	4.1
8, 9, 16, 23, 24.	All other.....	458,162	10.7	364,085	11.3
	Total operating expenses.....	2,636,363	61.6	1,950,666	60.7
	Total expenses.....	2,930,449	68.5	2,187,488	68.1
	Net income before provision for losses and income taxes.	1,347,465	31.5	1,026,474	31.9
18-21; 25-27..	Estimated provision for losses.....	339,300	7.9	326,042	10.1
P. 3-27.....	Provision for income taxes.....	321,440	7.5	166,079	5.2
	Total.....	660,740	15.4	492,121	15.3
	Net income from operations.....	686,725	16.1	534,353	16.6
	Realized gain (loss) from investments.....	636,402	-----	636,402	-----
	Less: Provision for income taxes.....	126,880	-----	126,880	-----
	Net realized gain (loss) from investments.	509,522	-----	509,522	-----
	Total net income (loss).....	1,196,247	-----	1,043,875	-----

SMALL BUSINESS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington D.C., October 10, 1962.

To All Licensed Small Business Investment Companies:

There are enclosed combined statements of financial condition as of March 31, 1962, and combined statements of income and expense for the fiscal year ended March 31, 1962, for all reporting small business investment companies. Combined statements are also enclosed for three size groupings of companies according to their total statutory capital and surplus, as follows:

- (a) Small companies, not more than \$325,000.
- (b) Medium companies, from \$325,000 to \$1 million.
- (c) Large companies, more than \$1 million.

Separate amounts are shown on each financial statement for all reporting companies and for the reporting companies which had been licensed for 1 year or more at March 31, 1962.

These combined statements should be useful to you in visualizing the growth of the small business investment company program. It may also be worthwhile, in reviewing the past progress and future plans of your own company, to compare the percentages in these statements with corresponding percentages for your company.

This is the first publication of financial statistics of SBIC's accumulated by means of electronic data processing equipment. Similar statements as of June 30, 1962, are expected to be released within a few weeks, and thereafter such material and additional information should be available shortly after the final due date of each financial report, SBA Form 468.

To make possible the prompt furnishing of this type of data for your use in determining the relative progress of your own company, it is absolutely necessary for each periodic financial report, SBA Form 468, to be submitted within the time allowed, which is 1 month for all reports except the annual March 31 report, for which 3 months are allowed.

JAMES L. HARRIS,
Deputy Administrator.

Licensed small business investment companies' combined statement of financial condition as of Mar. 31, 1962

Item No., SBA form 468	Item	Companies with licenses in force Mar. 31, 1962 (516 reporting companies)		Companies licensed for 1 year or more (197 reporting companies)	
		Amount	Per cent	Amount	Per cent
P. 1:	ASSETS				
1	Cash	\$47,275,776	9.3	\$22,117,315	6.6
2	U.S. Government obligations	218,217,661	43.1	131,173,614	38.9
	Total cash and U.S. Government obligations	265,493,437	52.4	153,290,929	45.5
	Loans and investments:				
6, 12	Loans to small businesses (sec. 305)	86,505,201	17.0	60,047,960	17.8
6a, 12a	Less participation by others	2,686,081	.5	1,313,231	.4
	Net loans	83,919,120	16.5	58,734,729	17.4
7 (a and b), 13 (a and b), 7c, 13c	Debt securities of SBC's (sec. 304)	126,200,837	24.9	100,575,071	29.9
	Less participation by others	3,712,701	.7	1,956,951	.6
	Net debt securities	122,487,636	24.2	98,618,120	29.3
14 (a, b, and c), 14d	Capital stock of SBC's (sec. 304)	27,358,180	5.4	22,207,069	6.6
	Less participation by others	31,290		25,410	
	Net capital stock	27,326,890	5.4	22,181,659	6.6
12d, 13f, 14e	Gross loans and investments	233,733,646	46.1	179,534,508	53.3
	Less allowance for losses	6,780,841	1.3	5,854,891	1.7
	Net loans and investments	226,952,805	44.8	173,679,617	51.6
22	Uncollected discount and fees	1,349,725	.3	988,211	.3
23	Unamortized organization costs	1,848,234	.3	524,094	.1
3, 4, 5, 8, 9, 10, 15, 16, 18, 19, 20, 21, 24	All other assets	11,309,747	2.2	8,350,858	2.5
26	Total assets	506,953,948	100.0	336,833,709	100.0
P. 2:	LIABILITIES, CAPITAL STOCK, AND SURPLUS				
29-41	Accounts payable, accrued and deferred items	4,961,000	1.0	2,912,589	.9
	Borrowings:				
48	Subordinated debentures issued to SBA (sec. 302)	40,693,554	8.0	22,949,380	6.8
27, 43a	Funds borrowed from SBA (sec. 303)	14,618,656	2.9	12,169,500	3.6
	Total SBA obligations	55,312,210	10.9	35,118,880	10.4
28, 43b, 44	Funds borrowed from others than SBA	11,818,356	2.3	10,085,082	3.0
	Total borrowings	67,130,566	13.2	45,203,962	13.4
45, 46, 47	All other liabilities	1,036,705	.2	752,293	.2
49	Total liabilities	73,128,271	14.4	48,868,844	14.5
	Capital stock and surplus:				
50, 54	Capital stock	136,700,770	27.0	84,028,047	24.9
52	Less Treasury stock	38,051		9,929	
	Net capital stock	136,662,719	27.0	84,018,118	24.9
51	Paid-in surplus	299,611,264	59.1	205,080,192	60.9
	Total paid-in capital stock and surplus	436,273,983	86.1	289,098,310	85.8
	Retained earnings:				
56	Net operating earnings (loss)	(4,088,601)	(.8)	(2,783,784)	(.8)
57	Net realized gain (loss) on investments	930,488	.2	943,378	.3
58	Appropriated retained earnings	709,807	.1	706,961	.2
	Total retained earnings	(2,448,306)	(.5)	(1,133,445)	(.3)
59	Total capital stock and surplus	433,825,677	85.6	287,964,865	85.5
60	Total liabilities, capital stock, and surplus	506,953,948	100.0	333,833,709	100.0

Licensed small business investment companies having statutory capital and surplus of not more than \$325,000, combined statement of financial condition as of Mar. 31, 1962

Item No., SBA form 468	Item	Companies with licenses in force Mar. 31, 1962 (392 reporting companies)		Companies licensed for 1 year or more (126 reporting companies)	
		Amount	Percent	Amount	Percent
ASSETS					
P. 1:					
1	Cash	\$21,165,013	19.8	\$5,262,188	12.0
2	U.S. Government obligations	18,922,467	17.8	5,008,296	11.4
	Total cash and U.S. Government obligations	40,087,480	37.6	10,270,484	23.4
	Loans and investments:				
6, 12	Loans to small businesses (sec. 305)	40,383,932	37.9	21,189,506	48.2
6a, 12a	Less participation by others	1,035,680	1.0	551,747	1.2
	Net loans	39,348,252	36.9	20,637,759	47.0
7 (a and b), 13 (a and b), 7c, 13c	Debt securities of SBC's (sec. 304)	20,879,226	19.6	9,794,012	22.3
	Less participation by others	2,527,250	2.4	861,500	2.0
	Net debt securities	18,351,976	17.2	8,932,512	20.3
14 (a, b, and c), 14d	Capital stock of SBC's (sec. 304)	5,118,272	4.8	2,264,474	5.2
	Less participation by others	5,880			
	Net capital stock	5,112,392	4.8	2,264,474	5.2
	Gross loans and investments	62,812,620	58.9	31,834,745	72.5
12d, 13f, 14e	Less allowance for losses	1,790,493	1.7	1,118,403	2.6
	Net loans and investments	61,022,127	57.2	30,716,342	69.9
22	Uncollected discount and fees	874,938	.8	777,449	1.8
23	Unamortized organization costs	1,057,873	1.0	234,757	.5
3, 4, 5, 8, 9, 10, 15, 16, 18, 19, 20, 21, 24, 26	All other assets	3,664,014	3.4	1,917,484	4.4
26	Total assets	106,706,432	100.0	43,916,516	100.0
LIABILITIES, CAPITAL STOCK, AND SURPLUS					
P. 2:					
29-41	Accounts payable, accrued and deferred items	1,683,963	1.6	787,474	1.8
	Borrowings:				
48	Subordinated debentures issued to SBA (sec. 302)	31,972,948	30.0	17,127,974	39.0
27, 43a	Funds borrowed from SBA (sec. 303)	6,397,656	6.0	4,648,500	10.6
	Total SBA obligations	38,370,604	36.0	21,776,474	49.6
28, 43b, 44	Funds borrowed from others than SBA	2,058,809	1.9	870,535	2.0
	Total borrowings	40,429,413	37.9	22,647,009	51.6
45, 46, 47	All other liabilities	662,951	.6	595,884	1.3
49	Total liabilities	42,776,327	40.1	24,000,367	54.7
	Capital stock and surplus:				
50, 54	Capital stock	46,112,892	43.2	14,435,458	32.9
52	Less Treasury stock	31,722		3,600	
	Net capital stock	46,081,170	43.2	14,431,858	32.9
51	Paid-in surplus	19,544,981	18.3	6,057,932	13.8
	Total paid-in capital stock and surplus	65,626,151	61.5	20,489,790	46.7
	Retained earnings:				
56	Net operating earnings (loss)	(1,797,006)	(1.7)	(717,283)	(1.6)
57	Net realized gain (loss) on investments	71,079	.1	86,607	.2
58	Appropriated retained earnings	29,881		27,035	
	Total retained earnings	(1,696,046)	(1.6)	(603,641)	(1.4)
59	Total capital stock and surplus	63,930,105	59.9	19,886,149	45.3
60	Total liabilities, capital stock, and surplus	106,706,432	100.0	43,916,516	100.0

Licensed small business investment companies having statutory capital and surplus of \$325,000 to \$1,000,000, combined statement of financial condition as of Mar. 31, 1962

Item No., SBA form 468	Item	Companies with licenses in force Mar. 31, 1962 (69 reporting companies)		Companies licensed for 1 year or more (36 reporting companies)	
		Amount	Percent	Amount	Percent
	ASSETS				
P. 1:					
1	Cash	\$5,590,269	13.1	\$2,331,019	9.3
2	U.S. Government obligations	12,456,359	29.2	6,084,325	24.2
	Total cash and U.S. Government obligations	18,046,628	42.3	8,415,344	33.5
	Loans and investments:				
6, 12	Loans to small businesses (sec. 305)	14,177,932	33.2	9,249,745	36.8
6a, 12a	Less participation by others	952,772	2.2	188,855	.8
	Net loans	13,225,160	31.0	9,060,890	36.0
7 (a and b), 13 (a and b), 7c, 13c	Debt securities of SBC's (sec. 304)	9,278,841	21.7	6,642,090	26.4
	Less participation by others	610,451	1.4	520,451	2.0
	Net debt securities	8,668,390	20.3	6,121,639	24.4
14 (a, b, and c), 14d	Capital stock of SBC's (sec. 304)	2,040,983	4.8	1,379,633	5.5
	Less participation by others				
	Net capital stock	2,040,983	4.8	1,379,633	5.5
	Gross loans and investments	23,934,533	56.1	16,562,162	65.9
12d, 13f, 14e	Less allowance for losses	679,318	1.6	536,532	2.2
	Net loans and investments	23,255,215	54.5	16,025,630	63.7
22	Uncollected discount and fees	341,025	.8	92,000	.4
23	Unamortized organizational costs	362,575	.8	101,068	.4
3, 4, 5, 8, 9, 10, 15, 16, 18, 19, 20, 21, 24,	All other assets	681,572	1.6	507,093	2.0
26	Total assets	42,687,015	100.0	25,141,135	100.0
	LIABILITIES, CAPITAL STOCK, AND SURPLUS				
P. 2:					
29-41	Accounts payable, accrued and deferred items	738,783	1.7	397,360	1.6
	Borrowings:				
48	Subordinated debentures issued to SBA (sec. 302)	7,133,606	16.7	4,484,406	17.8
27, 43a	Funds borrowed from SBA (sec. 303)	3,111,000	7.3	2,561,000	10.2
	Total SBA obligations	10,244,606	24.0	7,045,406	28.0
28, 43b, 44	Funds borrowed from others than SBA	2,158,503	5.1	1,613,503	6.4
	Total borrowings	12,403,109	29.1	8,658,909	34.4
45, 46, 47	All other liabilities	270,095	.6	64,801	.3
49	Total liabilities	13,411,987	31.4	9,121,070	36.3
	Capital stock and surplus:				
50, 54	Capital stock	17,614,702	41.3	9,763,504	38.8
52	Less Treasury stock				
	Net capital stock	17,614,702	41.3	9,763,504	38.8
51	Paid-in surplus	12,039,939	28.2	6,474,092	25.8
	Total paid-in capital stock and surplus	29,654,641	69.5	16,237,596	64.6
	Retained earnings:				
56	Net operating earnings (loss)	(514,397)	(1.2)	(352,315)	(1.4)
57	Net realized gain (loss) on investments	134,784	.3	134,784	.5
58	Appropriated retained earnings				
	Total retained earnings	(379,613)	(.9)	(217,531)	(.9)
59	Total capital stock and surplus	29,275,028	68.6	16,020,065	63.7
60	Total liabilities, capital stock, and surplus	42,687,015	100.0	25,141,135	100.0

Licensed small business investment companies having statutory capital and surplus of more than \$1,000,000, combined statement of financial condition as of Mar. 31, 1962

Item No. SBA form 468	Item	Companies with licenses in force Mar. 31, 1962 (55 reporting companies)		Companies licensed for 1 year or more (35 reporting companies)	
		Amount	Per cent	Amount	Per cent
ASSETS					
P. 1:					
1	Cash	\$20,520,494	5.7	\$14,524,108	5.4
2	U.S. Government obligations	186,838,835	52.3	120,080,993	44.9
	Total cash and U.S. Government obligations.	207,359,329	58.0	134,605,101	50.3
	Loans and investments:				
6, 12	Loans to small businesses (sec. 305)	31,943,337	8.9	29,608,709	11.1
6a, 12a	Less participation by others	597,629	.1	572,629	.2
	Net loans	31,345,708	8.8	29,036,080	10.9
7 (a and b), 13(a and b)	Debt securities of SBC's (sec. 304)	96,042,270	26.9	84,138,969	31.4
7c, 13c	Less participation by others	575,000	.2	575,000	.2
	Net debt securities	95,467,270	26.7	83,563,969	31.2
14 (a, b and c)	Capital stock of SBC's (sec. 304)	20,198,925	5.6	18,562,962	6.9
14d	Less participation by others	25,410		25,410	
	Net capital stock	20,173,515	5.6	18,537,552	6.9
	Gross loans and investments	146,986,493	41.1	131,137,601	49.0
12d, 13f, 14e	Less allowance for losses	4,311,030	1.2	4,199,956	1.6
	Net loans and investments	142,675,463	39.9	126,937,645	47.4
22	Uncollected discount and fees	133,762		118,762	
23	Unamortized organization costs	427,786	.1	188,269	.1
3, 4, 5, 8, 9, 10, 15, 16, 18, 19, 20, 21, 24	All other assets	6,964,161	2.0	5,926,281	2.2
26	Total assets	357,560,501	100.0	267,776,058	100.0
LIABILITIES, CAPITAL STOCK, AND SURPLUS					
P. 2:					
29-41	Accounts payable, accrued and deferred items	2,538,254	.7	1,727,755	.7
	Borrowings:				
48	Subordinated debentures issued to SBA (sec. 302)	1,587,000	.5	1,337,000	.5
27, 43a	Funds borrowed from SBA (sec. 303)	5,110,000	1.4	4,960,000	1.9
	Total SBA obligations	6,697,000	1.9	6,297,000	2.4
28, 43b, 44	Funds borrowed from others than SBA	7,601,044	2.1	7,601,044	2.8
	Total borrowings	14,298,044	4.0	13,898,044	5.2
45, 46, 47	All other liabilities	103,659		91,608	
49	Total liabilities	16,939,957	4.7	15,717,407	5.9
	Capital stock and surplus:				
50, 54	Capital stock	72,973,176	20.4	59,829,085	22.3
52	Less Treasury stock	6,329		6,329	
	Net capital stock	72,966,847	20.4	59,822,756	22.3
51	Paid-in surplus	268,026,344	75.0	192,548,168	71.9
	Total paid-in capital stock and surplus	340,993,191	95.4	252,370,924	94.2
	Retained earnings:				
56	Net operating earnings (loss)	(1,777,198)	(.5)	(1,714,186)	(.6)
57	Net realized gain (loss on investments)	724,625	.2	721,987	.3
58	Appropriated retained earnings	679,926	.2	679,926	.2
	Total retained earnings	(372,647)	(.1)	(312,273)	(.1)
59	Total capital stock and surplus	340,620,544	95.3	252,058,651	94.1
60	Total liabilities, capital stock, and surplus	357,560,501	100.0	267,776,058	100.0

Licensed small business investment companies, combined statements of income and expense for the fiscal year ended Mar. 31, 1962

Item No., SBA form 468	Item	Companies with licenses in force Mar. 31, 1962 (516 reporting companies)		Companies licensed for 1 year or more (197 reporting companies)	
		Amount	Per cent	Amount	Per cent
	INCOME				
P. 3:					
2.....	Interest on loans (sec. 305).....	\$5,033,402	28.8	\$4,170,323	29.2
3.....	Interest on debt securities (sec. 304).....	5,686,586	32.5	5,218,167	36.6
4.....	Interest on U.S. Government obligations.....	4,127,565	23.6	2,987,777	21.0
	Total interest income.....	14,847,553	84.9	12,376,267	86.8
11, 12.....	Dividends and contingent earnings.....	209,063	1.2	190,352	1.3
8, 9, 10.....	Fees (management, counseling, etc.).....	1,266,531	7.2	839,515	5.9
1, 5, 6, 7, 13, 14.....	Other income.....	1,165,464	6.7	846,889	6.0
	Total fees, other income, dividends, etc.	2,641,058	15.1	1,876,756	13.2
15.....	Total income.....	17,488,611	100.0	14,253,023	100.0
	EXPENSE				
16.....	Commitment fees on obligations to SBA and to others.	167,549	1.0	54,850	.4
17.....	Interest on obligations to SBA.....	1,595,926	9.1	1,267,483	8.9
18.....	Interest on obligations to others.....	180,436	1.0	150,273	1.1
19-22 and 24, 25.....	Other financial expenses.....	491,445	2.8	375,002	2.6
	Total financial expenses.....	2,435,356	13.9	1,847,608	13.0
P. 5:	Operating expenses:				
14.....	Salaries, officers.....	2,630,053	15.0	1,897,191	13.3
15.....	Salaries, employees.....	1,373,113	7.9	1,127,163	7.9
1.....	Advertising and promotion.....	491,344	2.8	357,860	2.5
5, 6, 7, 13, 22.....	Space occupied and office expense.....	1,297,367	7.4	913,548	6.4
3.....	Auditing and examination costs.....	403,299	2.3	312,970	2.2
12.....	Legal services.....	732,274	4.2	489,756	3.4
2, 10.....	Appraisal, consulting, and engineering costs.....	307,925	1.8	189,946	1.3
11.....	Investment advisory and supervisory costs.....	720,822	4.1	599,635	4.2
4, 17.....	Travel and communications.....	852,789	4.9	615,751	4.3
8, 9, 16, 23, 24.....	All other.....	1,730,613	9.9	1,232,239	8.7
	Total operating expenses.....	10,539,599	60.3	7,727,059	54.2
	Total expenses.....	12,974,955	74.2	9,574,667	67.2
	Net income before provision for losses and income taxes.....	4,513,656	25.8	4,678,356	32.8
18-21 and 25-27.....	Estimated provision for losses.....	6,456,370	37.0	5,513,109	38.6
P. 3-30.....	Provision for income taxes.....	1,047,161	6.0	894,744	6.3
	Total.....	7,512,531	43.0	6,407,853	44.9
	Net income (loss) from operations.....	(2,998,875)	(17.2)	(1,729,497)	(12.1)
	Realized gain (loss) from investments.....	1,408,688		1,463,724	
	Less provision for income taxes.....	321,676		320,970	
	Net realized gain (loss) from investments.....	1,087,012		1,142,754	
	Total net income (loss).....	(1,911,863)		(586,743)	

Licensed small business investment companies having statutory capital and surplus of not more than \$325,000—Combined statements of income and expense for the fiscal year ended Mar. 31, 1962

Item No., SBA form 468	Item	Companies with licenses in force Mar. 31, 1962 (392 reporting companies)		Companies licensed for 1 year or more (126 reporting companies)	
		Amount	Percent	Amount	Percent
	INCOME				
P. 3:					
2	Interest on loans (sec. 305)	\$2,356,442	56.3	\$1,682,932	58.4
3	Interest on debt securities (sec. 304)	650,668	15.5	473,868	16.4
4	Interest on U.S. Government obligations	281,852	6.8	113,197	3.9
	Total interest income	3,288,962	78.6	2,269,997	78.7
11, 12	Dividends and contingent earnings	138,776	3.3	132,146	4.6
8, 9, 10	Fees (management, counseling, etc.)	403,217	9.6	264,786	9.2
1, 5, 6, 7, 13, 14	Other income	354,163	8.5	216,634	7.5
	Total fees, other income, dividends, etc.	896,156	21.4	613,566	21.3
15	Total income	4,185,118	100.0	2,883,563	100.0
	EXPENSE				
16	Commitment fees on obligations to SBA and to others	157,797	3.8	51,636	1.8
17	Interest on obligations to SBA	1,045,652	25.0	788,953	27.3
18	Interest on obligations to others	73,483	1.8	47,882	1.7
19-22, 24, 25	Other financial expenses	56,137	1.3	49,538	1.7
	Total financial expenses	1,333,069	31.9	938,009	32.5
P. 5:	Operating expenses:				
14	Salaries, officers	592,555	14.2	353,124	12.2
15	Salaries, employees	212,111	5.1	128,135	4.4
1	Advertising and promotion	80,683	1.9	25,136	.9
5, 6, 7, 13, 22	Space occupied and office expense	411,406	9.9	215,732	7.5
3	Auditing and examination costs	177,612	4.2	109,361	3.8
12	Legal services	202,152	4.8	85,192	3.0
2, 10	Appraisal, consulting, and engineering costs	113,395	2.7	72,213	2.5
11	Investment advisory and supervisory costs	97,072	2.3	57,260	2.0
4, 17	Travel and communications	219,288	5.2	100,335	3.5
8, 9, 16, 23, 24	All other	435,871	10.4	224,709	7.8
	Total operating expenses	2,542,145	60.7	1,371,197	47.6
	Total expenses	3,875,214	92.6	2,309,206	80.1
	Net income before provision for losses and income taxes	309,904	7.4	574,357	19.9
18/21, 25/27	Estimated provision for losses	1,670,468	39.9	956,067	33.1
P. 3-30	Provision for income taxes	128,431	3.1	80,406	2.8
	Total	1,798,899	43.0	1,036,473	35.9
	Net income (loss) from operations	(1,488,995)	(35.6)	(462,116)	(16.0)
	Realized gain (loss) from investments	104,159		162,304	
	Less: Provision for income taxes	66,453		65,747	
	Net realized gain (loss) from investments	37,706		96,557	
	Total net income (loss)	(1,451,289)		(365,559)	

Licensed small business investment companies having statutory capital and surplus of \$325,000 to \$1,000,000—Combined statement of income and expense for the fiscal year ended Mar. 31, 1962

Item No. SBA form 468	Item	Companies with licenses in force Mar. 31, 1962 (69 reporting companies)		Companies licensed for 1 year or more (36 reporting companies)	
		Amount	Percent	Amount	Percent
	INCOME				
P. 3:					
2.....	Interest on loans (sec. 305).....	\$817,535	47.8	\$692,798	50.7
3.....	Interest on debt securities (sec. 304).....	394,334	23.1	307,178	22.4
4.....	Interest on U.S. Government obligations.....	159,536	9.3	120,971	8.9
	Total interest income.....	1,371,405	80.2	1,120,947	82.0
11, 12.....	Dividends and contingent earnings.....	22,475	1.3	10,475	.8
8, 9, 10.....	Fees (management, counseling, etc.).....	233,025	13.7	174,191	12.7
1, 5, 6, 7, 13, 14.....	Other income.....	82,486	4.8	61,048	4.5
	Total fees, other income, dividends, etc.....	337,986	19.8	245,714	18.0
15.....	Total income.....	1,709,391	100.0	1,366,661	100.0
	EXPENSE				
16.....	Commitment fees on obligations to SBA and to others.....	7,758	.4	2,581	.2
27.....	Interest on obligations to SBA.....	315,550	18.4	251,517	18.4
18.....	Interest on obligations to others.....	43,871	2.6	39,309	2.9
19-22 and 24, 25.....	Other financial expenses.....	12,952	.8	11,952	.8
	Total financial expenses.....	380,131	22.2	305,359	22.3
P. 5:	Operating expenses:				
14.....	Salaries, officers.....	328,000	19.2	232,123	17.0
15.....	Salaries, employees.....	129,902	7.6	102,022	7.5
1.....	Advertising and promotion.....	27,381	1.6	20,105	1.5
5, 6, 7, 13, 22.....	Space occupied and office expense.....	146,478	8.6	104,286	7.6
3.....	Auditing and examination costs.....	46,992	2.7	36,867	2.7
12.....	Legal services.....	84,184	4.9	54,678	4.0
2, 10.....	Appraisal, consulting, and engineering costs.....	45,800	2.7	30,619	2.2
11.....	Investment advisory and supervisory costs.....	23,073	1.3	18,464	1.5
4, 17.....	Travel and communications.....	91,113	5.3	60,681	4.4
8, 9, 16, 23, 24.....	All other.....	163,134	9.7	115,276	8.4
	Total operating expenses.....	1,086,057	63.6	775,121	56.8
	Total expenses.....	1,466,188	85.8	1,080,480	79.1
	Net income before provision for losses and income taxes.....	243,203	14.2	286,181	20.9
18-21, and 25-27.....	Estimated provision for losses.....	593,258	34.7	466,472	34.1
P. 3-30.....	Provision for income taxes.....	65,207	3.8	53,311	3.9
	Total.....	658,465	38.5	519,783	38.0
	Net income (loss) from operations.....	(415,662)	(24.3)	(233,602)	(17.1)
	Realized gain (loss) from investments.....	117,856	-----	117,856	-----
	Less provision for income taxes.....	47,117	-----	47,117	-----
	Net realized gain (loss) from investments.....	70,739	-----	70,739	-----
	Total net income (loss).....	(344,523)	-----	(162,863)	-----

Licensed small business investment companies having statutory capital and surplus of more than \$1,000,000—Combined statement of income and expense for the fiscal year ended Mar. 31, 1962

Item No., SBA form 468	Item	Companies with licenses in force Mar. 31, 1962 (55 reporting companies)		Companies licensed for 1 year or more (35 reporting companies)	
		Amount	Percent	Amount	Percent
INCOME					
P. 3:					
2	Interest on loans (sec. 305)	\$1,859,425	16.1	\$1,794,593	17.9
3	Interest on debt securities (sec. 304)	4,641,584	40.0	4,437,121	44.4
4	Interest on U.S. Government obligations	3,686,177	31.8	2,753,609	27.5
	Total interest income	10,187,186	87.9	8,985,323	89.8
11, 12	Dividends and contingent earnings	47,812	.4	47,731	.5
8, 9, 10	Fees (management, counseling, etc.)	630,289	5.4	400,538	4.0
1, 5, 6, 7, 13, 14	Other income	728,815	6.3	569,207	5.7
	Total fees, other income, dividends, etc.	1,406,916	12.1	1,017,476	10.2
15	Total income	11,594,102	100.0	10,002,799	100.0
EXPENSE					
16	Commitment fees on obligations to SBA and to others	1,994		633	
17	Interest on obligations to SBA	234,724	2.0	227,013	2.3
18	Interest on obligations to others	63,082	.5	63,082	.6
19-22, 24, 25	Other financial expenses	422,356	3.7	313,512	3.1
	Total financial expenses	722,156	6.2	604,240	6.0
P. 5:	Operating expenses:				
14	Salaries, officers	1,709,498	14.7	1,311,944	13.1
15	Salaries, employees	1,031,100	8.9	897,006	9.0
1	Advertising and promotion	383,280	3.3	312,619	3.1
5, 6, 7, 13, 22	Space occupied and office expense	739,483	6.4	593,530	5.9
3	Auditing and examination costs	178,695	1.5	166,742	1.7
12	Legal services	445,938	3.8	349,886	3.5
2, 10	Appraisal, consulting, and engineering costs	148,730	1.3	78,114	.8
11	Investment advisory and supervisory costs	600,677	5.2	523,911	5.2
4, 17	Travel and communications	542,388	4.7	454,735	4.6
8, 9, 16, 23, 24	All other	1,131,608	9.8	892,254	8.9
	Total operating expenses	6,911,397	59.6	5,580,741	55.8
	Total expenses	7,633,553	65.8	6,184,981	61.8
	Net income before provision for losses and income taxes	3,960,549	34.2	3,817,818	38.2
18-21, 25-27	Estimated provision for losses	4,201,644	36.2	4,090,570	40.9
P. 3-30	Provision for income taxes	853,523	7.4	761,027	7.6
	Total	5,055,167	43.6	4,851,597	48.5
	Net income (loss) from operations	(1,094,618)	(9.4)	(1,033,779)	(10.3)
	Realized gain (loss) from investments	1,186,673		1,183,564	
	Less provision for income taxes	208,106		208,106	
	Net realized gain (loss) from investments	978,567		975,458	
	Total net income (loss)	(116,051)		(58,321)	

SMALL BUSINESS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., November 28, 1962.

To All Licensed Small Business Investment Companies:

There are enclosed combined statements of financial condition as of September 30, 1962, and combined statements of income and expense for the 6 months ended September 30, 1962, for all reporting small business investment companies. Combined statements are also enclosed for three size groupings of companies according to their total statutory capital and surplus, as follows:

- (a) Small companies, not more than \$325,000.
- (b) Medium companies, from \$325,000 to \$1 million.
- (c) Large companies, more than \$1 million.

Separate amounts and percentages are shown on each financial statement for all reporting companies and for the reporting companies which had been licensed for 1 year or more at September 30, 1962. It should be worthwhile, in reviewing the past progress and future plans of your own company, to compare the percentages in these statements with corresponding percentages for your company.

Condensed comparative statements of financial condition as of March 31, 1960; September 30, 1960; March 31, 1961; September 30, 1961; March 31, 1962; and September 30, 1962, are enclosed, together with condensed comparative statements of income and expense for the fiscal year ended March 31, 1960, and for the 6-month period ended September 30, 1960; March 31, 1961; September 30, 1961; March 31, 1962; and September 30, 1962, for all reporting small business investment companies.

It will be of interest to notice that licensees' gross loans and investments outstanding to small business concerns have shown a steady upward trend since March 31, 1960, when \$9.9 million was outstanding as compared with \$307.8 million outstanding on September 30, 1962. This indicates that in the 2½-year period well over \$300 million has been made available to small business. Also, it is noteworthy that funds borrowed by licensees from SBA and other sources increased during the past year ended September 30, 1962, by \$71.6 million, or more than double the amount borrowed prior to September 30, 1961.

Net income, before provision for losses and taxes, continued to improve during the 3½-year period, April 1, 1959, to September 30, 1962; however, the substantial provision for losses during the 12 months ended September 30, 1962, caused a net operating loss to be reflected for the combined total of all reporting companies for the year ended September 30, 1962. It is too early in the operating history of small business investment companies to determine whether the provision for losses established by many companies will actually reflect their loss experience, or whether the amounts provided for losses are excessive.

Condensed combined statements of financial condition as of September 30, 1962, and condensed combined statements of income and expense for the 6 months ended September 30, 1962, prepared in comparative form, are also enclosed for the following three groups of companies:

- (a) Companies licensed for less than 1 year.
- (b) Companies licensed for 1 year but less than 2 years.
- (c) Companies licensed for 2 years or more.

These condensed combined statements show that small business investment companies, on the average, continue to invest more than a third of their assets in loans and investments to small business concerns during the first year, increase such investments to more than half of their total assets during the second year, and show greater selectivity in making investments after the first 2 years of operation by increasing such investments to a little more than 60 percent of their total assets.

The condensed combined statements of income and expense for the 6 months ended September 30, 1962, continued to show the upward trend in total income reflected for the first 3 months of the period. The relationship of total income to total operating expenses, expressed as a percentage figure, ranges from 117 percent for companies less than 1 year old, to 175 percent for companies licensed from 1 to 2 years, and to 205 percent for companies operating 2 years or longer. Stated another way, companies licensed 2 years or more had an average total income from operations for the 6 months ended September 30, 1962, of \$62,000 compared with \$21,600 for companies operating from 1 to 2 years, and \$6,900 for companies

operating less than 1 year. Total operating expenses averaged \$30,300 for companies licensed 2 years or more compared with an average of \$12,400 for companies in business from 1 to 2 years, and \$5,900 for companies licensed less than 1 year.

The condensed combined statements for the companies licensed from 1 to 2 years showed improved net income results before and after provision for losses and taxes. For those companies licensed 2 years or longer, the statements showed improved net income results before provision for losses and taxes, but because of the substantial provision for losses by a few SBIC's during the last 3 months of the semiannual period ended September 30, 1962, the net results from operations for this group of companies showed a small loss for the 6 months ended September 30, 1962. Had the provision for losses and taxes continued to represent 25.4 percent of total income, as it did for the 3 months ended June 30, 1962, instead of the 38.7 percent of total income reported for the 6 months ended September 30, 1962, the companies licensed 2 years or longer would have shown net income of approximately \$1 million.

The overall trends shown by the enclosed financial statements should provide encouragement to the small business investment industry, and should be useful to you in visualizing the growth of the small business investment company program.

To make possible the prompt furnishing of this type of data for your use in determining the relative progress of your own company, it is necessary for each periodic financial report, SBA Form 468, to be submitted within the time allowed, which is 1 month for all reports except the annual March 31 report, for which 3 months are allowed.

JAMES L. PARRIS,
Deputy Administrator.

Enclosures.

Condensed comparative financial statements, all reporting small business investment companies

	Amounts in millions of dollars					
	As of Mar. 31, 1960 (80 reporting companies)	As of Sept. 30, 1960 (130 reporting companies)	As of Mar. 31, 1961 (204 reporting companies)	As of Sept. 30, 1961 (364 reporting companies)	As of Mar. 31, 1962 (516 reporting companies)	As of Sept. 30, 1962 (565 reporting companies)
ASSETS						
Cash and U.S. Government obligations.....	32.6	92.4	113.3	212.5	265.5	221.2
Loans to small business (sec. 305).....	5.6	15.6	30.6	54.7	83.9	113.1
Debt securities of SBC's (sec. 304).....	4.2	15.5	41.0	79.6	122.5	161.8
Capital stock of SBC's (sec. 304).....	.1	.9	7.8	17.9	27.3	32.9
Gross loans and investments.....	9.9	32.0	79.4	152.2	233.7	307.8
Less allowances for losses.....	.1	.4	1.4	2.1	6.8	9.6
Net loans and investments.....	9.8	31.6	78.0	150.1	226.9	298.2
All other assets.....	.9	1.9	4.2	14.9	14.5	34.9
Total assets.....	43.3	125.9	195.5	377.5	506.9	554.3
LIABILITIES, CAPITAL STOCK AND SURPLUS						
Funds borrowed from SBA.....	2.8	7.3	17.7	31.2	55.3	78.9
Funds borrowed from others than SBA.....	.1	.7	.8	2.3	11.8	26.2
All other liabilities.....	.7	1.2	2.4	2.3	6.0	6.5
Total liabilities.....	3.6	9.2	20.9	35.8	73.1	111.6
Capital stock.....	19.1	33.2	44.9	97.3	136.7	145.6
Paid-in surplus.....	20.6	83.5	129.7	243.6	299.6	300.5
Retained earnings.....				.8	(2.5)	(3.4)
Total capital stock and surplus.....	39.7	116.7	174.6	341.7	433.8	442.7
Total liabilities, capital stock, and surplus.....	43.3	125.9	195.5	377.5	506.9	554.3
Amounts in thousands of dollars						
	For year ended Mar. 31, 1960	For 6 months ended Sept. 30, 1960	For 6 months ended Mar. 31, 1961	For 6 months ended Sept. 30, 1961	For 6 months ended Mar. 31, 1962	For 6 months ended Sept. 30, 1962
INCOME						
Interest on loans.....	145	465	1,028	1,990	3,043	4,451
Interest on debt securities.....	84	334	1,229	2,015	3,672	4,779
Interest on U.S. Government obligations.....	766	706	998	1,392	2,736	2,946
Total interest income.....	995	1,505	3,255	5,397	9,451	12,176
All other income.....	109	372	538	982	1,659	1,880
Total income.....	1,104	1,877	3,793	6,379	11,110	14,056
EXPENSE						
Interest and commitment fees.....	78	176	351	687	1,257	1,997
All other financial expense.....	10	43	134	187	304	332
Total financial expense.....	88	219	485	874	1,561	2,329
Operating expense.....	761	1,117	2,447	3,869	6,671	7,808
Total expense.....	849	1,336	2,932	4,743	8,232	10,137
Net income before provision for losses and taxes.....	255	541	861	1,636	2,878	3,919
Provision for losses.....	67	373	994	623	5,843	3,440
Provision for income taxes.....	144	179	171	428	619	756
Total.....	211	552	1,165	1,051	6,462	4,197
Net income (loss) from operations.....	44	(11)	(304)	585	(3,584)	(278)
Net realized gain on investments.....	(29)	19	157	524	563	194
Total net income (loss).....	15	8	(147)	1,109	(3,021)	(85)

Condensed combined financial statements, all reporting small business investment companies

	(Dollar amounts in millions)					
	As of Sept. 30, 1962, companies licensed less than 1 year (219 reporting companies)		As of Sept. 30, 1962, companies licensed from 1 to 2 years (221 reporting companies)		As of Sept. 30, 1962, companies licensed 2 years or more (125 reporting companies)	
	Amount	Percent	Amount	Percent	Amount	Percent
ASSETS						
Cash and U.S. Government obligations.....	\$44.1	55.4	\$78.8	41.6	\$98.3	34.5
Loans to small businesses (sec. 305).....	18.1	22.7	42.3	22.3	52.7	18.5
Debt securities of SBC's (sec. 304).....	10.7	13.5	49.3	26.0	101.8	35.7
Capital stock of SBC's (sec. 304).....	3.7	4.6	8.0	4.2	21.2	7.4
Gross loans and investments.....	32.5	40.8	99.6	52.5	175.7	61.6
Less allowance for losses.....	.4	.5	2.2	1.2	7.0	2.4
Net loans and investments.....	32.1	40.3	97.4	51.3	168.7	59.2
All other assets.....	3.4	4.3	13.4	7.1	18.1	6.3
Total assets.....	79.6	100.0	189.6	100.0	285.1	100.0
LIABILITIES, CAPITAL STOCK, AND SURPLUS						
Funds borrowed from SBA.....	12.8	16.1	36.2	19.1	29.9	10.5
Funds borrowed from others than SBA.....	2.4	3.0	3.5	1.8	20.3	7.1
All other liabilities.....	.9	1.1	2.9	1.6	2.7	1.0
Total liabilities.....	16.1	20.2	42.6	22.5	52.9	18.6
Capital stock.....	34.9	43.8	41.4	21.8	69.5	24.4
Paid-in surplus.....	29.6	37.2	106.7	56.3	164.2	57.5
Retained earnings.....	(1.0)	(1.2)	(1.1)	(.6)	(1.5)	(.5)
Total capital stock and surplus.....	63.5	79.8	147.0	77.5	232.2	81.4
Total liabilities, capital stock, and surplus.....	79.6	100.0	189.6	100.0	285.1	100.0
(Dollar amounts in thousands)						
	For 6 months ended Sept. 30, 1962		For 6 months ended Sept. 30, 1962		For 6 months ended Sept. 30, 1962	
	Amount	Percent	Amount	Percent	Amount	Percent
INCOME						
Interest on loans.....	\$554	36.7	\$1,633	34.1	\$2,264	29.2
Interest on debt securities.....	227	15.0	1,328	27.7	3,224	41.6
Interest on U.S. Government obligations.....	461	30.5	1,080	22.6	1,405	18.1
Total interest income.....	1,242	82.2	4,041	84.4	6,893	88.9
All other income.....	269	17.8	746	15.6	865	11.1
Total.....	1,511	100.0	4,787	100.0	7,758	100.0
EXPENSE						
Interest and commitment fees.....	304	20.1	792	16.5	901	11.6
All other financial expense.....	29	1.9	132	2.8	171	2.2
Total financial expense.....	333	22.0	924	19.3	1,072	13.8
Operating expense.....	1,286	85.1	2,734	57.1	3,788	48.8
Total expense.....	1,619	107.1	3,658	76.4	4,860	62.6
Net income before provision for losses and taxes.....	(108)	(7.1)	1,129	23.6	2,898	37.4
Provision for losses.....	218	14.4	581	12.1	2,642	34.1
Provision for income taxes.....	57	3.8	344	7.2	355	4.6
Total.....	275	18.2	925	19.3	2,997	38.7
Net income (loss) from operations.....	(383)	(25.3)	204	4.3	(99)	(1.3)
Net realized gain on investments.....	20		101		73	
Total net income (loss).....	(363)		305		(26)	

*Licensed small business investment companies—Combined statement of
financial condition as of Sept. 30, 1962*

Item No., SBA form 468	Item	Companies with li- censes in force Sept. 30, 1962 (565 report- ing companies)		Companies licensed for 1 year or more (346 reporting com- panies)	
		Amount	Percent	Amount	Percent
ASSETS					
P. 1:					
1	Cash	\$71,050,720	12.8	\$56,970,391	12.0
2	U.S. Government obligations	150,109,194	27.1	120,097,424	25.3
	Total cash and U.S. Government ob- ligations	221,159,914	39.9	177,067,815	37.3
	Loans and investments:				
6, 12	Loans to Small Business (sec. 305)	117,365,858	21.2	97,962,906	20.6
6a, 12a	Less participation by others	4,282,449	.8	2,972,402	.6
	Net loans	113,083,409	20.4	94,990,504	20.0
7(a, b) 13 (a, b)	Debt securities of SBC's (sec. 304)	164,724,634	29.7	153,826,362	32.4
7c, 13c	Less participation by others	2,943,055	.5	2,712,308	.6
	Net debt securities	161,781,579	29.2	151,114,054	31.8
14 (a, b, c) -- 14d	Capital stock of SBC's (sec. 304)	32,987,215	5.9	29,230,621	6.2
	Less participation by others	41,077		31,077	
	Net capital stock	32,946,138	5.9	29,199,544	6.2
12d, 13f, 14e	Gross loans and investments	307,811,126	55.5	275,304,102	58.0
	Less allowance for losses	9,585,697	1.7	9,181,824	1.9
	Net loans and investments	298,225,429	53.8	266,122,278	56.1
22	Uncollected discount and fees	2,277,336	.4	2,004,870	.4
23	Unamortized organization costs	1,925,646	.3	1,025,378	.2
3, 4, 5, 8, 9, 10, 15, 16, 18, 19, 20, 21, 24.	All other assets	30,711,671	5.6	28,465,008	6.0
26	Total assets	554,289,996	100.0	474,685,349	100.0
LIABILITIES, CAPITAL STOCK, AND SURPLUS					
P. 2:					
29-41	Accounts payable, accrued and deferred items	4,810,378	.8	3,951,568	.8
	Borrowings:				
48	Subordinated debentures issued to SBA (sec. 302)	59,644,884	10.8	47,406,152	10.0
27, 43a	Funds borrowed from SBA (sec. 303)	19,304,905	3.5	18,786,996	4.0
	Total SBA obligations	78,949,789	14.3	66,193,148	14.0
28, 43b, 44	Funds borrowed from others than SBA	26,167,266	4.7	23,818,056	5.0
	Total borrowings	105,117,055	19.0	90,011,204	19.0
45, 46, 47	All other liabilities	1,681,900	.3	1,517,488	.3
49	Total liabilities	111,609,333	20.1	95,480,260	20.1
	Capital stock and surplus:				
50, 54	Capital stock	146,320,946	26.4	111,424,542	23.4
52	Less Treasury stock	700,244	.1	540,244	.1
	Net capital stock	145,620,702	26.3	110,884,298	23.3
51	Paid-in surplus	300,524,456	54.2	270,872,366	57.1
	Total paid-in capital stock and surplus	446,145,158	80.5	381,756,664	80.4
	Retained earnings:				
56	Net operating earnings (loss)	(4,848,184)	(.9)	(3,915,957)	(.8)
57	Net realized gain (loss) on investments	404,599	.1	385,270	.1
58	Appropriated retained earnings	979,090	.2	979,090	.2
	Total retained earnings	(3,464,495)	(.6)	(2,551,577)	(.5)
59	Total capital stock and surplus	442,680,663	79.9	379,205,089	79.9
60	Total liabilities, capital stock, and surplus	554,289,996	100.0	474,685,349	100.0

Licensed small business investment companies having statutory capital and surplus of not more than \$325,000—Combined statement of financial condition as of Sept. 30, 1962

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1962 (398 reporting companies)		Companies licensed for 1 year or more (221 reporting companies)	
		Amount	Percent	Amount	Percent
P. 1:	ASSETS				
1	Cash	\$17,349,344	14.8	\$8,676,231	11.3
2	U.S. Government obligations	20,208,388	17.2	9,923,215	12.9
	Total cash and U.S. Government obligations	37,557,732	32.0	18,599,446	24.2
	Loans and investments:				
6, 12	Loans to small business (sec. 305)	49,807,107	42.4	37,163,038	48.4
6a, 12a	Less participation by others	1,463,780	1.2	994,596	1.3
	Net loans	48,343,327	41.2	36,168,442	47.1
7 (a and b), 13 (a and b), 7c, 13c	Debt securities of SBC's (sec. 304)	22,688,917	19.3	16,383,161	21.3
	Less participation by others	1,766,385	1.5	1,550,838	2.0
	Net debt securities	20,922,532	17.8	14,832,323	19.3
14 (a, b, and c), 14d	Capital stock of SBC's (sec. 304)	6,083,393	5.1	4,671,833	6.1
	Less participation by others	14,917		4,917	
	Net capital stock	6,018,476	5.1	4,666,916	6.1
12d, 13f, 14e	Gross loans and investments	75,284,335	64.1	55,667,681	72.5
	Less allowance for losses	1,894,381	1.6	1,668,515	2.2
	Net loans and investments	73,389,954	62.5	53,999,166	70.3
22	Uncollected discount and fees	1,131,004	1.0	954,890	1.2
23	Unamortized organization costs	1,044,313	.9	440,012	.6
3, 4, 5, 8, 9, 10, 15, 16, 18, 19, 20, 21, 24	All other assets	4,199,559	3.6	2,801,790	3.7
26	Total assets	117,322,562	100.0	76,795,304	100.0
P. 2:	LIABILITIES, CAPITAL STOCK, AND SURPLUS				
29-41	Accounts payable, accrued and deferred items	1,926,661	1.6	1,447,170	1.9
	Borrowings:				
48	Subordinated debentures issued to SBA (sec. 302)	39,500,044	33.7	31,210,044	40.7
27, 43a	Funds borrowed from SBA (sec. 303)	7,542,905	6.4	7,024,996	9.1
	Total SBA obligations	47,042,949	40.1	38,235,040	49.8
28, 43b, 44	Funds borrowed from others than SBA	2,987,915	2.6	2,636,390	3.4
	Total borrowings	50,030,864	42.7	40,871,430	53.2
45, 46, 47	All other liabilities	794,679	.7	653,598	.9
49	Total liabilities	52,752,204	45.0	42,972,198	56.0
	Capital stock and surplus:				
50, 54	Capital stock	47,143,673	40.2	24,804,385	32.3
52	Less Treasury stock	460,431	.4	460,431	.6
	Net capital stock	46,683,242	39.8	24,343,954	31.7
51	Paid-in surplus	19,675,083	16.8	10,823,091	14.1
	Total paid-in capital stock and surplus	66,358,325	56.6	35,167,045	45.8
	Retained earnings:				
56	Net operating earnings (loss)	(1,927,065)	(1.7)	(1,477,179)	(2.0)
57	Net realized gain (loss) on investments	139,098	.1	133,240	.2
58	Appropriated retained earnings				
	Total retained earnings	(1,787,967)	(1.6)	(1,343,939)	(1.8)
59	Total capital stock and surplus	64,570,358	55.0	33,823,106	44.0
60	Total liabilities, capital stock, and surplus	117,322,562	100.0	76,795,304	100.0

Licensed small business investment companies having statutory capital and surplus of \$325,000 to \$1,000,000—Combined statement of financial condition as of Sept. 30, 1962

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1962 (110 reporting companies)		Companies licensed for 1 year or more (72 reporting companies)	
		Amount	Percent	Amount	Percent
P. 1:	ASSETS				
1	Cash	\$6,702,392	9.5	\$3,880,202	8.0
2	U.S. Government obligations	14,376,769	20.5	7,016,590	14.4
	Total cash and U.S. Government obligations	21,079,161	30.0	10,896,792	22.4
	Loans and investments:				
6, 12	Loans to small business (sec. 305)	26,664,370	37.9	19,965,487	41.0
6a, 12a	Less participation by others	2,266,562	3.2	1,425,699	2.9
	Net loans	24,397,808	34.7	18,539,788	38.1
7(a and b), 13(a and b), 7c, 13c	Debt securities of SBC's (sec. 304)	18,251,532	25.9	14,568,962	30.0
	Less participation by others	589,622	.8	574,422	1.2
	Net debt securities	17,661,910	25.1	13,994,540	28.8
14(a, b, and c), 14d	Capital stock of SBC's (sec. 304)	4,887,512	6.9	3,767,478	7.7
	Less participation by others	750		750	
	Net capital stock	4,886,762	6.9	3,766,728	7.7
	Gross loans and investments	46,946,480	66.7	36,301,056	74.6
12d, 13f, 14e	Less allowance for losses	1,135,599	1.6	947,592	1.9
	Net loans and investments	45,810,881	65.1	35,353,464	72.7
22	Uncollected discount and fees	911,154	1.3	814,802	1.7
23	Unamortized organization costs	433,911	.6	170,066	.3
3, 4, 5, 8, 9, 10, 15, 16, 18, 19, 20, 21, 24, 26	All other assets	2,133,445	3.0	1,412,556	2.9
	Total assets	70,368,552	100.0	48,647,680	100.0
P. 2:	LIABILITIES, CAPITAL STOCK, AND SURPLUS				
29-41	Accounts payable, accrued, and deferred items	1,015,648	1.4	656,198	1.3
	Borrowings:				
48	Subordinated debentures issued to SBA (sec. 302)	16,791,208	23.9	12,849,108	26.4
27, 43a	Funds borrowed from SBA (sec. 303)	5,702,000	8.1	5,702,000	11.7
	Total SBA obligations	22,493,208	32.0	18,551,108	38.1
28, 43b, 44	Funds borrowed from others than SBA	3,679,817	5.2	1,682,132	3.5
	Total borrowings	26,173,025	37.2	20,233,240	41.6
45, 46, 47	All other liabilities	697,534	1.0	674,611	1.4
49	Total liabilities	27,886,207	39.6	21,564,049	44.3
	Capital stock and surplus:				
50, 54	Capital stock	26,274,587	37.3	16,684,971	34.3
52	Less Treasury stock	224,000	.3	64,000	.1
	Net capital stock	26,050,587	37.0	16,620,971	34.2
51	Paid-in surplus	17,090,115	24.3	10,697,795	22.0
	Total paid-in capital stock and surplus	43,140,702	61.3	27,318,766	56.2
	Retained earnings:				
56	Net operating earnings (loss)	(884,974)	(1.2)	(447,832)	(.9)
57	Net realized gain (loss) on investments	226,617	.3	212,697	.4
58	Appropriated retained earnings				
	Total retained earnings	(658,357)	(.9)	(235,135)	(.5)
59	Total capital stock and surplus	42,482,345	60.4	27,083,631	55.7
60	Total liabilities, capital stock, and surplus	70,368,552	100.0	48,647,680	100.0

Licensed small business investment companies having statutory capital and surplus of more than \$1,000,000—Combined statement of financial condition as of Sept. 30, 1962

Item No., SBA form 468	Item	Companies with licenses in force Sep. 30, 1962 (57 reporting companies)		Companies licensed for 1 year or more (53 reporting companies)	
		Amount	Percent	Amount	Percent
P. 1:	ASSETS				
1	Cash	\$46,998,984	12.8	\$44,413,958	12.7
2	U.S. Government obligations	115,524,037	31.5	103,157,619	29.6
	Total cash and U.S. Government obligations	162,523,021	44.3	147,571,577	42.3
	Loans and investments:				
6, 12	Loans to small business (sec. 305)	40,894,381	11.2	40,834,381	11.7
6a, 12a	Less participation by others	552,107	.2	552,107	.2
	Net loans	40,342,274	11.0	40,282,274	11.5
7(a and b), 13(a and b), 7c, 13c	Debt securities of SBC's (sec. 304)	123,784,185	33.8	122,874,239	35.2
	Less participation by others	587,048	.2	587,048	.2
	Net debt securities	123,197,137	33.6	122,287,191	35.0
14(a, b, and c), 14d	Capital stock of SBC's (sec. 304)	22,066,310	6.0	20,791,310	6.0
	Less participation by others	25,410		25,410	
	Net capital stock	22,040,900	6.0	20,765,900	6.0
12d, 13f, 14e	Gross loans and investments	185,580,311	50.6	183,335,365	52.5
	Less allowance for losses	6,565,717	1.8	6,565,717	1.9
	Net loans and investments	179,014,594	48.8	176,769,648	50.6
22	Uncollected discount and fees	235,178	.1	235,178	.1
23	Unamortized organization costs	447,422	.1	415,300	.1
3, 4, 5, 8, 9, 10, 15, 16, 18, 19, 20, 21, 24	All other assets	24,378,667	6.7	24,250,662	6.9
26	Total assets	366,598,882	100.0	349,242,365	100.0
P. 2:	LIABILITIES, CAPITAL STOCK, AND SURPLUS				
29-41	Accounts payable, accrued and deferred items	1,868,069	.4	1,848,200	.5
	Borrowings:				
48	Subordinated debentures issued to SBA (sec. 302)	3,353,632	.9	3,347,000	1.0
27, 43a	Funds borrowed from SBA (sec. 303)	6,060,000	1.7	6,060,000	1.7
	Total SBA obligations	9,413,632	2.6	9,407,000	2.7
28, 43b, 44	Funds borrowed from others than SBA	19,499,534	5.3	19,499,534	5.6
	Total borrowings	28,913,166	7.9	28,906,534	8.3
45, 46, 47, 49	All other liabilities	189,687	.1	189,279	.1
	Total liabilities	30,970,922	8.4	30,944,013	8.9
	Capital stock and surplus:				
50, 54	Capital stock	72,902,686	19.9	69,935,186	20.0
52	Less Treasury stock	15,813		15,813	
	Net capital stock	72,886,873	19.9	69,919,373	20.0
51	Paid-in surplus	263,759,258	72.0	249,351,480	71.4
	Total paid-in capital stock and surplus	336,646,131	91.9	319,270,853	91.4
	Retained earnings:				
56	Net operating earnings (loss)	(2,036,145)	(.6)	(1,990,944)	(.6)
57	Net realized gain (loss) on investments	38,884		39,353	
58	Appropriated retained earnings	979,090	.3	979,090	.3
	Total retained earnings	(1,018,171)	(.3)	(972,501)	(.3)
59	Total capital stock and surplus	335,627,960	91.6	318,298,352	91.1
60	Total liabilities, capital stock, and surplus	366,598,882	100.0	349,242,365	100.0

Licensed small business investment companies—Combined statement of income and expense for the 6 months ended Sept. 30, 1962

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1962 (565 reporting companies)		Companies licensed for 1 year or more (346 reporting companies)	
		Amount	Percent	Amount	Percent
INCOME					
P. 3:					
2	Interest on loans (sec. 305)	\$4,451,075	31.7	\$3,898,199	31.1
3	Interest on debt securities (sec. 304)	4,779,055	34.0	4,551,579	36.3
4	Interest on U. S. Government obligations	2,945,710	20.9	2,485,733	19.8
	Total interest income	12,175,840	86.6	10,935,511	87.2
11, 12	Dividends and contingent earnings	54,241	.4	52,741	.4
8, 9, 10	Fees (management, counseling, etc.)	889,533	6.3	760,024	6.0
1, 5, 6, 7, 13, 14	Other income	936,159	6.7	797,216	6.4
	Total fees, other income, dividends, etc.	1,879,963	13.4	1,609,981	12.8
15	Total income	14,055,803	100.0	12,545,492	100.0
EXPENSE					
16	Commitment fees on obligations to SBA and to others.	85,641	.6	24,530	.2
17	Interest on obligations to SBA	1,598,145	11.4	1,390,970	11.1
18	Interest on obligations to others	313,090	2.2	277,260	2.2
19-22 and 24, 25	Other financial expenses	332,239	2.4	302,734	2.4
	Total financial expenses	2,329,115	16.6	1,995,494	15.9
P. 5:	Operating expenses:				
14	Salaries, officers	2,064,803	14.7	1,738,469	13.9
15	Salaries, employees	1,076,985	7.7	922,535	7.3
1	Advertising and promotion	318,592	2.3	275,126	2.2
5, 6, 7, 13, 22	Space occupied and office expense	905,110	6.4	726,656	5.8
3	Auditing and examination costs	415,554	2.9	340,856	2.7
12	Legal services	592,827	4.2	491,735	3.9
2, 10	Appraisal, consulting, and engineering costs.	347,395	2.5	272,711	2.2
11	Investment advisory and supervisory costs.	267,947	1.9	233,301	1.9
4, 17	Travel and communications	588,583	4.2	476,477	3.8
8, 9, 16, 23, 24	All other	1,230,227	8.7	1,043,964	8.3
	Total operating expenses	7,808,023	55.5	6,521,830	52.0
	Total expenses	10,137,138	72.1	8,517,324	67.9
	Net income before provision for losses and income taxes.	3,918,665	22.9	4,028,168	32.1
18-21 and 25-27	Estimated provision for losses	3,440,654	24.5	3,223,025	25.7
P. 3-30	Provision for income taxes	756,301	5.4	699,384	5.6
	Total	44,96,955	29.9	3,922,409	31.3
	Net income (loss) from operations	(278,290)	(2.0)	105,759	.8
	Realized gain (loss) from investments	196,389		176,363	
	Less provision for income taxes	2,710		2,043	
	Net realized gain (loss) from investments.	193,679		174,320	
	Total net income (loss)	(84,611)		280,079	

Licensed small business investment companies having statutory capital and surplus of not more than \$325,000—Combined statement of income and expense for the 6 months ended Sept. 30, 1962

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1962 (398 reporting companies)		Companies licensed for 1 year or more (221 reporting companies)	
		Amount	Percent	Amount	Percent
	INCOME				
P. 3:					
2	Interest on loans (sec. 305).....	\$1,862,911	57.0	\$1,498,092	60.6
3	Interest on debt securities (sec. 304).....	620,053	19.0	491,235	19.9
4	Interest on U.S. Government obligations.....	273,787	8.4	138,328	5.6
	Total interest income.....	2,756,751	84.4	2,127,655	86.1
11, 12	Dividends and contingent earnings.....	17,391	.5	17,391	.7
8, 9, 10	Fees (management, counseling, etc.).....	240,257	7.4	145,074	5.9
1, 5, 6, 7, 13, 14	Other income.....	252,697	7.7	181,314	7.3
	Total fees, other income, dividends, etc.....	510,345	15.6	343,779	13.9
15	Total income.....	3,267,096	100.0	2,471,434	100.0
	EXPENSE				
16	Commitment fees on obligations to SBA and to others.....	80,198	2.5	19,962	.8
17	Interest on obligations to SBA.....	947,984	29.0	804,058	32.5
18	Interest on obligations to others.....	78,486	2.4	72,579	2.9
19-22, 24, 25	Other financial expenses.....	32,013	1.0	30,961	1.3
	Total financial expenses.....	1,138,681	34.9	927,560	37.5
P. 5:	Operating expenses:				
14	Salaries, officers.....	416,138	12.7	298,633	12.1
15	Salaries, employees.....	154,099	4.7	105,494	4.3
1	Advertising and promotion.....	43,728	1.3	20,986	.8
5, 6, 7, 13, 22	Space occupied and office expense.....	256,755	7.9	167,844	6.8
3	Auditing and examination costs.....	178,584	5.5	128,429	5.2
12	Legal services.....	160,771	4.9	104,019	4.2
2, 10	Appraisal, consulting, and engineering costs.....	78,458	2.4	41,561	1.7
11	Investment advisory and supervisory costs.....	45,390	1.4	24,571	1.0
4, 17	Travel and communications.....	134,033	4.1	85,420	3.4
8, 9, 16, 23, 24	All other.....	293,392	9.0	182,246	7.4
	Total operating expenses.....	1,761,348	53.9	1,159,203	46.9
	Total expenses.....	2,900,029	88.8	2,086,763	84.4
	Net income before provision for losses and income taxes.....	367,067	11.2	384,671	15.6
18-21, 25-27	Estimated provision for losses.....	480,374	14.7	328,233	13.3
P. 3-30	Provision for income taxes.....	135,199	4.1	103,550	4.2
	Total.....	615,573	18.8	431,783	17.5
	Net income (loss) from operations.....	(248,506)	(7.6)	(47,112)	(1.9)
	Realized gain (loss) from investments.....	49,931	-----	43,355	-----
	Less provision for income taxes.....	1,115	-----	448	-----
	Net realized gain (loss) from investments.....	48,816	-----	42,907	-----
	Total net income (loss).....	(199,690)	-----	(4,205)	-----

Licensed small business investment companies having statutory capital and surplus of \$325,000 to \$1,000,000—Combined statement of income and expense for the 6 months ended Sept. 30, 1962

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1962 (110 reporting companies)		Companies licensed for 1 year or more (72 reporting companies)	
		Amount	Percent	Amount	Percent
	INCOME				
P. 3:					
2.....	Interest on loans (sec. 305).....	\$968,269	46.8	\$785,369	48.8
3.....	Interest on debt securities (sec. 304).....	492,910	23.8	408,472	25.4
4.....	Interest on U.S. Government obligations.....	203,834	9.8	105,774	6.5
	Total interest income.....	1,665,013	80.4	1,299,615	80.7
11, 12.....	Dividends and contingent earnings.....	10,783	.5	9,283	.6
8, 9, 10.....	Fees (management, counseling, etc.).....	173,854	8.4	139,698	8.7
1, 5, 6, 7, 13, 14.....	Other income.....	220,019	10.7	161,459	10.0
	Total fees, other income, dividends, etc.	404,656	19.6	310,440	19.3
15.....	Total income.....	2,069,669	100.0	1,610,055	100.0
	EXPENSE				
16.....	Commitment fees on obligations to SBA and to others.	3,084	.2	2,459	.1
17.....	Interest on obligations to SBA.....	441,412	21.3	378,163	23.5
18.....	Interest on obligations to others.....	76,964	3.7	47,041	2.9
19-22, 24, 25.....	Other financial expenses.....	30,654	1.5	6,014	.4
	Total financial expenses.....	552,114	26.7	433,677	26.9
P. 5:					
	Operating expenses:				
14.....	Salaries, officers.....	411,910	19.9	263,314	16.4
15.....	Salaries, employees.....	136,487	6.6	77,608	4.8
1.....	Advertising and promotion.....	29,842	1.4	17,255	1.1
5, 6, 7, 13, 22.....	Space occupied and office expense.....	162,685	7.9	102,445	6.4
3.....	Auditing and examination costs.....	74,395	3.6	55,835	3.5
12.....	Legal services.....	80,617	3.9	51,283	3.2
2, 10.....	Appraisal, consulting, and engineering costs.....	64,433	3.1	48,450	3.0
11.....	Investment advisory and supervisory costs.....	28,270	1.4	14,443	.9
4, 17.....	Travel and communications.....	102,292	4.9	53,565	3.3
8, 9, 16, 23, 24.....	All other.....	162,103	7.8	107,801	6.6
	Total operating expenses.....	1,253,034	60.5	791,999	49.2
	Total expenses.....	1,805,148	87.2	1,225,676	76.1
	Net income before provision for losses and income taxes.....	264,521	12.8	384,379	23.9
18-21 and 25-27.....	Estimated provision for losses.....	373,028	18.0	307,540	19.1
P. 3-30.....	Provision for income taxes.....	100,096	4.9	76,628	4.8
	Total.....	473,124	22.9	384,168	23.9
	Net income (loss) from operations.....	(208,603)	(10.1)	211	-----
	Realized gain (loss) from investments.....	1,179	-----	(12,740)	-----
	Less provision for income taxes.....	110	-----	110	-----
	Net realized gain (loss) from investments.....	1,069	-----	(12,850)	-----
	Total net income (loss).....	(207,534)	-----	(12,639)	-----

Licensed small business investment companies having statutory capital and surplus of more than \$1,000,000—Combined statement of income and expense for the 6 months ended Sept. 30, 1962

Item No., SBA form 468	Item	Companies with licenses in force Sept. 30, 1962 (57 reporting companies)		Companies licensed for 1 year or more (53 reporting companies)	
		Amount	Percent	Amount	Percent
INCOME					
P. 3:					
2-----	Interest on loans (sec. 305)-----	\$1,619,895	18.6	\$1,614,738	19.1
3-----	Interest on debt securities (sec. 304)-----	3,666,092	42.0	3,651,872	43.1
4-----	Interest on U.S. Government obligations-----	2,468,089	28.3	2,241,631	26.5
	Total interest income-----	7,754,076	88.9	7,508,241	88.7
11, 12-----	Dividends and contingent earnings-----	26,067	.3	26,067	.3
8, 9, 10-----	Fees (management, counseling, etc.)-----	475,452	5.5	475,252	5.6
1, 5, 6, 7, 13, 14-----	Other income-----	463,443	5.3	454,443	5.4
	Total fees, other income, dividends, etc.-----	964,962	11.1	955,762	11.3
15-----	Total income-----	8,719,038	100.0	8,464,003	100.0
EXPENSE					
16-----	Commitment fees on obligations to SBA and to others-----	2,359		2,109	
17-----	Interest on obligations to SBA-----	208,749	2.4	208,749	2.5
18-----	Interest on obligations to others-----	157,640	1.8	157,640	1.9
19-22, 24, 25-----	Other financial expenses-----	269,572	3.1	265,759	3.1
	Total, financial expenses-----	638,320	7.3	634,257	7.5
P. 5:	Operating expenses:				
14-----	Salaries, officers-----	1,236,755	14.2	1,176,522	13.9
15-----	Salaries, employees-----	786,399	9.0	739,433	8.7
1-----	Advertising and promotion-----	245,022	2.8	236,885	2.8
5, 6, 7, 13, 22-----	Space occupied and office expense-----	485,670	5.6	456,367	5.4
3-----	Auditing and examination costs-----	162,575	1.9	156,592	1.8
12-----	Legal services-----	351,439	4.0	336,433	4.0
2, 10-----	Appraisal, consulting, and engineering costs-----	204,504	2.4	182,700	2.2
11-----	Investment advisory and supervisory costs-----	194,287	2.2	194,287	2.3
4, 17-----	Travel and communications-----	352,258	4.0	337,492	4.0
8, 9, 16, 23, 24-----	All other-----	774,732	8.9	753,917	8.9
	Total operating expenses-----	4,793,641	55.0	4,570,628	54.0
	Total expenses-----	5,431,961	62.3	5,204,885	61.5
	Net income before provision for losses and income taxes-----	3,287,077	37.7	3,259,118	38.5
18-21, 25-27-----	Estimated provision for losses-----	2,587,252	29.7	2,587,252	30.6
P. 3-30-----	Provision for income taxes-----	521,006	5.9	519,206	6.1
	Total-----	3,108,258	35.6	3,106,458	36.7
	Net income (loss) from operations-----	178,819	2.1	152,660	1.8
	Realized gain (loss) from investments-----	145,279		145,748	
	Less provision for income taxes-----	1,485		1,485	
	Net realized gain (loss) from investments-----	143,794		144,263	
	Total net income (loss)-----	322,613		296,923	

SMALL BUSINESS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., March 11, 1963.

To all licensed small business investment companies:

There are enclosed combined statements of financial condition as of December 31, 1962, and combined statements of income and expense for the 9 months ended

December 31, 1962, for all reporting small business investment companies. Combined statements are also enclosed for three size groupings of companies according to their total statutory capital and surplus, as follows:

- (a) Small companies, not more than \$325,000.
- (b) Medium companies, from \$325,000 to \$1 million.
- (c) Large companies, more than \$1 million.

Separate amounts and percentages are shown on each financial statement for all reporting companies and for the reporting companies which had been licensed for 2 years or more at December 31, 1962. It should be worthwhile, in reviewing the past progress and future plans of your own company, to compare the percentages in these statements, particularly as related to companies licensed for 2 years or more, with corresponding percentages for your company.

Condensed combined statements of financial condition as of December 31, 1962, and condensed combined statements of income and expense for the 9 months ended December 31, 1962, prepared in comparative form, are also enclosed for the following three groups of companies:

- (a) Companies licensed for less than 1 year.
- (b) Companies licensed for 1 year but less than 2 years.
- (c) Companies licensed for 2 years or more.

These condensed combined statements show that reporting small business investment companies, on the average, invested 48 percent of their assets in loans and investments to small business concerns during the first year of operation. During the second year they increased such investments to 57 percent of their assets, and continued this upward trend after the first 2 years of operation by increasing loans and investments to small business to 66 percent of total assets.

The condensed combined statements of income and expense for the 9 months ended December 31, 1962, continued to show the upward trend in total income reflected for the first 6 months of the period. The relationship of total income to total operating expenses, on the average, ranged from 125 percent for companies less than 1 year old, to 168 percent for companies licensed from 1 to 2 years, and to 215 percent for companies operating 2 years or longer. Stated another way, companies licensed 2 years or more had an average total income from operations for the 9 months ended December 31, 1962, of \$85,600 compared with \$29,600 for companies operating from 1 to 2 years, and \$8,700 for companies operating less than 1 year. Total operating expenses averaged \$39,800 for companies licensed 2 years or more compared with an average of \$17,600 for companies in business from 1 to 2 years, and \$6,900 for companies licensed less than 1 year.

The condensed combined statements for the companies licensed for 2 years or longer showed improved net income results before and after provision for losses and taxes for the 9 months ended December 31, 1962. For those companies licensed from 1 to 2 years, the statements showed net income results before provision for losses and taxes, but because of substantial provisions for losses during the last 3 months of the 9-month period, the net results from operations for this group of companies showed a small loss for the 9 months ended December 31, 1962. For the companies licensed less than 1 year the statements showed net loss from operations for the 9 months ended December 31, 1962, both before and after provision for losses and taxes.

The overall trends shown by the enclosed financial statements should provide encouragement to the small business investment industry, and should be useful to you in visualizing the growth of the small business investment company program.

To assist in furnishing data of this type on a timely basis for your use in determining the relative progress of your own company, and to guide SBA in administering the program, it is urgently requested that each licensee submit its periodic financial report, SBA form 468, as soon as possible following the close of the calendar quarter for which the report is prepared, but no later than the time allowed by the regulations. One month is allowed for all reports except the annual audited report for the fiscal year ending March 31. Three months are allowed for this report for the purpose of completing the audit.

JAMES L. PARRIS, *Deputy Administrator.*

Enclosures.

Condensed combined financial statements, all reporting small business investment companies

	(Dollar amounts in millions)					
	As of Dec. 31, 1962, companies licensed less than 1 year (201 reporting companies)		As of Dec. 31, 1962 companies licensed from 1 to 2 years (246 reporting companies)		As of Dec. 31, 1962 companies licensed 2 years or more (159 reporting companies)	
	Amount	Percent	Amount	Percent	Amount	Percent
ASSETS						
Cash and U.S. Government obligations.....	\$30.9	46.6	\$71.8	36.7	\$92.0	28.2
Loans to small businesses (sec. 305)	19.8	29.9	48.5	24.8	69.8	21.4
Debt securities of SBC's (sec. 304)	10.4	15.7	52.9	27.0	121.7	37.3
Capital stock of SBC's (sec. 304)	2.0	3.0	10.5	5.4	24.3	7.4
Gross loans and investments.....	32.2	48.6	111.9	57.2	215.8	66.1
Less allowance for losses.....	.3	.5	2.2	1.1	8.5	2.6
Net loans and investments.....	31.9	48.1	109.7	56.1	207.3	63.5
All other assets.....	3.5	5.3	14.2	7.2	27.0	8.3
Total assets.....	66.3	100.0	195.7	100.0	326.3	100.0
LIABILITIES, CAPITAL STOCK, AND SURPLUS						
Funds borrowed from SBA.....	14.3	21.6	43.1	22.0	40.2	12.3
Funds borrowed from others than SBA.....	1.6	2.4	6.3	3.3	22.4	6.9
All other liabilities.....	1.1	1.6	2.6	1.3	3.9	1.2
Total liabilities.....	17.0	25.6	52.0	26.6	66.5	20.4
Capital stock.....	33.1	49.9	45.0	23.0	73.9	22.6
Paid-in surplus.....	16.6	25.0	100.5	51.3	186.7	57.2
Retained earnings.....	(.4)	(.5)	(1.8)	(.9)	(.8)	(.2)
Total capital stock and surplus.....	49.3	74.4	143.7	73.4	259.8	79.6
Total liabilities, capital stock, and surplus.....	66.3	100.0	195.7	100.0	326.3	100.0
(Dollar amounts in thousands)						
	For 9 months ended Dec. 31, 1962		For 9 months ended Dec. 31, 1962		For 9 months ended Dec. 31, 1962	
	Amount	Percent	Amount	Percent	Amount	Percent
INCOME						
Interest on loans.....	\$766	43.7	\$2,691	36.9	\$4,164	30.6
Interest on debt securities.....	254	19.5	1,918	26.3	5,613	41.2
Interest on U.S. Government obligations.....	341	13.4	1,472	20.1	2,085	15.3
Total interest income.....	1,341	76.6	6,081	83.3	11,862	87.1
All other income.....	410	23.4	1,216	16.7	1,758	12.9
Total income.....	1,751	100.0	7,297	100.0	13,620	100.0
EXPENSE						
Interest and commitment fees.....	345	19.7	1,408	19.4	1,681	12.4
All other financial expense.....	35	2.0	200	2.7	342	2.5
Total financial expense.....	380	21.7	1,608	22.1	2,023	14.9
Operating expense.....	1,392	79.5	4,329	59.3	6,334	46.5
Total expense.....	1,772	101.2	5,937	81.4	8,357	61.4
Net income before provision for losses and taxes.....	(21)	(1.2)	1,360	18.6	5,263	38.6
Provision for losses.....	204	11.7	1,070	14.7	4,116	30.2
Provision for income taxes.....	101	5.7	318	4.3	577	4.2
Total.....	305	17.4	1,388	19.0	4,693	34.4
Net income (loss) from operations.....	(326)	(18.6)	(28)	(.4)	570	4.2
Net realized gain on investments.....	23		24		223	
Total net income (loss).....	(303)		(4)		793	

Licensed small business investment companies, combined statement of financial condition as of Dec. 31, 1962

Item No., SBA form 468	Item	Companies with licenses in force Dec. 31, 1962 (606 reporting companies)		Companies licensed for 2 years or more (159 reporting companies)	
		Amount	Percent	Amount	Percent
ASSETS					
P. 1:					
1	Cash	\$80,466,616	13.7	\$31,946,433	9.8
2	U.S. Government obligations	114,263,359	19.4	60,045,956	18.4
	Total cash and U.S. Government obligations	194,729,975	33.1	91,992,389	28.2
	Loans and investments:				
6, 12	Loans to small businesses (sec. 305)	143,212,044	24.3	71,659,606	22.0
6a, 12a	Less participation by others	5,093,471	.8	1,885,871	.6
	Net loans	138,118,573	23.5	69,773,735	21.4
7 (a and b), 13 (a and b), 7c, 13c	Debt securities of SBC's (sec. 304)	189,715,314	32.3	124,892,147	38.3
	Less participation by others	4,653,380	.8	3,170,553	1.0
	Net debt securities	185,061,934	31.5	121,721,594	37.3
14 (a, b, and c), 14d	Capital stock of SBC's (sec. 304)	36,774,490	6.2	24,303,721	7.4
	Less participation by others	46,327		25,410	
	Net capital stock	36,728,163	6.2	24,278,311	7.4
12d, 13f, 14c	Gross loans and investments	359,908,670	61.2	215,773,640	66.1
	Less allowance for losses	10,980,003	1.9	8,475,160	2.6
	Net loans and investments	348,928,667	59.3	207,298,480	63.5
22	Uncollected discount and fees	2,922,520	.5	1,564,856	.5
23	Unamortized organization costs	1,852,225	.3	399,350	.1
3, 4, 5, 8, 9, 10, 15, 16, 18, 19, 20, 21, 24	All other assets	39,842,841	6.8	25,077,926	7.7
26	Total assets	588,276,228	100.0	326,333,001	100.0
LIABILITIES, CAPITAL STOCK, AND SURPLUS					
P. 2:					
29-41	Accounts payable, accrued, and deferred items	5,569,205	1.0	2,958,975	.9
	Borrowings:				
48	Subordinated debentures issued to SBA (sec. 302)	71,372,096	12.1	23,885,534	7.3
27, 43a	Funds borrowed from SBA (sec. 303)	26,203,344	4.5	16,268,510	5.0
	Total SBA obligations	97,575,440	16.6	40,154,044	12.3
28, 43b, 44	Funds borrowed from others than SBA	30,288,291	5.1	22,443,568	6.9
	Total borrowings	127,863,731	21.7	62,597,612	19.2
45, 46, 47	All other liabilities	1,993,923	.3	915,844	.3
49	Total liabilities	135,426,859	23.0	66,472,431	20.4
	Capital stock and surplus:				
50, 54	Capital stock	152,561,262	25.9	73,889,814	22.6
52	Less treasury stock	614,961	.1	8,002	
	Net capital stock	151,946,301	25.8	73,881,812	22.6
51	Paid-in surplus	303,847,342	51.7	186,752,604	57.2
	Total paid-in capital stock and surplus	455,793,643	77.5	260,634,416	79.8
	Retained earnings:				
56	Net operating earnings (loss)	(4,356,412)	(.7)	(2,121,112)	(.6)
57	Net realized gain (loss) on investments	320,915		287,870	.1
58	Appropriated retained earnings	1,091,223	.2	1,059,396	.3
	Total retained earnings	(2,944,274)	(.5)	(773,846)	(.2)
59	Total capital stock and surplus	452,849,369	77.0	259,860,570	79.6
60	Total liabilities, capital stock, and surplus	588,276,228	100.0	326,333,001	100.0

Licensed small business investment companies having statutory capital and surplus of not more than \$325,000—Combined statement of financial condition as of Dec. 31, 1962

Item No., SBA form 468	Item	Companies with licenses in force Dec. 31, 1962 (417 reporting companies)		Companies licensed for 2 years or more (86 reporting companies)	
		Amount	Percent	Amount	Percent
P. 1:					
ASSETS					
1	Cash	\$18,988,067	14.8	\$2,579,210	7.8
2	U.S. Government obligations	17,254,110	13.5	2,423,902	7.3
	Total cash and U.S. Government obligations	36,242,177	28.3	5,003,112	15.1
Loans and investments:					
6, 12	Loans to small businesses (sec. 305)	57,018,224	44.6	17,058,845	51.3
6a, 12a	Less participation by others	1,168,743	.9	197,667	.6
	Net loans	55,849,481	43.7	16,861,178	50.7
7 (a and b), 13 (a and b)	Debt securities of SBC's (sec. 304)	26,056,063	20.4	9,224,591	27.8
7c, 13c	Less participation by others	2,450,447	2.0	1,167,499	3.5
	Net debt securities	23,605,616	18.4	8,057,092	24.3
14 (a, b, and c)	Capital stock of SBC's (sec. 304)	6,570,625	5.1	1,772,997	5.3
14d	Less participation by others	10,917			
	Net capital stock	6,559,708	5.1	1,772,997	5.3
12 l, 13f, 14e	Gross loans and investments	86,014,805	67.2	26,691,267	80.3
	Less allowance for losses	2,130,998	1.6	1,053,800	3.2
	Net loans and investments	83,883,807	65.6	25,637,467	77.1
22	Uncollected discount and fees	1,576,311	1.2	961,593	2.9
23	Unamortized organization costs	950,231	.7	99,387	.3
3, 4, 5, 8, 9, 10, 15, 16, 18, 19, 20, 21, 24	All other assets	5,325,657	4.2	1,529,514	4.6
26	Total assets	127,978,183	100.0	33,231,073	100.0
P. 2:					
LIABILITIES, CAPITAL STOCK, AND SURPLUS					
29-41	Accounts payable, accrued, and deferred items	2,036,737	1.6	752,494	2.3
Borrowings:					
48	Subordinated debentures issued to SBA (sec. 302)	42,379,722	33.1	12,414,224	37.4
27, 43a	Funds borrowed from SBA (sec. 303)	9,638,709	7.5	4,758,000	14.3
	Total SBA obligations	52,018,431	40.6	17,172,224	51.7
28, 43b, 44	Funds borrowed from others than SBA	5,065,092	4.0	1,603,659	4.8
	Total borrowings	57,083,523	44.6	18,775,883	56.5
45, 46, 47	All other liabilities	1,079,805	.8	639,460	1.9
49	Total liabilities	60,200,065	47.0	20,167,837	60.7
Capital stock and surplus:					
50, 54	Capital stock	50,683,097	39.6	9,030,282	27.2
52	Less Treasury stock	372,468	.3	4,633	
	Net capital stock	50,310,629	39.3	9,025,649	27.2
51	Paid-in surplus	18,970,060	14.8	4,460,446	13.4
	Total paid-in capital stock and surplus	69,280,689	54.1	13,486,095	40.6
Retained earnings:					
56	Net operating earnings (loss)	(1,658,918)	(1.3)	(526,217)	(1.6)
57	Net realized gain (loss) on investments	155,816	.2	103,358	.3
58	Appropriated retained earnings	531			
	Total retained earnings	(1,502,571)	(1.1)	(422,859)	(1.3)
59	Total capital stock and surplus	67,778,118	53.0	13,063,236	39.3
60	Total liabilities, capital stock, and surplus	127,978,183	100.0	33,231,073	100.00

Licensed small business investment companies having statutory capital and surplus of \$325,000 to \$1,000,000—Combined statement of financial condition as of Dec. 31, 1962

Item No., SBA form 468	Item	Companies with licenses in force Dec. 31, 1962 (131 reporting companies)		Companies licensed for 2 years or more (39 reporting companies)	
		Amount	Percent	Amount	Percent
ASSETS					
P. 1:					
1	Cash	\$9,872,043	11.6	\$1,818,786	6.3
2	U.S. Government obligations	12,383,650	14.5	2,900,005	10.0
	Total cash and U.S. Government obligations	22,255,693	26.1	4,718,791	16.3
	Loans and investments:				
6, 12	Loans to small businesses (sec. 305)	36,184,566	42.4	13,157,081	45.4
6a, 12a	Less participation by others	2,806,154	3.3	569,630	2.0
	Net loans	33,378,412	39.1	12,587,451	43.4
7 (a and b)	Debt securities of SBC's (sec. 304)	22,418,459	26.3	8,975,074	30.9
13 (a and b)	Less participation by others	961,125	1.1	761,246	2.6
7c, 13c	Net debt securities	21,457,334	25.2	8,213,828	28.3
14 (a, b and c)	Capital stock of SBC's (sec. 304)	5,977,520	7.0	2,800,417	9.7
14d	Less participation by others	10,000			
	Net capital stock	5,967,520	7.0	2,800,417	9.7
	Gross loans and investments	60,803,266	71.3	23,601,696	81.4
12d, 13f, 14e	Less allowance for losses	1,460,813	1.7	838,951	2.9
	Net loans and investments	59,342,453	69.6	22,762,745	78.5
22	Uncollected discount and fees	1,059,848	1.2	467,884	1.6
23	Unamortized organization costs	474,645	.6	72,960	.2
3, 4, 5, 8, 9, 10, 15, 16, 18, 19, 20, 21, 24	All other assets	2,153,737	2.5	973,866	3.4
26	Total assets	85,286,376	100.0	28,996,246	100.0
LIABILITIES, CAPITAL STOCK, AND SURPLUS					
P. 2:					
29-41	Accounts payable, accrued and deferred items	1,634,717	1.9	772,912	2.7
	Borrowings:				
48	Subordinated debentures issued to SBA (sec. 302)	23,375,374	27.4	7,964,310	27.5
27, 43a	Funds borrowed from SBA (sec. 303)	8,774,635	10.3	4,220,510	14.5
	Total SBA obligations	32,150,009	37.7	12,184,820	42.0
28, 43b, 44	Funds borrowed from others than SBA	3,373,024	4.0	1,090,055	3.8
	Total borrowings	35,523,033	41.7	13,274,875	45.8
45, 46, 47	All other liabilities	680,540	.8	161,261	.5
49	Total liabilities	37,838,290	44.4	14,209,048	49.0
	Capital stock and surplus:				
50, 54	Capital stock	30,345,119	35.6	9,383,837	32.4
52	Less Treasury stock	239,124	.3		
	Net capital stock	30,105,995	35.3	9,383,837	32.4
51	Paid-in surplus	18,421,653	21.6	5,691,126	19.6
	Total paid-in capital stock and surplus	48,527,648	56.9	15,074,963	52.0
	Retained earnings:				
56	Net operating earnings (loss)	(1,273,995)	(1.5)	(406,834)	(1.4)
57	Net realized gain (loss) on investments	156,545	.2	112,477	.4
58	Appropriated retained earnings	37,888		6,592	
	Total retained earnings	(1,079,562)	(1.3)	(287,765)	(1.0)
59	Total capital stock and surplus	47,448,086	55.6	14,787,198	51.0
60	Total liabilities, capital stock, and surplus	85,286,376	100.0	28,996,246	100.0

Licensed small business investment companies having statutory capital and surplus of more than \$1,000,000—Combined statement of financial condition as of Dec. 31, 1962

Item No., SBA form 468	Item	Companies with H- licenses in force Dec. 31, 1962 (58 report- ing companies)		Companies licensed for 2 years or more (34 reporting com- panies)	
		Amount	Percent	Amount	Percent
P. 1:	ASSETS				
1	Cash	\$51,606,506	13.8	\$27,548,437	10.4
2	U.S. Government obligations	84,625,599	22.5	54,722,049	20.8
	Total cash and U.S. Government obligations	136,232,105	36.3	82,270,486	31.2
	Loans and investments:				
6, 12	Loans to small business (sec. 305)	50,009,254	13.3	41,433,680	15.7
6a, 12a	Less participation by others	1,118,574	.3	1,118,574	.4
	Net loans	48,890,680	13.0	40,325,106	15.3
7 (a and b), 13 (a and b), 7c, 13c	Debt securities of SBC's (sec. 304)	141,240,792	37.7	106,692,482	40.4
	Less participation by others	1,241,808	.4	1,241,808	.5
	Net debt securities	139,998,984	37.3	105,450,674	39.9
14 (a, b, and c), 14d	Capital stock of SBC's (sec. 304)	24,226,345	6.5	19,730,307	7.5
	Less participation by others	25,410		25,410	
	Net capital stock	24,200,935	6.5	19,704,897	7.5
	Gross loans and investments	213,090,599	56.8	165,480,677	62.7
12d, 13f, 14e	Less allowance for losses	7,388,192	1.9	6,582,409	2.5
	Net loans and investments	205,702,407	54.9	158,898,268	60.2
22	Uncollected discount and fees	286,361	.1	135,379	
23	Unamortized organization costs	427,349	.1	227,003	.1
3, 4, 5, 8, 9, 10, 15, 16, 18, 19, 20, 21, 24	All other assets	32,363,447	8.6	22,574,546	8.5
26	Total assets	375,011,669	100.0	264,105,682	100.0
P. 2:	LIABILITIES, CAPITAL STOCK, AND SURPLUS				
29-41	Accounts payable, accrued and deferred items	1,897,751	.5	1,433,569	.5
	Borrowings:				
48	Subordinated debentures issued to SBA (sec. 302)	5,617,000	1.5	3,507,000	1.3
27, 43a	Funds borrowed from SBA (sec. 303)	7,790,000	2.1	7,290,000	2.8
	Total SBA obligations	13,407,000	3.6	10,797,000	4.1
28, 43b, 44	Funds borrowed from others than SBA	21,850,175	5.8	19,749,854	7.5
	Total borrowings	35,257,175	9.4	30,546,854	11.6
45, 46, 47	All other liabilities	233,578	.1	115,123	.1
49	Total liabilities	37,388,504	10.0	32,095,546	12.2
	Capital stock and surplus:				
50, 54	Capital stock	71,533,046	19.1	55,475,695	21.0
52	Less treasure stock	3,369		3,369	
	Net capital stock	71,529,677	19.1	55,472,326	21.0
51	Paid-in, surplus	266,455,629	17.0	176,601,032	66.9
	Total paid-in capital stock and surplus	337,985,306	90.1	232,073,358	87.9
	Retained earnings:				
56	Net operating earnings (loss)	(1,423,499)	(.4)	(1,188,061)	(.4)
57	Net realized gain (loss) on investments	8,554		72,035	
58	Appropriated retained earnings	1,052,804	.3	1,052,804	.3
	Total retained earnings	(362,141)	(.1)	(63,222)	(.1)
59	Total capital stock and surplus	337,623,165	90.0	232,010,136	87.8
60	Total liabilities, capital stock and surplus	375,011,669	100.0	264,105,682	100.0

Licensed small business investment companies—Combined statement of income and expense for the 9 months ended Dec. 31, 1962

Item No., SBA form 468	Item	Companies with li- censes in force Dec. 31, 1962 (606 report- ing companies)		Companies licensed for 2 years or more (159 reporting com- panies)		
		Amount	Percent	Amount	Percent	
	INCOME					
P. 3:						
2.....	Interest on loans (sec. 305).....	\$7,620,748	33.6	\$4,164,130	30.6	
3.....	Interest on debt securities (sec. 304).....	7,765,114	34.3	5,612,777	41.2	
4.....	Interest on U.S. Government obligations.....	3,897,413	17.2	2,085,036	15.3	
	Total interest income.....	19,283,275	85.1	11,861,943	87.1	
11, 12.....	Dividends and contingent earnings.....	100,942	.4	78,021	.6	
8, 9, 10.....	Fees (management, counseling, etc.).....	1,462,880	6.5	648,189	4.8	
1, 5, 6, 7, 13, 14.....	Other income.....	1,820,643	8.0	1,031,771	7.5	
	Total fees, other income, dividends, etc.	3,384,465	14.9	1,757,981	12.9	
15.....	Total income.....	22,667,740	100.0	13,619,924	100.0	
	EXPENSE					
16.....	Commitment fees on obligations to SBA and to others.	160,484	.7	14,741	.1	
17.....	Interest on obligations to SBA.....	2,730,149	12.0	1,327,958	9.8	
18.....	Interest on obligations to others.....	543,386	2.4	338,032	2.5	
19-22, 24, 25.....	Other financial expenses.....	577,099	2.6	342,419	2.5	
	Total financial expenses.....	4,011,118	17.7	2,023,150	14.9	
P. 5:	Operating expenses:					
14.....	Salaries, officers.....	3,209,095	14.2	1,691,690	12.4	
15.....	Salaries, employees.....	1,667,854	7.4	1,045,400	7.7	
1.....	Advertising and promotion.....	437,765	1.9	220,101	1.6	
5, 6, 7, 13, 22.....	Space occupied and office expense.....	1,439,079	6.3	723,664	5.3	
3.....	Auditing and examination costs.....	574,744	2.5	283,897	2.1	
12.....	Legal services.....	1,012,414	4.5	494,859	3.6	
2, 10.....	Appraisal, consulting, and engineering costs.	463,890	2.1	164,803	1.2	
11.....	Investment advisory and supervisory costs.	441,267	1.9	273,514	2.0	
4, 17.....	Travel and communications.....	990,795	4.4	495,297	3.6	
8, 9, 16, 23, 24.....	All other.....	1,817,988	8.0	940,162	7.0	
	Total operating expenses.....	12,054,891	53.2	6,333,387	46.5	
	Total expenses.....	16,066,009	70.9	8,356,537	61.4	
	Net income before provision for losses and income taxes.	6,601,731	29.1	5,263,387	38.6	
18-21, 25-27.....	Estimated provision for losses.....	5,390,079	23.7	4,115,859	30.2	
Pp. 3-30.....	Provision for income taxes.....	996,183	4.4	577,312	4.2	
	Total.....	6,386,262	28.1	4,693,171	34.4	
	Net income (loss) from operations.....	215,469	1.0	570,216	4.2	
	Realized gain (loss) from investments.....	327,736	-----	277,988	-----	
	Less provision for income taxes.....	57,324	-----	55,509	-----	
	Net realized gain (loss) from invest- ments.	270,412	-----	222,479	-----	
	Total net income (loss).....	485,881	-----	792,695	-----	

Licensed small business investment companies having statutory capital and surplus of not more than \$325,000—Combined statement of income and expense for the 9 months ended Dec. 31, 1962

Item No., SBA form 468	Item	Companies with licenses in force Dec. 31, 1962 (417 reporting companies)		Companies licensed for 2 years or more (86 reporting companies)	
		Amount	Percent	Amount	Percent
	INCOME				
P. 3:					
2	Interest on loans (sec. 305)	\$3,043,646	58.1	\$1,173,650	59.8
3	Interest on debt securities (sec. 304)	1,028,725	19.6	435,364	22.2
4	Interest on U.S. Government obligations	385,917	7.3	70,517	3.6
	Total interest income	4,458,288	85.0	1,679,531	85.6
11, 12	Dividends and contingent earnings	24,856	.5	13,735	.7
8, 9, 10	Fees (management, counseling, etc.)	419,994	8.0	135,986	6.9
1, 5, 6, 7, 13, 14	Other income	339,331	6.5	132,485	6.8
	Total fees, other income, dividends, etc.	784,181	15.0	282,206	14.4
15	Total income	5,242,469	100.0	1,961,737	100.0
	EXPENSE				
16	Commitment fees on obligations to SBA and to others	118,859	2.3	6,380	.3
17	Interest on obligations to SBA	1,510,276	28.8	598,152	30.5
18	Interest on obligations to others	143,902	2.7	53,014	2.7
19-22, 24, 25	Other financial expenses	68,837	1.3	61,084	3.1
	Total financial expenses	1,841,874	35.1	718,630	36.6
P. 5:	Operating expenses:				
14	Salaries, officers	612,896	11.7	231,313	11.8
15	Salaries, employees	181,126	3.5	72,516	3.7
1	Advertising and promotion	53,104	1.0	10,834	.6
5, 6, 7, 13, 22	Space occupied and office expense	397,061	7.6	96,470	4.9
3	Auditing and examination costs	225,158	4.3	68,094	3.5
12	Legal services	269,587	5.1	74,119	3.8
2, 10	Appraisal, consulting, and engineering costs	120,795	2.3	21,540	1.1
11	Investment advisory and supervisory costs	87,013	1.7	35,349	1.8
4, 17	Travel and communications	212,304	4.0	64,176	3.3
8, 9, 16, 23, 24	All other	432,019	8.3	113,386	5.7
	Total operating expenses	2,591,063	49.5	788,397	40.2
	Total expenses	4,432,937	86.6	1,507,027	76.8
	Net income before provision for losses and income taxes	809,532	15.4	454,710	23.2
18-21, 25-27	Estimated provision for losses	792,300	15.1	369,121	18.8
P. 3-30	Provision for income taxes	206,033	3.9	70,223	3.6
	Total	998,333	19.0	439,344	22.4
	Net income (loss) from operations	(188,801)	(3.6)	15,366	.8
	Realized gain (loss) from investments	66,319		36,385	
	Less provision for income taxes	1,461		106	
	Net realized gain (loss) from investments	64,858		36,279	
	Total net income (loss)	(123,943)		51,645	

Licensed small business investment companies having statutory capital and surplus of \$325,000 to \$1,000,000—Combined statements of income and expense for the 9 months ended Dec. 31, 1962

Item No., SBA form 468	Item	Companies with licenses in force Dec. 31, 1962 (131 reporting companies)		Companies licensed for 2 years or more (39 reporting companies)	
		Amount	Percent	Amount	Percent
	INCOME				
P. 3:					
2	Interest on loans (sec. 305).....	\$1,909,190	51.5	\$729,998	50.3
3	Interest on debt securities (sec. 304).....	829,766	22.4	362,160	24.9
4	Interest on U.S. Government obligations.....	286,615	7.8	86,456	6.0
	Total interest income.....	3,025,571	81.7	1,178,614	81.2
11, 12	Dividends and contingent earnings.....	19,152	.5	16,152	1.1
8, 9, 10	Fees (management, counseling, etc.).....	312,672	8.4	146,188	10.1
1, 3, 6, 7, 13, 14	Other income.....	347,608	9.4	110,906	7.6
	Total fees, other income, dividends, etc.	679,432	18.3	273,246	18.8
15	Total income.....	3,705,003	100.0	1,451,860	100.0
	EXPENSE				
16	Commitment fees on obligations to SBA and to others.	36,055	1.0	5,875	.4
17	Interest on obligations to SBA.....	805,338	21.7	351,748	24.3
18	Interest on obligations to others.....	131,810	3.6	48,330	3.3
19-22, 24, 25	Other financial expenses.....	51,178	1.3	2,950	.2
	Total financial expenses.....	1,024,381	27.6	408,903	28.2
P. 5:	Operating expenses:				
14	Salaries, officers.....	712,255	19.2	240,253	16.5
15	Salaries, employees.....	249,157	6.7	69,951	4.8
1	Advertising and promotion.....	45,770	1.2	5,546	.4
5, 6, 7, 13, 22	Space occupied and office expense.....	292,686	7.9	110,580	7.6
3	Auditing and examination costs.....	115,396	3.1	40,792	2.8
12	Legal services.....	200,532	5.4	66,060	4.6
2, 10	Appraisal, consulting, and engineering costs.	91,201	2.5	41,992	2.9
11	Investment advisory and supervisory costs.	54,301	1.5	10,000	.7
4, 17	Travel and communications.....	189,636	5.1	45,072	3.1
8, 9, 16, 23, 24	All other.....	271,163	7.4	89,098	6.1
	Total operating expenses.....	2,222,097	60.0	719,344	49.5
	Total expenses.....	3,246,478	87.6	1,128,247	77.7
	Net income before provision for losses and income taxes.....	458,525	12.4	323,613	22.3
18-21, 25-27	Estimated provision for losses.....	715,075	19.3	399,021	27.5
Pp. 3-30	Provision for income taxes.....	164,758	4.5	47,169	3.2
	Total.....	879,833	23.8	446,190	30.7
	Net income (loss) from operations.....	(421,308)	(11.4)	(122,577)	(8.4)
	Realized gain (loss) from investments.....	33,980		(10,277)	
	Less provision for income taxes.....	785		610	
	Net realized gain (loss) from investments.....	33,195		(10,887)	
	Total net income (loss).....	(388,113)		(133,464)	



Licensed small business investment companies having statutory capital and surplus of more than \$1,000,000—Combined statements of income and expense for the 9 months ended Dec. 31, 1962

Item No., SBA form 468	Item	Companies with licenses in force Dec. 31, 1962 (58 reporting companies)		Companies licensed for 2 years or more (34 reporting companies)	
		Amount	Percent	Amount	Percent
	INCOME				
P. 3:					
2.....	Interest on loans (sec. 305).....	\$2,667,912	19.4	\$2,260,482	22.1
3.....	Interest on debt securities (sec. 304).....	5,906,623	43.1	4,815,253	47.2
4.....	Interest on U. S. Government obligations.....	3,224,881	23.5	1,928,063	18.9
	Total interest income.....	11,799,416	86.0	9,003,798	88.2
11, 12.....	Dividends and contingent earnings.....	56,934	0.4	48,134	0.5
8, 9, 10.....	Fees (management, counseling, etc.).....	730,214	5.3	366,015	3.6
1, 5, 6, 7, 13, 14.....	Other income.....	1,133,704	8.3	788,380	7.7
	Total fees, other income, dividends, etc.....	1,920,852	14.0	1,202,529	11.8
15.....	Total income.....	13,720,268	100.0	10,206,327	100.0
	EXPENSE				
16.....	Commitment fees on obligations to SBA and to others.....	5,570		2,486	
17.....	Interest on obligations to SBA.....	414,535	3.0	378,058	3.7
18.....	Interest on obligations to others.....	267,674	2.0	236,688	2.3
19-22, 24, 25.....	Other financial expenses.....	457,884	3.3	278,385	2.8
	Total financial expenses.....	1,144,863	8.3	895,617	8.8
P. 5:					
14.....	Salaries, officers.....	1,883,944	13.7	1,220,194	12.0
15.....	Salaries, employees.....	1,237,571	9.0	902,933	8.8
1.....	Advertising and promotion.....	338,891	2.5	203,721	2.0
5, 6, 7, 13, 22.....	Space occupied and office expenses.....	749,332	5.5	516,614	5.1
3.....	Auditing and examination costs.....	234,190	1.7	174,411	1.7
12.....	Legal services.....	542,295	4.0	354,680	3.5
2, 10.....	Appraisal, consulting, and engineering costs.....	251,894	1.8	101,271	1.0
11.....	Investment advisory and supervisory costs.....	299,953	2.2	228,165	2.2
4, 17.....	Travel and communications.....	588,855	4.3	386,049	3.8
8, 9, 16, 23, 24.....	All other.....	1,114,306	8.1	737,678	7.2
	Total operating expenses.....	7,241,731	52.8	4,825,646	47.3
	Total expenses.....	8,386,594	61.1	5,721,263	56.1
	Net income before provision for losses and income taxes.....	5,333,674	38.9	4,485,064	43.9
18-21, 25-27.....	Estimated provision for losses.....	3,882,704	28.3	3,347,717	32.8
P. 3-30.....	Provision for income taxes.....	625,392	4.6	459,920	4.5
	Total.....	4,508,096	32.9	3,807,637	37.3
	Net income (loss) from operations.....	825,578	6.0	677,427	6.6
	Realized gain (loss) from investments.....	227,437		251,880	
	Less provision for income taxes.....	55,078		54,793	
	Net realized gain (loss) from investments.....	172,359		197,087	
	Total net income (loss).....	997,937		874,514	

Senator PROXMIRE. It is hard to tell without seeing those statistics and examining the profit record whether or not this is a matter of SBIC reaching a sensible level. Maybe they were too high before. I do not know. Maybe they were not. But until we get the figures it is hard to make a judgment.

Senator DOMINICK. I think the chairman would probably agree with me the only reason there has been growth in them at all is on account of the tax advantages they get. If we revise the tax laws and limit that, we are in real trouble with them.

Senator PROXMIRE. I certainly agree with that.

Mr. HORNE. That, of course, gave some incentive, Senator Dominick, but I might point out there have been other financial institutions also established in the past that have been given very favorable tax incentives in order to get them established, so they could fill a need. This industry is no different from those.

Senator PROXMIRE. These are permanent tax advantages. Nobody is proposing to eliminate them, cut them down.

Mr. HORNE. That is right.

Also I might point out that most of your tax incentives here are based on advantages they would have if they lost money, and as most people have said, as everybody would agree I think, you just do not make money by losing it.

Senator PROXMIRE. I disagree. There are ways to do it. I have seen it and you know them too.

Mr. PARRIS. Very roughly, the SBIC's over 2 years old are making less, much less, than 1 percent return. Much less than 1 percent on their net worth.

Senator PROXMIRE. I want to thank you, Mr. Horne. You have done your usual very competent job.

I think this is Mr. Parris' first appearance before this committee, and we are tremendously impressed. I think other members were too. He certainly showed real competence.

Mr. PARRIS. Thank you very much.

Senator PROXMIRE. Thank you very much.

We will stand in recess until tomorrow when we will have the appearance of NASBIC and others.

(Whereupon, at 1:12 p.m., the subcommittee recessed to reconvene at 10 a.m., Wednesday, May 15, 1963.)

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SBA AND SBIC AMENDMENTS, 1963

WEDNESDAY, MAY 15, 1963

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

The subcommittee met, pursuant to recess, at 10:50 a.m., Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senators Proxmire and Sparkman.

Senator PROXMIRE. The subcommittee will come to order.

This morning we will continue the hearings which will be confined, as I understand it, to S. 298.

We are honored and happy to have here Mr. James Howard of Cleveland, Ohio, president of Growth Capital, Inc.; Mr. Irving Dale, president of Federated Capital Corp. of New York; Mr. William Francis, president of Regional Investment Corp. of Bloomfield Hills, Mich.; Mr. Stewart DeVore, president of Fort Worth Capital Corp. of Fort Worth, Tex.; and Mr. William Mosenson, Pennsylvania Growth Investment Corp., Pittsburgh, Pa.

You proceed in your own manner, gentlemen. I very much appreciate your coming forward as a panel. This is going to save time, and I think it is a good, efficient way to begin.

I understand, Mr. Howard, you have the first statement.

STATEMENT OF JAMES W. HOWARD, PRESIDENT, GROWTH CAPITAL, INC., PRESIDENT, NATIONAL ASSOCIATION OF SMALL BUSINESS INVESTMENT COMPANIES; WILLIAM E. FRANCIS, PRESIDENT, REGIONAL INVESTMENT CORP., BLOOMFIELD HILLS, MICH., FIRST VICE PRESIDENT, NASBIC; IRVING H. DALE, PRESIDENT, FEDERATED CAPITAL CORP., NEW YORK CITY, SECOND VICE PRESIDENT, NASBIC; STEWART W. DEVORE, PRESIDENT, FORT WORTH CAPITAL CORP., FORT WORTH, TEX., IMMEDIATE PAST PRESIDENT, NASBIC; WILLIAM L. MOSENSON, PENNSYLVANIA GROWTH INVESTMENT CORP., PITTSBURGH, PA.; ACCOMPANIED BY WALTER STULTS, EXECUTIVE DIRECTOR, NASBIC; AND CHARLES M. NOONE, GENERAL COUNSEL, NASBIC

Mr. HOWARD. Thank you, Mr. Chairman.

It is a pleasure to appear before this committee again to testify on the bill S. 298.

I would like to make one correction. I am president of Growth Capital, Inc., a Cleveland-based small business investment company,

and I appear as president of the National Association of Small Business Investment Companies.

Accompanying me are my colleagues as you have indicated in the SBIC industry and in the association.

Senator PROXMIRE. This indicates that you are all so-called NASBIC witnesses. Is that correct?

Mr. HOWARD. Right.

Senator PROXMIRE. You are representing the association, not simply yourselves?

Mr. HOWARD. That is correct.

Senator PROXMIRE. Very good.

Mr. HOWARD. On my left is Mr. William E. Francis, president of the Regional Investment Corp. of Bloomfield Hills, Mich., first vice president of NASBIC.

On my immediate right is Mr. Irving H. Dale, president of Federated Capital Corp. of New York City, second vice president of NASBIC.

To his right is Mr. Stewart DeVore, president of Fort Worth Capital Corp. in Fort Worth, Tex., the immediate past president of our association.

On my far left is Mr. William Mosenson, president of Pennsylvania Growth Investment Co.

On the end on my left is Mr. Charles Noone, general counsel of NASBIC.

On my right on the end is Mr. Walter Stults, executive director of NASBIC.

The bill now before your committee, S. 298, is one of three small business growth bills which have been introduced into the Senate and the House with a view to giving the SBIC program some meaningful legislative assistance in carrying out the mission laid down for it by the Congress when it enacted the Small Business Investment Act of 1958.

The other two small business growth bills now before the Senate are S. 297, designed to modify the tax treatment of SBIC's and their operations, and S. 1427, proposing a consolidation of regulatory functions in the Small Business Administration over those SBIC's registered under the Investment Company Act of 1940.

These three growth bills are extremely important to the ultimate success of the SBIC program. Each bill relates to the others and collectively the three bills will greatly stimulate the flow of private capital to deserving small business concerns.

We would like to start off today with a case history presented by Mr. Mosenson. This is a company in which his SBIC has made an investment. I think the facts here are typical of the types of investments being made by small business investment companies.

Incidentally, the projector which Mr. Mosenson is using is made by a small company in which he has an investment also.

Mr. MOSENSEN. I hope you can see this, Senator.

Senator PROXMIRE. I can see it very well.

Mr. MOSENSEN (making presentation with slides). Now, the story takes place in Grottoes, Va. This is a small town of 900 population in the beautiful Shenandoah Valley.

It is 14 miles from Waynesboro. It is 18 miles from Staunton. It is 20 miles from Harrisonburg. It is 30 miles from Charlottesville.

Here we have our first character, J. D., a welder by trade, and he is attempting to operate a sand and gravel mining and processing business without capital. He is borrowing from friends and any other source available.

The plant is portable, makeshift, of small capacity, in very poor mechanical condition.

The mining and processing of sand and gravel is a continuous operation. If one machine breaks down, all production stops.

There is no credit and, as a result, no money for preventive maintenance, no phone within 1 mile, no scale within 2 miles, no electric power.

Financial condition: The J. D. Corp. is in the hands of a trustee for the creditors who plan to liquidate. Creditors can expect to realize about 20 cents on the dollar.

Here we have a list of notes payable. As you can see, the Staunton Industrial Loan Co. is owed a balance of \$81 with monthly payments of \$11. Harrisonburg Loan and Thrift Corp. is owed \$14,804.62. And on down the list until we get to a total of \$78,749 borrowed locally.

That is not the full story. Practically everyone in town is a guarantor on J. D.'s notes.

By December of 1962 the situation is even worse.

Senator PROXMIRE. What was the first date?

Mr. MOSENSEN. 1962. December of 1962. This is very recent, sir.

Senator PROXMIRE. This is notes payable as of April 1960?

Mr. MOSENSEN. Yes.

Senator PROXMIRE. I see.

Mr. MOSENSEN. Now, J. D. goes for help to Pittsburgh, and he asks Levi McCrady if he will buy the plant, leasehold or even some machinery. The McCrady family has been in the sand and gravel business for two generations. McCrady calls a man by the name of Shaner, an operator of the highly successful Manorville Sand & Gravel Co. at Greensburg, Pa. "Do you want to take a flyer? The right plant would take about \$200,000 in cash. We could build the sand and gravel in two stages, a gravel plant operation in 1962 and the sand plant for 1963. We would need an SBIC." McCrady, being a stockholder, 2 percent, in this company, Pennsylvania Growth Investment Corp., alerts PGIC.

Now, we investigate the site, the plant and the market, and we put together this projection. First we find if we have the ingredients for a successful sand and gravel operation.

We must have some sort of leasehold for raw materials, and we find that we have a 25-year supply, and, if processed properly, it will pass Virginia State specs.

The market. Well, there is no supplier in the market area of grade A material. It is now shipped by way of rail from Richmond, about 125 miles, at a freight rate twice the cost of the product. J. D. Corp. always sold all it could produce.

We must have water for processing. A river runs through the leasehold so we are in good shape there.

Now to our projections. We find that if we repair and use the present equipment, at best we have a loss of \$12,771 per year based

on maximum output of 33,333 tons. If we build a new crusher plant immediately and lease about half of the old equipment, representing the sand side of the plant, we could produce 160,000 tons with a potential profit before taxes and depreciation of \$156,000.

Now, a pro forma statement based on the previous year's operation by J. D. Corp. shows a projected loss inevitable using the present equipment. As you can see, we would have a guaranteed loss of \$12,771 by continuing to operate in this fashion.

Now, the second pro forma statement gives effect to a potential of \$156,000 with a new gravel plant and the continued use of the old sand plant. This is based on the old wage scale and personnel.

A proposal is made by Pennsylvania Growth. It is accepted. And in October of 1962 a new corporation, Grottoes Sand and Gravel Co., takes over. Plans call for construction of a new gravel plant.

Senator PROXMIRE. Will you explain that rate of 8 percent and discount of 5 percent?

Mr. MOSENSON. It is simple interest, sir, and we charge only for each day of the use of the money. We have no other charge.

Senator PROXMIRE. So the true annual rate is 8 percent simple interest?

Mr. MOSENSON. Yes, sir. We have no other charges. There is no commitment fee. We have no legal fees. We have no other fees.

Senator SPARKMAN. I still do not understand the 5 percent discount.

Mr. MOSENSON. This is off the face of the note. And this will be sufficient to take care of all our fees over the term of the loan. In short, our—

Senator SPARKMAN. Would that not result in the rate of interest being a little above 8 percent?

Mr. MOSENSON. Yes, sir, you could figure it that way. Probably a fraction of 1 percent.

Senator SPARKMAN. Either you spread the cost over the entire period and the rate of interest would be a little above 8 percent, or else you pay 8 percent and a 5 percent discount in lieu of fees, closing costs.

Mr. MOSENSON. Yes.

Senator PROXMIRE. So what would happen is he would borrow \$50,000, repay \$50,000. He would get \$47,500. He would pay 8 percent interest on \$50,000.

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

In addition to that, of course, he has a firm cost, and he is not uncertain about his legal fees and the cost of our handling this investment over the term of the investment, 5 years. It will take us possibly \$150 just to take a trip down there to inspect it.

What have we here at Grottoes? Seven employees have jobs with prospects and higher wages. Four independent truckers—they will keep working. With full operation, 16 more independent truckers must be hired. Continued business for gas stations, garages, parts houses, all sorts of suppliers.

All supplies and services will be purchased where possible in or near Grottoes.

An attorney in Grottoes represents the new corporation.

The depository is the Rockingham Bank at Grottoes.

Insurance has been purchased through local agents.

Only one employee, a construction supervisor, experienced in building and operating sand and gravel plants, has been imported. With his family he has moved to Grottoes. And surely these are not carpet-baggers.

Now, this partial schedule best illustrates the impact on the economy of a small town. A loader for \$22,000 from the local dealer. Lumber purchases, steel, industrial hardware, electric motors, electrical supplies.

The balance of the schedule shows expenditures for capital equipment immediately will total \$72,848.

Senator PROXMIRE. You have the total of \$1,025 up there.

Mr. MOSENSEN. This is just part. It is broken down.

Senator PROXMIRE. Then you have a grand total of \$72,000. Is that carried over from the previous sheet?

Mr. MOSENSEN. Yes, sir.

Senator PROXMIRE. I understand.

Mr. MOSENSEN. Now, just after orders were placed for equipment and supplies, the classical credit pattern develops. Suppliers begin inquiring about the financial responsibility of this upstart company. And this is the usual inquiry that we have.

And creditmen like to hear this straight, simple answer: "The money is committed and waiting." And we do give them financial respectability immediately.

By December of 1962, Grottoes has a modern gravel plant operating. New adequate electric service is brought in by Virginia Electric Power Co. A new maintenance building and warehouse and office and phone service.

The new product is highly acceptable. Customers take every ton produced by the gravel plant.

But for SBIC's, smooth sailing is but an intermission. A minor crisis develops. The old sand plant is too far gone and will not produce the volume planned. A miscalculation.

Will PGIC advance \$75,000 more to build a sand plant in time for the spring market?

Here is a letter certainly familiar to most SBIC's: "We need additional money."

And this is pretty much our solution. I think this is the turning point in an SBIC investment. If PGIC carries the increased burden, PGIC becomes a captive. If the SBIC stands firm and insists that the small business company continue as major investor, then Grottoes will continue in the role it must necessarily play—management.

And here is the solution—this proposal. The stockholders' acceptance of this proposal is the inducement for PGIC to continue.

The new plant is now almost a reality. And here is a weekly report showing progress.

Senator SPARKMAN. May I ask this question? It looks like we may have to go to a live quorum call soon. I may be anticipating. You made this loan in October, was it?

Mr. MOSENSEN. Approximately.

Senator SPARKMAN. When did the new plant get underway, under operation?

Mr. MOSENSEN. The new plant was being built during the winter.

Senator SPARKMAN. And it started operation when?

Mr. MOSENSEN. The gravel plant started, if I recall, about January. The "bugs" were worked out at that time.

Senator SPARKMAN. Has it been going long enough for you to get a definite trend as to the reliability of your projection on earnings, profits, and so forth?

Mr. MOSENSEN. I do not think so, sir. I think that is the risk that we have to take.

I only have one more transparency.

Senator PROXMIRE. Go ahead.

Mr. MOSENSEN. Here is the plant on March 25, 1963. Now, approximately \$200,000 in on the table. Gentlemen, would you settle for a 20-percent-loss reserve at this stage of the game? No matter. In my mind here is free enterprise at its best.

I have an overlay here which shows the comparison of the size of the two plants. The one you see now is the new plant. The overlay shows in comparison the small, old plant.

Thank you, sir.

Senator PROXMIRE. What is the difference in capacity? In production?

Mr. MOSENSEN. The old plant did produce about 50 tons an hour. The new plant will probably go to 200 tons an hour.

Senator PROXMIRE. As I recall, you anticipated a \$12,000 loss with the old plant?

Mr. MOSENSEN. Yes.

Senator PROXMIRE. And \$150,000 profit with the new?

Mr. MOSENSEN. \$156,000 gross profit.

Senator PROXMIRE. Gross profit?

Mr. MOSENSEN. Yes.

Senator PROXMIRE. How about your net profit?

Mr. MOSENSEN. It is hard to tell. Depreciation schedules and so forth would have to come in.

Senator PROXMIRE. You had a \$12,000 gross loss with the old plant? Or are not these figures comparable?

Mr. MOSENSEN. The previous year the company had a \$12,700 loss.

Senator PROXMIRE. Gross or net?

Mr. MOSENSEN. I think it was net.

Senator PROXMIRE. Net? I see. Then these figure are not comparable.

Mr. MOSENSEN. No. I think the second one, the larger figure, is more of cash flow.

Senator PROXMIRE. Presumably you projected some anticipated profits.

Mr. MOSENSEN. Oh, yes.

Senator PROXMIRE. But do you have a figure, a maximum/minimum estimate?

Mr. MOSENSEN. I would guess that there is a possibility of taking a third to a quarter of that, and this might come after we picked up some momentum and if the market is what we think it will be.

Senator PROXMIRE. Some \$35,000 to \$50,000 net profit?

Mr. MOSENSEN. There is a possibility, sir.

Senator PROXMIRE. I see. And what was your investment?

Mr. MOSENSEN. \$80,000.

Senator PROXMIRE. We are going to have to leave to appear for a live quorum. We will recess for about 10 minutes.

(Whereupon, a recess was taken.)

Senator PROXMIRE. The committee will come to order.

I would like to ask Mr. Mosenson a few questions about this very impressive and dramatic presentation.

Senator Sparkman was also very impressed and thought this was a good way to dramatize the way that an SBIC can do a job for small business.

I would like to get a few facts clearly in my mind. Was the management the same? This was the J. D. Corp. originally?

Mr. MOSENSEN. Yes, but the J. D. Corp. sold its leases to the new corporation.

Senator PROXMIRE. Right. Did the management remain the same in the new corporation?

Mr. MOSENSEN. No.

Senator PROXMIRE. It did not?

Mr. MOSENSEN. No.

Senator PROXMIRE. What happened to the fellow? He sold out?

Mr. MOSENSEN. Davis is working there as a welder and is very happy. Up to that time I think he was in over his head, unquestionably, spending most of his time trying to fend off creditors. He is a very happy man now.

Senator PROXMIRE. How much money did you put in in the first instance, not counting the second?

Mr. MOSENSEN. \$50,000.

Senator PROXMIRE. \$50,000?

Mr. MOSENSEN. Yes.

Senator PROXMIRE. There was no stock participation on the basis of that first investment? Strictly a loan at 8 percent with a 5 percent discount?

Mr. MOSENSEN. Yes, with warrants.

Senator PROXMIRE. What do the warrants provide?

Mr. MOSENSEN. We would purchase at book value and we would buy an equity up to 30 percent.

Senator PROXMIRE. I see. And the second investment was how much?

Mr. MOSENSEN. \$30,000.

Senator PROXMIRE. You said something about 5 percent dilution of stock?

Mr. MOSENSEN. We came off the 30-percent equity feature of the warrants and dropped to 25.

Senator PROXMIRE. What did you get as a quid pro quo for your \$30,000 investment?

Mr. MOSENSEN. It was a loan; simply a loan with warrants. In the same proportion as before except now we had dropped from 30 percent of the total to 25 percent.

Senator PROXMIRE. Then when you add your \$50,000 and your \$30,000 investment, put them together into this \$80,000 investment, how much in total, in aggregate did you have in warrants to buy? What proportion of stock?

Mr. MOSENSEN. Giving effect to the warrants, if they were exercised we would have a maximum of 25 percent of all the stock outstanding.

Senator PROXMIRE. So when you put in your second investment you reduced the participation?

Mr. MOSENSEN. Yes. We dropped off in our negotiations.

Mr. STULTS. Senator, the other owners put up \$45,000 simultaneously.

Senator PROXMIRE. I see.

Mr. STULTS. So there was injection of capital by the owners of Grottoes and by the SBIC.

Senator PROXMIRE. I understand. The loan terms were the same 8 percent with 5 percent discount?

Mr. MOSENSEN. Yes, sir.

Senator PROXMIRE. What was the change in employment as a result of this situation? I presume in the first place you could say there might not have been any jobs at all if there had not been an investment. It was losing money.

Mr. MOSENSEN. Yes. It was closed down.

Senator PROXMIRE. I am talking about direct employment now. How many more jobs were there?

Mr. MOSENSEN. I believe at this time, sir, there are at least 10 men directly employed.

Senator PROXMIRE. Does this count the additional truck drivers?

Mr. MOSENSEN. Oh, no, no. They are all hired.

One good illustration is this: When John Davis was running the operation the pit trucks were paid—very small trucks—\$2 an hour with the driver. These were rented. We are now paying \$7 an hour. They are larger trucks.

Senator PROXMIRE. Did Hoffa come in as a union organization? That is quite an increase.

Mr. MOSENSEN. I do not think so, sir.

Senator PROXMIRE. Thank you very, very much. Once again, that was a very fine presentation.

Mr. Howard.

Mr. HOWARD. Mr. Chairman, before we go on with our next speaker I would like to summarize the effects of this particular investment. As was pointed out earlier, it has the characteristics of most SBIC investments:

First, the first investment is seldom your last investment.

Secondly, this is a specific example of our premise that small business investment companies are contributing greatly to the economy of our country in proportion to the amount of money that they are investing.

We have a case here where there was \$80,000 invested by the SBIC and \$72,000 of that total money invested went into capital improvements; total capital improvements here were \$72,800.

Now, this is a segment of our economy that has been lagging very badly, and it is an area that needs to be stimulated to improve our overall rate of growth.

We had an increase in employment. In fact, this company would have been out of business had nothing been done.

For an \$80,000 SBIC investment there was a total of \$200,00 invested in this business from other lending sources and from the shareholders themselves.

So we had a case of \$80,000 catalyzing a total investment of \$200,000.

Now, these features, we think, show very markedly that SBIC investments have an effect far beyond the direct dollars put out by SBIC.

Senator PROXMIRE. The real net economic effect is that people in this area can get sand and gravel at lower cost. I presume there is less sand and gravel sold by the suppliers who ship from Richmond. The railroad does less business. There is a little less employment in the alternative source, the competitor. But there is a corresponding increase here, plus the fact that you have a more efficient operation than you had before and lower cost materials for those in that area who buy sand and gravel.

Mr. HOWARD. You have a multiplying effect for each direct person employed.

Bill estimates 10 employed directly. We have the corresponding indirect employees in the person of the truckdrivers, suppliers, and the \$72,000 spent in that area.

Senator PROXMIRE. Unless there is a terrifically elastic demand though; that is, unless the lower price for sand and gravel results in much bigger consumption of sand and gravel, you would not have any net increase in employment in the whole economy, because whatever Grottoes gets Richmond and other areas lose—unless there is elastic demand.

Mr. HOWARD. Certainly in a competitive economy, though, Senator, lower prices would tend definitely to have an effect in an elastic market.

Senator PROXMIRE. I agree with that. But I mean it is not all net gain. If one competitor gets a bigger share of the market, obviously the other competitor is going to get a lesser share unless you expand the whole market. Maybe you do.

Mr. HOWARD. Yes. This is a situation sort of like they tell about a Harvard professor. When you asked him a question he may not have the answer to the specific question, but if you let him restate the question he always knew the answer.

Senator PROXMIRE. I taught briefly at Harvard, but I did not teach economics. I hope I will be exempted from that.

Mr. HOWARD. Our next speaker is Bill Francis, president of Regional Investment Corp. of Bloomfield Hills, Mich.

Senator PROXMIRE. Very good.

Mr. Francis.

Mr. FRANCIS. Mr. Chairman, I am president, as Mr. Howard said, of Regional Investment Corp., which is a minimum-capital SBIC licensed in 1959.

I am addressing this committee today as first vice president of the National Association of Small Business Investment Companies.

SBA statistics supplied to the industry indicate more than two of each three SBIC's in business at the end of last year were similar to mine in that we had capital and surplus of \$325,000 or less. I feel I can speak for this large segment of our industry on the critical need for additional Government funds as proposed in sections 2 and 3 of S. 298.

My own experience to date has convinced me that a minimum capital SBIC cannot operate effectively for the simple reason that it cannot generate enough income to employ the personnel necessary to run an SBIC properly. No SBIC, regardless of size, can expect to operate for long on a sound basis without many highly talented and quite versatile man-hours being devoted to investigating prospective investments and supervising those investments already in the portfolio.

Industry figures show that interest rates on loans and debt securities currently being charged by the industry average in the area of 8 percent. Companies utilizing SBA funds under section 302(a) or section 303(b) of the present law pay 5 percent interest per annum to the SBA for those funds.

A minimum capital company having \$150,000 of private funds and utilizing the maximum \$300,000 available to it under present law, and utilizing it at 100 percent efficiency I might say, and charging a percentage to its portfolio companies, realizes a gross income of only \$21,000.

Seeking higher interest returns ameliorates this problem to only a very modest degree, and it does serve to detract from many of the broad, economically sound objectives of the act as they relate to supplying funds to small businesses.

The sum of \$21,000 is patently not sufficient to enable such a company to employ the unique talent necessary to operate a venture capital company and to pay even minimum operating expenses. A loss on one of its investments can well wipe out such a company.

We see indications of this in the industry already. In our own contacts with licensees in the industry we have numerous indications of companies, minimum companies particularly, taking formal steps to withdraw from the program, become inactive, to surrender their loans, to liquidate and the like.

Senator PROXMIRE. Mr. Francis, the only way a minimum company can operate, it seems to me, is to do it on a part-time basis in conjunction with a bank or in conjunction with some other operation, because obviously \$21,000 would not hire capable people.

How about the possibility of a part-time operation in a fairly small community for an SBIC this size? Is that not conceivably feasible? A lawyer working part time, a banker working part time, two or three other experienced businessmen with an investment and able to work part of the time, and maybe one person who would devote half of his time to it or some fraction of his time but a significant part of it?

Mr. FRANCIS. To my mind, a part-time operation is effective only when the responsibility of the SBIC is in the minds of its management, whether you are talking about 1 man or 10 men, the primary responsibility of that individual.

And at that point it no longer continues to be a part-time business, if you have any portfolio, because the demands of administration of a portfolio and the demands related to investigating the proposals which must be thoroughly studied before committing your funds take an inordinate amount of time.

You get very quickly away from the possibility of giving such priority and still keeping it a part-time operation.

I have had this experience, Senator, and I am speaking from personal experience and from observation of other people in the industry, from my observation of other people in the industry.

Senator PROXMIRE. Thank you.

Mr. FRANCIS. The additional funds provided by the amendments to the act adopted by the Congress in 1961 are still insufficient to permit sound operation of an SBIC which utilizes the additional capital provided by those amendments.

The maximum use of the borrowed funds provides maximum leverage and results in the corollary or the opposite feature of maximum leverage which is minimum security to the private funds committed to such a company. Therefore, it requires even greater demands on the management if it is to be adequate to protect and enhance the private funds invested, which is its responsibility.

Under the 1961 amendments, if the principals of the company provide \$400,000 in private funds, they qualify to receive \$400,000 in matching 302 funds and \$400,000 in loan funds under 303, or a total of \$1.2 million in lendable funds for the SBIC.

If we assume the industry 8-percent average income from borrowers and the 5-percent Government interest paid by the SBIC's, the company with \$400,000 of private capital, in the unlikely event it can utilize all of its resources at 100 percent efficiency 365 days of the year, nets \$56,000 of interest income after paying the Government interest.

The employment and successful investment of funds in this range necessitates additional expenses in the nature of staff, travel, investigation, and is totally inadequate to meet the demands of an operation of that size, even assuming full investment and no capital losses.

In this connection, it might be helpful to compare our industry and its operating costs and margins with those of another industry in past years reborn and reinvigorated through far-sighted legislation adopted by the Congress.

I have reference to the savings and loan industry, where it is commonly accepted that sound operation of an association with many millions of dollars of assets requires a minimum spread between cost of funds and interest yield on loaned funds of not less than 2 percent.

We are aware that this is not always achieved, and we happen to be in a tight market presently for this industry. But this has been a standing practice, standing management doctrine in the savings and loan industry for many years.

That is an industry where generally the funds advanced are secured by first mortgages at a conservative ratio of loan to value, where the direct costs of putting loans on the books are more than recovered by prevailing closing fees, where investigation generally means a \$5 credit report and a \$25 appraisal fee, and where supervision of the borrower consists of referring to the file to see if he made his last month's payment and that his taxes and insurance are at proper level.

This is in an industry where the loss experience to date has been, as a factor of total industry volume, less than negligible.

Please compare this with conditions in the SBIC industry with the substantial skills and expenses involved in investigation, with the portfolio supervision required merely for self-protection alone, and with the extremely high risk which is becoming more apparent as licensees gain unhappy operating experience.

I can continue with other bases of comparison, but these matters are familiar and have been before the committee before.

These comparisons help to make clear to us the total impracticability of expecting SBIC's of extremely modest capitalization, whether \$150,000 or \$400,000, to operate on the narrow margins and to operate successfully, I might say, on the narrow margins which remotely approach those of the savings and loan industry, and meanwhile paying the necessary out-of-pocket cost of creating a portfolio and operating a business.

Senator PROXMIRE. In all fairness, you have omitted one important element in this picture. You can find the compensation for the 8 percent. In this Grottoes example we just had the important investment was the first 30 percent and then 25 percent of the stock.

It seems to me that no SBIC is ever going to be a worthwhile investment if there is not some opportunity to participate in the substantial gains of a company. If this company makes \$50,000 a year, that 25 percent stock investment with warrants is going to be a good one, and they are going to make a good return on it.

If they do not make it, even if the company breaks even and they get their 8 percent back, it is going to be a poor investment.

So it seems to me you have to have this element of chance of participating in substantial gains included to get a fair and complete picture of the possibilities of making it go with a \$400,000 basis.

Mr. FRANCIS. Mr. Chairman, I could not agree with you more. If I may digress for a moment, if we look at the bill before the committee at this moment, S. 298, it provides the possibility of 4 to 1 leverage on up to \$1 million of private funds. If we consider possible SBIC operation with \$4 million invested utilizing this leverage fully, getting 100 percent efficiency from it, lending those funds with no equity and realizing a gross return of 12 percent on those funds—this is an extreme example of what might be possible, and I think it is beyond the realm of practicability, but I am presenting it merely for the purposes of illustration of the operation of an SBIC without equities in companies with which it deals—such a firm would net something over \$200,000 in interest income, and after it paid its operating expenses it would be performing excellently if it could return 10 percent on the \$1 million of private funds invested.

I do not think that over the long haul a situation of that sort, where the investors are locked in, is going to attract private funds into the program.

I do not think anyone who proposes to operate an SBIC on that basis and presents this proposal to people whom he desires to induce to invest in the program is ever going to get off the ground.

Without the equity feature there is no SBIC business.

If we can consider the management problems of an SBIC at the size level I have talked about, I think perhaps the situation in my own company is typical, in that on our income we cannot possibly devote full time to it. I have treated it as a primary responsibility, giving it attention far beyond what is warranted by what I have been able to realize from it in terms of gain.

The important point is that this situation is characteristic of the industry, in that the vast majority of SBIC's lack full-time competent management or any management of great significance.

In a field as demanding as this, the issue which the chairman brought up a moment ago is pertinent. Part-time management can never be completely adequate to the demands.

Most minimum companies which presently propose to continue in the program are influenced primarily by one or both of two factors. One, they have advanced sufficient moneys to sundry small businesses that withdrawal other than over a relatively long term is a practical impossibility. In the vernacular, they are locked in.

And, No. 2, they are assuming a "wait and see" stance pending the action and in the hope of favorable action by this Congress on the three SBIC bills which are pending before the Congress.

If I can refer to my own company once again, I would say that both of these factors would apply in my situation.

Section 2 of S. 298 increases the matching funds under section 302(a) from \$400,000 to \$1 million, and section 3 doubles those funds available to the SBIC's and would be relevant to the inducement to private investors which we have seen lacking here.

It is my opinion from my acquaintance with the industry and my experience in operating the minimum company in it that the adoption by the Congress of the measures now pending will in the following 2 years attract substantial additional private funds into the competently managed small licensees and will serve to encourage the formation on an economic basis of additional licensees where they are needed.

It is pertinent to note throughout the 50 States there are 6, as of my last count, which do not yet have SBIC's, and there are a great many areas geographically and of the economy where there are opportunities for successful operation of SBIC's.

Until recent months a combination of factors, unfortunate factors, has thwarted full utilization of the 1961 amendments. The negative features of the law which have been discussed, the collapse of the new issue and over-the-counter securities market, all contributed to depressing the public's regard for the program.

The SBIC managements were in general aware that there were potential limitations on the availability of funds and were uncertain as to what representations as to leverage and availability of funds they might in good conscience make to the prospective investors when they sought additional private capital.

More recently, a number of the SBIC's, due to the removal of this latter problem, have taken advantage of the 1961 amendments.

I think there was testimony before this committee previously to the effect there are some 45 or 50 companies which have substantially increased their private funds utilizing maximum leverage provided under the 1961 amendments.

The provision for additional leverage on private capital as contained in section 3 authorizing a small SBIC to borrow private funds from banks under the standby program equal to 100 percent of the capital and surplus is particularly pertinent in regard to this additional incentive to additional private funds to come in to the program at the small company level.

There has been some discussion of one other issue, and it may be of concern to all of you gentlemen on the committee who have shown deep interest in this program since its inception.

Relevant to this issue, I think I can categorically state that the incentives contained in S. 298 to increase the small company capitalization are not going to mean that we will automatically or inevitably

follow with discontinuing making the smaller loans and investments. I think there are good opportunities in the area of the smaller loans and investments.

With greater capital, greater income, better staffing, the SBIC's will be able to render better service and will be better qualified to handle smaller investments.

My own company would certainly be interested in continuing to make investments in the range of \$60,000 or even smaller even though we had increased the ceiling—the 20-percent ceiling I have reference to—on our individual loans to \$200,000.

I might add that the worst of all possible situations for a small business which wishes to obtain equity or long-term funds at the moment is this situation in the economy we see today. The SBIC's presently operating are more than two-thirds invested according to the SBA. Few of us are in a condition where we can commit funds to new borrowers. The rapid falloff in license applications and the very few new companies that are in the wings, and the absence of meaningful legislation mean that there will be no succor from additional capital provided to new companies.

It is clear that a spur to the program is needed, and it is needed at this time, and for this reason S. 298 is an important segment of the legislative goal of the National Association of Small Business Investment Companies.

I am certain that this conforms to the vast majority of opinion of my colleagues in the smaller licensees and that they would agree almost unanimously that the time has arrived when accomplishment of the tremendous objectives of the program as outlined by the Congress clearly require commitment of additional Government funds to the program as a growth incentive.

It would be an error on the part of anyone concerned with this program administratively in the industry or in the Congress to fail to acknowledge and to face forthrightly the fact that the SBIC's today are not viewed with any enthusiasm whatever by the investing public. And this relates not only to the performance of the stocks of the companies traded publicly, which we can refer to day by day in the over-the-counter market, but refers as well or perhaps more so to the attitude of the people who have put their private funds into the minimum companies where they are closed in, locked in.

I have a personal conviction that if the law were permitted to stand as it now is with reference to incentives for contributing private capital to SBIC's and the investors in the small companies were afforded the opportunity, they would promptly withdraw their funds from the program.

It is clear that this statement is not true just because the SBIC business is a difficult and demanding one of its management nor because of the recognition of the high risk and the realization or apprehension of substantial losses, nor because of disappointment with the lack of progress in building sound and profitable portfolios—and I might add that it takes a long time for them to show up—but largely because in honesty and candor anyone connected with the industry has to acknowledge that able management and reasonable good fortune together are not sufficient to provide the basis for what is generally

an acceptable return on the investment in the small licensees as the industry is constituted today.

A general awareness of this, gentlemen, accounts, at least in large part, for the fact that you have seen a rapid dwindling of applications for new licenses in the past few months.

As a personal note, I want to say that I and many others who are similarly situated have come to consider ourselves, due to the amount of time we have devoted to this industry and the interest we have taken in it, as professionals in the SBIC field, and if we had the alternative we might well do it over again. But we entered this program because we recognized that Congress recognized the vast, hungry need of small business to satisfy the equity gap, the long-term-funds gap which existed.

We recognized that the Congress had undertaken to form a framework of an industry which would meet the needs of small business in this regard.

Few of us had any illusions that the 1958 act was going to accomplish those objectives without changes in the light of experience and changing conditions and operating conditions.

We believe that the enactment of the provisions of the legislation now before the Congress will be sufficient to restore vitality to this most fundamental program which we urge you gentlemen of the committee to approve.

I thank you very much for your time.

Senator PROXMIRE. You are appearing primarily on section 2 of this S. 298, are you not? The \$400,000 to be knocked out and \$1 million substituted, so that the smaller firms would have an opportunity to get more leverage on the basis of somewhat larger Federal investment? Is that right?

Mr. FRANCIS. No, sir; I would not subscribe to that.

Senator PROXMIRE. I presume that you are for the whole bill, all of it—

Mr. FRANCIS. That is correct.

Senator PROXMIRE. But your own particular firm would be affected by that one section?

Mr. FRANCIS. Sections 2 and 3, Mr. Chairman.

Senator PROXMIRE. Would you go above \$4 million? Would you be in position—

Mr. FRANCIS. Section 3 would provide for the loan funds, 303 funds, if I am correct—that is my impression—in which we would definitely have an interest.

Senator PROXMIRE. All right. Thank you very much.

Senator SPARKMAN, do you have any questions?

Senator SPARKMAN. You are one of the smaller ones?

Mr. FRANCIS. That is correct, Senator.

Senator SPARKMAN. \$325,000 capitalization? Is that what you said?

Mr. FRANCIS. Yes, sir. I am in that bracket of \$300,000 to \$325,000.

Senator SPARKMAN. Capital and surplus? You are in that bracket?

Mr. FRANCIS. At the lower end of that bracket I might add.

Senator SPARKMAN. In the lower end of it?

Mr. FRANCIS. Of that narrow bracket.

Senator SPARKMAN. And are you in the \$21,000 profit bracket?

Mr. FRANCIS. Unfortunately, no, Senator Sparkman.

Senator SPARKMAN. Well, are you lower than that?

Mr. FRANCIS. That is correct, sir. We have never been able to utilize our funds at 100-percent efficiency.

Senator SPARKMAN. In fact, that is almost impossible, is it not?

Mr. FRANCIS. I think it is completely impossible. It is useful only as an illustration.

Senator SPARKMAN. I would just be interested to know how many loans you have in your portfolio.

Mr. FRANCIS. We have 13 loans, Senator Sparkman, which range from \$5,000 to \$61,000 in size.

Senator SPARKMAN. Your biggest loan is \$61,000?

Mr. FRANCIS. Yes, sir.

Senator SPARKMAN. And your smallest loan is \$5,000?

Mr. FRANCIS. That is correct.

Senator SPARKMAN. And the 13 range between those two extremes?

Mr. FRANCIS. That is correct.

Senator SPARKMAN. In other words, all of yours are "small" small business loans?

Mr. FRANCIS. That is correct, sir.

Senator SPARKMAN. And you feel that we need this increase in available funds to make it possible for small companies such as yours to operate profitably?

Mr. FRANCIS. I think small companies are not going to continue to operate without these incentives to increase their capitalization, that they are not going to be able to increase the capitalization to the level to which it is necessary that it be raised if they are going to continue to operate without these incentives.

I have had the experience in trying to do it.

Senator SPARKMAN. You make a point that is quite interesting to me. You say that you would still make the "small" small business type loan if you had the additional funds available.

Mr. FRANCIS. That is my judgment, Senator, the judgment of the industry as a whole and of the small companies as a whole. And it is my attitude toward the operation of my own company.

I am referring in general to investments in the range of \$30,000 to \$60,000.

The worthwhile investment down at the \$5,000 level is sort of a flyer that you hope somebody is going to turn into a company which will demand a lot more money from you. If the requirements of the borrowing company are not potentially more than \$5,000, it represents very little in the way of growth opportunity and is going to contribute very little to the economy and is going to accomplish very little in terms of providing employment and is going to accomplish very little in terms of providing an opportunity for profit either to the owner or to the SBIC.

Senator SPARKMAN. Yet there are occasions when those little loans are just as important as any other?

Mr. FRANCIS. We have made two of them. One has been retired. We are very happy with the other.

Senator SPARKMAN. That is all, Mr. Chairman.

Senator PROXMIER. The wording here is kind of interesting. I get the impression that you would probably very likely diminish those

loans from the way you put it. Of course, nobody knows what you are going to do. You have to judge on the basis of the situation then.

You say:

I can categorically and honestly say that the incentives contained in S. 298 to increase our capitalization will not in my opinion mean that we will automatically or inevitably discontinue making smaller loans and investments.

Well, I should say that is very, very honestly and carefully hedged. But as I read it, it would suggest to me that you probably would not make those loans to the extent you have in the past.

And there is no reason why you should if you cannot make money out of them. After all, the Government should not expect you to. It is your money, and you have to do what is wisest and best for yourself and your stockholders.

Mr. FRANCIS. If there is any ambiguity in my comments, Mr. Chairman, it is unintentional, and I will appreciate your calling it to my attention and I will seek to eliminate it at this point.

I think there are many opportunities in amounts of \$60,000 and less. Obviously we do not invest any of our funds in excess of \$60,000 presently because we are not permitted to and should not be permitted to under the law.

We are undoubtedly going to invest some of our funds in situations in excess of \$60,000 when, as, and if we increase our capitalization.

Senator PROXMIRE. Now, you can not go over \$60,000 or \$62,000 or something?

Mr. FRANCIS. That is correct, sir.

Senator PROXMIRE. Twenty percent of \$325,000?

Mr. FRANCIS. We have two investments of \$5,000 each which we expect to grow. We expect to have to supply those companies with additional capital. We are not committed to because the total funds committed both by the owner and by the SBIC are of minimum amount. But the owner has what we think is a good idea in each case. We think he is going to require more money from us. We know he does not have it. We have not made any money from him. We hope we are going to make a darned good return on our \$5,000 investment in each case.

And if I had resources of \$4 million, as would be possible under S. 298, and these deals walked in my office, I would make them again tomorrow. And I think that would be true 5 or 10 years from now.

And we will make a good deal at \$5,000 or \$200,000 as long as we have the funds in the till, Senator.

Senator PROXMIRE. You are appearing then for the increase from \$400,000 to \$1 million, and then you are appearing on section 3 which deals with the bank lending money to an SBIC with the SBIC pretty much guaranteeing the loan?

Mr. FRANCIS. With the SBA guaranteeing the loan.

Senator PROXMIRE. I mean SBA guaranteeing the loan to the bank.

Mr. FRANCIS. Those are the two points to which I have addressed my comments.

Senator PROXMIRE. Thank you very much.

Mr. HOWARD. Our next speaker is Mr. Irving Dale, president of Federated Capital Corp. of New York.

Mr. DALE. Mr. Chairman, I am appearing here today in my capacity as second vice president of NASBIC. I also happen to be president of our northeastern regional association, which covers all the New England States, New York State, and northern New Jersey. I think we have about 120 members in that region.

My associations with my colleagues in the industry have given me some knowledge of the problems facing all different kinds of SBIC's.

I would like to tell you a little about my own company. You may find it interesting.

We were licensed in March 1961. Our capitalization was \$1,260,000 of private funds contributed by 20 stockholders. I give my full time to my company. My staff consists of myself, one full-time assistant, and one full-time secretary.

Mr. Francis' testimony about his inability to employ full-time management for his business is very understandable to me. I may tell you that every SBIC of that size and even considerably larger size faces the same problem. My company—and its capital is much larger—is, in my judgment, understaffed. But the simple facts of budgetary life do not permit me to increase our organization.

We happen to be fortunate in that we number among our stockholders and directors many active, interested, and highly qualified business and professional people. There is a wide variety of skills and experience on which we can call when we need help. Despite this, we often find ourselves unable to do what we have to do at the time it needs doing.

It is important to note our business is unique and difficult. Unlike other lending institutions, we cannot put out our money, take our collateral, and wait for the mail to arrive with our interest and amortization payments. The problems of investigation and analysis that go into making an investment, and the problems of liaison after the investments are made, and the demands made upon us for counsel and assistance by our client companies are far greater than any of us anticipated.

Let me give you some facts to highlight this.

We have been in business a little over 2 years. During that time we have kept a good record of all applications for financial assistance presented to us. Eliminating those—and they run literally into the hundreds—which a brief examination indicated were not suitable, and limiting ourselves only to those which we spent a great deal of time examining in depth and detail, we have looked at more than 175 companies. That is almost two a week.

We have actually concluded seven investments, and there are two more for which we now have tentative commitments. If we complete these, we will have made investments in 9 out of 175 companies with which we spent a great deal of time.

This means that so far about 90 percent of the time we have spent on analyzing investments has not been productive for us.

Senator PROXMIRE. Let me interrupt to ask do you think it has been productive for the companies who have been analyzed, that you have

been able to spur them to go to other sources where they have got money—banks, insurance companies, and elsewhere?

Mr. DALE. Oh, yes. That is a very interesting point you raise. I might not have thought of making it.

One of the things we find with quite a few applicants who come to us is that an analysis there are other places for them to go. That is one of the reasons for this attrition in applications. We consider that part of our job. I am proud of the fact we frequently do this.

Senator PROXMIRE. It is a real contribution to the economy.

Mr. DALE. That is one of our contributions.

Senator PROXMIRE. Fine.

Mr. DALE. As to the investments we do make, our work is not finished when the papers are signed and the money paid over. In many respects it just begins. We are constantly called upon for help by our clients. We have found it necessary, both for the benefit of these companies and for our own protection, to devote considerable time and energy to their affairs, not only to insure a flow of reliable information but also to help them resolve their operating and financial problems.

We have now invested all of our own capital, \$1,260,000. Several months ago we sold to SBA \$400,000 of our debentures for 302 growth funds on which, of course, we are paying 5 percent interest or \$20,000 per year.

Despite our substantial size, despite the fact that our staff is small and not overpaid, our operating expenses just about match our operating income. We are a very long way from the point where our stockholders will start to receive dividends on the capital they have invested in this high-risk enterprise.

When we have invested the \$400,000 of 302 funds, we will be in a position to borrow an additional \$800,000 of 303 funds.

Senator PROXMIRE. When you say your operating expenses match your operating income, that means you are really breaking even?

Mr. DALE. Just about breaking even on our budget.

Senator PROXMIRE. In other words, you do not have people as directors or investors in your SBIC who do work for nothing? Or do you?

Mr. DALE. We call on them as much as we can.

Senator PROXMIRE. When they work, they are compensated?

Mr. DALE. They are not compensated.

Senator PROXMIRE. They are not compensated?

Mr. DALE. No, sir. We get a subsidy of valuable talent.

Senator PROXMIRE. But there is a strong possibility I presume, on the basis of your careful analysis, that some of these nine investments will work into substantial improvement, gain, increase in value?

Mr. DALE. That is our hope and prayer, Senator.

When we have invested the \$400,000 of these funds, we will be able to borrow an additional \$800,000 of 303 funds. That will give us a total fund of \$2.5 million. At that point our activities must come to a halt as far as future investments are concerned, except to the extent that we liquidate existing investments and except for amortization payments under our present investments. These are not likely eventualities.

In the first place, the securities market for smaller businesses is absolutely dormant. It would be unrealistic to expect that our client

companies will be in a position to go to the public marketplace with their stocks in the coming few years.

Second, and this is an important point for us all to realize, the amortization payments we receive are not substantial during the early part of a loan period. We feel it is necessary, in order to insure the growth of our client companies and not to stragulate them, that the amortization payments be very modest in the early part of the loans.

We first thought when we organized our company that after we had shown some degree of skill and success we might be able to go to the public marketplace to raise additional capital funds. Well, we do not have to labor that point. It has already been pointed out to you by my associates and others who have testified before you that for practical purposes there is no such market today, and only a very unwise man would venture to predict when there will be one again.

It is, therefore, of vital importance to us that S. 298 be enacted into law. The funds we would have to invest would then be \$4,500,000, in that neighborhood, instead of \$2,500,000. We would be able to continue our business with confidence in our ability to discharge our functions during the foreseeable future.

Not only is the amount of money involved of major importance to us, but I would like to make a point I do not think has been made here that the change in the time available to draw this money from 3 years to no less than 5, and hopefully to 7, is essential, is very critical.

An SBIC should never be pressed to invest its funds. This leads only to recklessness. It is important to all of us and to the American economy that we discharge our function with good judgment and calm determination. Pressure to invest in order to secure necessary funds may present a temptation to invest unwisely. This is not good for SBIC's, the small business concerns, the economy, or the Government.

Another feature I would like to talk about has not been mentioned earlier, and that is the removal of the \$500,000 limitation on an investment an SBIC can make in any one small business concern.

I want to tell you, Senator, I did not think when this was enacted it would be of any practical importance to me, obviously, because it exceeds our loan limit. I discovered—

Senator PROXMIRE. You have a long ways to go before you are in a position to do that—

Mr. DALE. That is correct.

Senator PROXMIRE (continuing). Because this would mean that you would have to be—

Mr. DALE. \$2.5 million.

Senator PROXMIRE (continuing). A \$2.5 million company, and you are about half that.

Mr. DALE. But I want to tell you it is of practical importance. This I learned from experience. I would not have anticipated this.

I want to make this statement. We have had worthy situations. In each case, since our loan limit was \$250,000, we would have needed the participation of other SBIC's.

I have come to the conclusion as a result of my experience that the participation of more than two, or at most three, SBIC's in investments of this kind may very well create difficulties in the relationship with the small business concern.

The \$500,000 limitation would nevertheless have obligated us to have at least two other large SBIC's participate with us, not for any sound reason but solely to comply with the law.

We concluded this would have produced artificial and unnecessary problems and therefore reluctantly abandoned what would have been desirable investments for us and for the small business concerns involved.

Senator PROXMIRE. Now, wait a minute. I can see why you would not want it. I think it is a very telling point. It had not occurred to me before.

Mr. DALE. It did not occur to me, sir.

Senator PROXMIRE. From the standpoint of the company, there is no reason why they could not go to large SBIC's and get the million dollars if that is what they wanted.

Mr. DALE. Except again you run into the same problem if you have to deal with more than one.

Senator, this is the point I have discovered, and you have to live through this to understand it. I did not. Therefore, I can say this to you without feeling presumptuous.

The relationship with a small business concern gets to be very personal. This is not just a coldblooded piece of business of signing a check and he makes a deposit and you do not see him for 6 months.

Contracts are frequent. They become intimate. They have to be durable, and they have to be sound. The minute you have more than one SBIC involved there is a complication.

Now, as the SBIC's get larger, there is another factor I think that has to be understood. That is that the managements are more likely to be sophisticated, more likely to have firm opinions. I would guess that a participation among larger SBIC's would be less likely than one among a group of small ones where the objectives are probably simpler to achieve. That has been my observation.

Senator PROXMIRE. Of course, there is nothing at all in this bill that would help the small ones loan more, because you still have a 20-percent limitation. Unless they are over \$2.5 million it would not have any effect at all.

Mr. DALE. That is correct.

Senator PROXMIRE. Now, the fact is that as the SBA crucified my amendment they can loan half their funds in loans over half a million dollars.

Mr. DALE. Yes.

Senator PROXMIRE. So that they are still free and you are still able to get a large SBIC to make the loan if it is sufficiently attractive and they have the funds available.

Mr. DALE. You see, Senator, what you are doing, or what that amendment did, is simply this: It did not say that the small business concern cannot get over \$500,000. It just said you have got to go to several SBIC's to get it.

Senator PROXMIRE. You can go to one SBIC to get it, but it has to have at least half its funds in smaller loans.

Mr. DALE. I suppose then you have got to go shopping for SBIC's that have it that are willing to make a commitment of that size.

It is a kind of business of balancing what you have got and making future plans. I suppose that is possible. And I would imagine that there are some loans of over \$500,000 being made. I have heard of very few since that amendment was passed.

Senator PROXMIRE. We had a number listed by Mr. Horne yesterday.

Mr. DALE. Are there not a small number? I do not recall his testimony.

Senator PROXMIRE. I think they are small. I hope it would be small under any circumstances, because the purpose of this legislation is not to provide for a whole flock of loans over half a million dollars.

We hope the overwhelming majority of these loans will be less than \$500,000, and that is Mr. Horne's position. As a matter of fact, the total loans over \$250,000 are only 3 percent or involve 3 percent of the number of loans, I think, and only about 30 percent of the money. So that even if you would assume that all of these between \$250,000 and \$500,000 would be expanded—I do not think it is a sound assumption—you would still have a very, very tiny proportion of the loans over half a million dollars.

Mr. DALE. I would imagine the laws of economics and the laws of the marketplace will govern that far more effectively than legislation. I say this again, Senator, with respect because I know your feelings on the subject.

A company needing \$500,000 is not a big business when you consider what it costs just to build an ordinary plant, a 50,000 square foot plant, what it takes to buy machinery.

One situation we just went through with a client company required an investment of \$400,000 just to put in the equipment to employ 30 more people.

It takes a lot of money, a lot of capital to do this, and I think probably in that particular case the number was small for the number of employees.

And I suggest to you, Senator—and I say this with respect—that the \$500,000 limitation is not really related to the economic realities of life today.

Senator PROXMIRE. Well, what concerns me is if you remove the \$500,000 limitation, in the first place, all the testimony that we get from everywhere, the impression I got out of Minneapolis when I talked to people in this business—and it is a sensible, sound analysis—is that the really economical SBIC is the big one and you have to get fairly big before you get to a position where there is likely to be soundness in most cases.

There are exceptions, where you have an extraordinary man or something of that kind.

So the tendency for an SBIC is to be big—and also the best investment they can make. It just makes sense. Anybody with any experience in investment banking knows that it is a far more economical thing to investigate 1 company than to investigate 10.

So a \$1 million loan, all other things being equal, is a whale of a lot better than 10, \$100,000 loans.

Therefore, if there is no limitation on this, you are going to get bigger SBIC's, and then the loans are likely to be more and more

in the higher category. At least most of the money is going to be committed in this category of loans over \$500,000.

I think while there is need in this area, it is a need which is far less urgent than the need for money in the categories less than \$500,000.

It would seem to me maybe there is a compromise approach here. I disagreed with Mr. Horne at the time he took the interpretation of my amendment in permitting half the funds to go into this area.

I do not want to hold you. There are other witnesses, and you are doing a fine job.

Mr. DALE. I would like to digress for a minute from the provisions of S. 298 to make two other points.

Senator PROXMIRE. Go ahead.

Mr. DALE. The first I would like to make is in connection with the recent SEC report on the over-the-counter securities market. I would like to suggest that the SBIC industry may very well be a key answer to the critical dilemma of raising capital for worthy small businesses without entrapping inexperienced investors in risks that they are not qualified to appraise.

We all know that a prospectus is not protection for the investor. Most investors, even if they were willing to do so, are really not able to understand the significance of everything in a prospectus.

The SBIC industry is a source of capital funds for worthy small businesses. The SBIC funds will enable them to grow to a size and maturity that will enable them to go to the public securities market on a larger plane, with more conservative and responsible underwriters, with an appeal to the more sophisticated investor, and with a record of accomplishment capable of evaluation.

The second point I would like to make has to do with a study I saw recently by Samuel Hayes and Donald Woods which was published in the March-April 1963 issue of the Harvard Business Review. These men found that SBIC financing in effect followed a unique counter-cyclical pattern and that this pattern was very valuable to the economy.

They pointed out that SBIC's ordinarily raise their capital in periods when the public has reserve funds and is optimistic and willing to take risks. There is, however, a considerable timelag between the time the money comes into their hands and the time they are able to put it to work.

When the public is less optimistic and smaller companies find it hard to raise capital, SBIC's do have funds on hand to invest.

In conclusion, I would like to repeat what has already been said here. The public has become disenchanted with our industry. I think it is fair to say that part of their disenchantment springs from the feeling that our industry no longer has the support of Government.

S. 298, if passed, will go a long way toward reassuring the investing public about our posture with the Government.

It is very important also that the other two bills which have been introduced in connection with our industry be passed, but this is not the time or place to talk about it.

I urge you that on the merits of the bills that have been introduced, and in addition as confirmation to the public that our Government places a high value on our industry, you give us your support in these three bills. Thank you.

Senator PROXMIRE. Thank you very much for a very persuasive statement, Mr. Dale.

Mr. Howard.

Mr. HOWARD. Mr. Chairman, the next speaker is Mr. Stewart DeVore from Fort Worth, Tex., immediate past president of the association.

Mr. DEVORE. It is a pleasure to appear before you to discuss ways and means of making the SBIC program more effective, for it was this committee and the Congress that gave birth to the concept of the SBIC.

Upon passage of the Small Business Investment Act of 1958, I became intrigued with the possibilities that existed for profit through service to small business via the small business investment company program. Therefore, I studied all available sources of information about the new act and the studies in depth of this committee relative to the need to fill the equity gap in small business capital requirements.

It was therefore not difficult for me to conclude early in 1959 that I wanted to become a part of this new industry that offered the opportunity for significant growth. This was a decision of major personal financial significance to me as I invested \$100,000 of the required \$150,000 to establish Fort Worth Capital Corp. in October 1959.

Being a pioneer at this time it behooved me to attempt to learn more about this business through association with others as an active member of the National Association of Small Business Investment Companies. It has been my pleasure since then to hold every significant office in our Southwestern Regional Association as well as the National Association of Small Business Investment Companies.

This has been an enriching experience because it has been my good fortune to personally know most of the chief executive officers of the small business investment companies and to learn from this relationship of their experiences.

It is my desire to briefly convey to you to the best of my ability the real needs and solutions that exist in the SBIC industry today.

This committee as well as the Congress as a whole has demonstrated in the past its willingness to sit down, listen, and reason together to attempt to make more equity capital available to small business through SBIC's.

Since from the beginning of this industry I have invested substantially my time, my means, and my business reputation; I, together with you, greatly desire this program to succeed because I believe it is fundamentally and vitally needed by small business and I believe that with improvement it can become a profitable and an effective medium of providing capital to American small business.

Senator PROXMIRE. We will have to recess for a few minutes. Again I have to go to the floor to vote. I will be right back.

(Whereupon, a recess was taken.)

Senator PROXMIRE. The committee will come to order. We were hearing from Mr. DeVore. Mr. DeVore, go right ahead.

Mr. DEVORE. Today I have to tell you in all candor that we in the SBIC industry are at a time of great decision. The question facing most SBIC managers is: Shall we continue to operate as SBIC's in the face of this industry's record of low profits, substantial regulation, and limitation on the use of the available investment funds, or

shall we abandon the goal that we once deemed worthy and liquidate, joining the millions of other investors in America who, different than we, prefer to put their money into the longer established and larger businesses of this country?

The answer of many will be determined by the action taken by this Congress in voting for the pending legislation.

If Congress votes, as I hope and believe that you will, a vote of confidence for the small business investment company industry, a vote to take the tax kinks out of this law, a vote to increase to an attractive level the investor's leverage, then, and only then, can the investment climate brighten by investors, both private and public, moving back into the program.

If this is done, I believe that the developments that will follow will cause this program to orbit on a sounder, more permanent, and more effective basis than ever before, and that you as Senators, responsible for the establishment of the proper guidelines of Government, can take pride in the things that you have made possible.

To generalize on what is the great problem now facing the SBIC industry, we can state succinctly: "It is the lack of sufficient investor appeal."

Let us briefly analyze why the SBIC industry, as it is now constituted, lacks sufficient investor appeal.

Congress found in the 10-year study of the capital needs of small business, immediately preceding the act of 1958, that the general public did not invest sufficient funds in small business to provide adequate capital. The reason is that investments in small businesses did not sufficiently appeal to the investing public.

Your answer was to create a specialized financial vehicle that was made attractive by the act to induce substantial private investment. This in turn would be invested by the SBIC into American small businesses.

The romance of a new financial institution, fashioned by Congress in a rising securities market, did for a while appeal to investors in sufficient numbers to launch this new industry. However, now after 4 years of experience, this new SBIC industry, specializing in investments in small business, has lost its "honeymoon" appeal to the investing public.

This is due to the experience gained thus far, by the industry in making meager profits for its investors, as well as a recognition of the higher risk on investments encountered by this industry.

We conclude, therefore, that the SBIC Act of 1958 did not endow this new institution with sufficient investment charm to make this marriage last.

So we come to S. 298 for the expressed purpose of building into the SBIC structure additional and sufficient appeal to investors, both public and private, to get this program moving again.

The question at hand then is: How does S. 298 accomplish the needed objective?

1. In the first place, the bill will increase the ratio of total available investment capital to the investor's stock dollar. This, of course, is called investment leverage and is an inherent economic factor that makes for profitability in investments in commercial banks where 11

times or more the stockholder's dollar is leveraged for lending purposes.

In the successful savings and loan industry of the capital stock variety, the investor's dollar is sometimes leveraged 20 times.

Senator PROXMIRE. It is interesting that you insert "sometimes" there. You did not have it in the original text.

Mr. DEVORE. This is approximate.

Senator PROXMIRE. This is the capital stock type of savings and loan?

Mr. DEVORE. Yes, sir. Permanent reserve fund, stock.

S. 298 will make available only \$3 of Government funds for SBIC's for each dollar invested by the SBIC stockholder up to \$1 million in capitalization in contrast with 11 times.

Senator PROXMIRE. May I just interrupt for a minute to say you are comparing, a little bit, apples with oranges. The fact is neither the bank nor the savings and loan has \$11 or \$20 of Government money for every dollar that they invest. All the money is depositors' money, or at least certainly in the bank. It is not Government money.

Mr. DEVORE. It is Government guaranteed. This may be getting us far afield.

Senator PROXMIRE. It is Government guaranteed—deposits up to \$10,000. That is true.

Mr. DEVORE. Then in the savings and loan industry you have the Federal Home Loan Bank System which has been backed by the Government and allows them a place to go with their securities for more money.

Senator PROXMIRE. That is true. But it is a little bit different. It is not Government money.

Mr. DEVORE. That is true; there is an area. But I think we are not saying we ought to have 11 or 20 times. We are just saying if we get this, which we would like, it would be three times.

At the present time the law provides a leverage factor of only \$2 of Government funds for every dollar invested in SBIC stock up to \$400,000, and, as you can see, this is further limited to companies having not more than a \$400,000 capital stock structure.

During the first decade of our growth it will be necessary for the leveraged dollars, as providing an incentive to induce private dollars to move into the industry, to come from Federal sources or guarantees. This is the same as it has been for many other financial institutions in their early stage of growth that served an effective national purpose.

Thereafter, a successful record of performance and of profitability will decrease the need for leverage from Government sources, the same as it has in other financial institutions reaching maturity.

The increase of leverage will be made possible under S. 298 by increasing matching funds under section 302(a) of the act from \$400,000 to \$1 million.

This, of course, means that the Small Business Administration will buy from an SBIC subordinated debentures in equal dollar amount to the amount invested by the stockholders, increasing the top limitation from the present limitation of \$400,000 to \$1 million.

This is a very important and necessary step to be taken to increase leverage and to restore investor appeal in this business.

This industry believes that if an SBIC can raise \$1 million of private capital, and if the SBA will match that amount by the purchase of subordinated debentures, coupled with the loan provisions, such an SBIC will have sufficient capital to become economically self-sufficient, which is to say to be able to afford qualified and full-time management and to do the kind of job that we know that you want done for small business.

Leverage will also be increased through this bill by amending section 303(b) to increase loan funds from 50 to 100 percent of capital and surplus where commercial banks provide the increased funds under SBA standby commitments.

This is the other method by which the bill will increase the leverage of investor money and thereby create a new and substantial investor appeal.

This bill, then, is not a giveaway or a grant bill but is a growth bill written on a businesslike basis, where money and credit is borrowed and interest and principle are to be repaid.

Another significant provision of the bill that will appeal to investors is the extension from 3 to 7 years of the period of time when additional growth subordinated debentures may be sold to SBA. This provision is sound and needs to be enacted because it allows for planning of growth through earnings without requiring the SBIC to be under undue pressure to qualify too quickly. Such pressure could lead to unwise investments that would defeat the purposes of the act.

I strongly urge, therefore, that this extension be approved by Congress.

The final provision of the bill that I think is very important in order to obtain renewed and increased investor interest in the SBIC industry is the provision that would eliminate the \$500,000 ceiling on the amount of funds that one SBIC could invest in a single small business. When Congress imposed this ceiling upon this industry, a great harm was unwittingly done to all SBIC's, large and small.

This action has been interpreted by the securities market as an unfriendly gesture of Congress to this new industry and an indication that this industry had lost face with Congress and would likely be thereafter subjected to additional limitations and restrictions that made increasingly difficult the operation of an SBIC.

I am personally certain that this feeling was not intended by the sponsors of the \$500,000 limitation but we are faced with the market judgment, and it hurts.

Your first impression might be that such a restriction would be of concern only to the largest of SBIC's. Unfortunately, we find that we are all in the same boat, for when the investing public would rather sell than to buy publicly traded stocks, the market falls and stays low. Then when a small privately held SBIC such as Fort Worth Capital desires to increase its capitalization from \$150,000 to \$400,000 we are confronted with the question: "Why should a new investor pay 100 cents on the dollar for stock in a small private SBIC when he could buy stock in one of several public SBIC's at 50 to 60 cents on the dollar?"

This problem is so obvious that you can hardly get your friends to invest money in a private SBIC any more, nor can you blame them.

While a \$500,000 loan is a large sum of money from an individual, personal standpoint, it does not in itself create the capital for many new jobs in today's manufacturing industry, and in that sense it is not a large sum of money.

While the SBIC's have on a limited basis joined hands by participating in raising higher sums of money, such participations are difficult and not likely to be extensively used.

This limitation further cuts off investment opportunities for the large SBIC's in the larger small businesses having the highest potential for profit. This is a real handicap to our profit-starved industry. Therefore, whatever hurts the market reputation of a large SBIC affects rather directly the growth of all SBIC's and the industry as a whole.

We therefore urge you in the interest of a better SBIC program to repeal the \$500,000 limitation.

Senator PROXMIRE. The point you are making is the only effect this will have on you is the reputation of the SBIC's in general will be better if the big SBIC's can make all their loans over \$500,000 instead of only half and that this will carry over and give the whole SBIC spectrum greater attractiveness?

Mr. DEVORE. The point that I am trying to make, Senator Proxmire, is that we think that the limitation, because of what the market people have told us, adversely affects the price and marketability of publicly held SBIC stocks.

Now, the blue chip stocks have all moved up to nearly where they were last May, but the SBIC stocks are still in the cellar. In fact, they are even lower than they have been at any time in the last year.

I do not know and I am not an expert witness to tell you that this is the reason. The only thing I can say is that we have been told it is the reason by financial experts, and we do know that the SBIC securities market is unusually depressed.

Senator PROXMIRE. From this standpoint I should think any informed investor would say: "Well, the big SBIC's are a good investment because they make their investments in the big \$500,000 and larger category, relatively big, but the smaller ones are not allowed to go over 20 percent of their capital and surplus"—and your firm would be limited to \$60,000 or \$70,000—

Mr. DEVORE. Yes, sir.

Senator PROXMIRE. "And, therefore, if you are going to make an investment in an SBIC, make the investment in a big one. Do not make an investment in these fellows who are limited to \$60,000 or \$70,000—let alone \$500,000."

Mr. DEVORE. There is an argument you can take there. But the thing we are confronted with is: How can we get people to put money in our company, a minimum company, when we sell it at book value and when they can buy Jim Howard's company or any of these other publicly held companies at 50 to 60 cents on the dollar of book value?

Senator PROXMIRE. This would make it even more likely to go into the big companies.

Mr. DEVORE. What hurts them hurts us.

Senator PROXMIRE. Sure. If we pass this bill in its present form, as far as the \$500,000 limitation is concerned the big company would be even more attractive vis-a-vis your company.

Mr. HOWARD. No.

Mr. DEVORE. I am not sure I agree with that.

Senator PROXMIRE. Except for the point that was made earlier that from the participation standpoint—

Mr. DEVORE. The real problem I see is that this industry today does not attract the public investor, or the private investor, as it needs to.

Senator PROXMIRE. Well, to the extent that you are talking about an industry, I think maybe you are right. But if the investor goes in and invests in an industry, he is not a very wise investor.

Mr. DEVORE. No.

Senator PROXMIRE. He would certainly invest on the basis of investing in a profitable company. If he does that it does not affect you at all.

Mr. DEVORE. I think, speaking from the smaller company standpoint, we would sell stock to our friends and associates around in the community, generally speaking, and if everything was more or less equal there would be some preference to their putting money into a local company, although it might be wiser, more sophisticated investment to put it into a large company.

But, on the other hand, if we will give them only half as much stock for a dollar in our company because we are offering to increase our capital at book, the advantage is offset.

So we think that whatever is bad for the large companies and depresses their securities has a very direct effect on small companies too.

We think that this limitation has been interpreted by the market as a loss of confidence by the Government in the SBIC industry and it might foretell future limitations to come up.

For that reason we oppose it, not because we would like to make \$500,000 loans.

Senator PROXMIRE. I just want to make one further comment. I know it is late and I do not want to detain you. But I am surprised nobody has suggested that this 20 percent of capital and surplus be modified.

Now, this is something that would help you directly. In other words, if you could invest 25 percent or 30 percent of your capital and surplus, then you could make bigger loans.

Mr. DEVORE. That is true. It has been my experience that that is a pretty wise provision, because if you—

Senator PROXMIRE. I think it is too, but this is one kind of a provision that would enable you to make a bigger loan. I think it is a wise provision.

Mr. DEVORE. We feel 20 percent of our capital and surplus is a pretty big investment in any one situation.

Senator SPARKMAN. May I add the comment that the percentage limitation tied down to capital and surplus is typical of financial institutions the Government has anything to do with.

Mr. DEVORE. That is true.

Mr. FRANCIS. Mr. Chairman, I think the need which the industry sees within the small companies is for increasing its total resources and not firstly increasing the size of the individual investments. That is what S. 298 relates to—increasing resources of individual small companies.

Senator PROXMIRE. They want to make bigger loans but you want bigger capital and surplus so you can make bigger loans?

Mr. DEVORE. That is right.

Mr. FRANCIS. Making additional amounts of loans regardless of the size is the purpose.

Mr. HOWARD. Mr. Chairman, that is a very important point, because on the premise that you were making your statements I gathered, at least on my note here, that you said that you felt that companies wanted to make all big loans. And that is not true.

All we are asking for is the flexibility to make loans up to 20 percent of our capital and surplus.

Because obviously, as Mr. Francis testified earlier, in his situation he had a loan of \$5,000, and he made that loan because he thought it was a good loan, SBIC's regardless of their size will make loans on the investment merits of each loan without regard to the dollars involved.

Senator PROXMIRE. There is no question about it. But, you see, there are these two conflicting factors.

No. 1, there is the strong economic advantage of a bigger loan. There is no question about it. The bigger a loan is the more attractive, if only because you have to make only one investigation, etc.

But there is the public policy desire on the part of the Congress to provide a greater opportunity for the little businessman who wants to get a \$50,000 or \$60,000 or \$100,000 loan to maximize his opportunities to get it.

These do tend to conflict.

Mr. HOWARD. You have the practical application that a company may need \$250,000 to start with or it may need \$450,000. If the company then needs money subsequently, as in the case of Mr. Mosen's company, where he invested \$50,000, had he had a minimum capital company he could not have made that other \$30,000 loan. He would have been locked in. He would have had to have gone elsewhere.

And when you need money badly, that is the wrong time to try to get it from a negotiating viewpoint.

From the standpoint of his particular company, he had \$400,000 capital. He could increase his investment and he did invest another \$30,000.

Now, he did it on the merits of that investment. It was made completely without regard to the dollars involved.

The same thing could be true where a company may need \$400,000 today and because of developments and expansion, perhaps even greater business than anticipated, a year from now they may need another \$150,000.

We think that just because they need another \$150,000 does not change the fact, the economic fact, that they are a small business and therefore we should be able to make that investment if we have the capital to do so.

That is our basic premise.

Senator PROXMIRE. Go ahead, Mr. DeVore.

Mr. DEVORE. In my own State, a \$15 million SBIC—Electro Science Investors—has surrendered its license and no longer provides

capital to small businesses. One of the principal reasons cited by the president of this corporation was that by being an SBIC they were subjected to what they regarded as an unreasonable ceiling of \$500,000 on their investment.

Senator PROXMIRE. On half their investment.

Mr. DEVORE. Sir?

Senator PROXMIRE. On half their investment.

Mr. DEVORE. Yes, sir.

By surrendering their license they could become exempt from this law and invest as they please.

This industry is too young to afford the loss of this much money from our program.

I feel strongly that time is running out for the SBIC's. We must quickly restore the investor appeal to this industry or there will be no industry. Only Monday it was announced that a \$5 million SBIC is liquidating. Fewer new companies are being formed. We need a new thrust. That thrust will be restoration of the investor appeal to the SBIC industry. That thrust can be powered by the enactment of S. 298 and the SBIC tax amendment bill, S. 297.

Therefore, if you believe that the SBIC's are needed institutions, that they can stimulate growth of the economy through private investment in small businesses, if you believe that \$1 of public money loaned, not granted, can attract \$5 to \$7 of private money for investment in small businesses, and if you believe that these needs are in the national interest and serve a sound public purpose of enriched growth of American small business, then we urge you to vote for and support Senate passage of Senate bill 298. It will be a real thrust.

Senator PROXMIRE. Senator Sparkman.

Senator SPARKMAN. I do not believe I have any questions. I believe it is a very fine statement.

Senator PROXMIRE. I think it is a beautifully organized presentation, one of the best I have seen since I have been in the Senate. To have you gentlemen come forward in a panel and have you gentlemen cover different parts of this and different viewpoints is very hopeful.

I would like to say with the exception of Mr. Howard who has been kind of master of ceremonies—unless you have your statement now—

Mr. HOWARD. Yes; I do.

Senator PROXMIRE. I was going to say so far to date we have had people who are affected by section 2 and part of section 3 but not really directly affected by section 4 and not affected by the main part of section 3. That is, you are not in the position to take advantage of the \$4 to \$8 million change, and you are not in position, anybody so far, to use the \$500,000 proposal that you are making to knock out that limitation on the loans.

Now, Mr. Howard, you are. So you go ahead.

Mr. HOWARD. Thank you, Mr. Chairman.

For purposes of trying to save some time I think I would like to introduce the balance of my testimony in the record at this point without taking time to read it.

Senator PROXMIRE. I appreciate it very much. Without objection that will be done. Proceed to highlight it.

(The balance of the prepared statement of Mr. Howard follows:)

S. 297 would (1) provide for tax-deductible reserves against losses and bad debts up to 20 percent of SBIC loans and investments; (2) exempt SBIC's from accumulated-earnings tax; (3) exempt SBIC's from personal holding company surtax which might otherwise be assessed through application of attribution rules to SBIC and its shareholders; (4) allow all SBIC's to qualify for privilege of passing through income to stockholders without intermediate corporate tax; (5) allow all equity losses to be offset in full against ordinary income; and (6) permit closely held corporations to exercise option to be taxed as partnership despite SBIC stockownership.

S. 1427 would (1) direct SBA to protect interests of investors as well as those of small business and economic growth; (2) incorporate sections of Investment Company Act of 1940 relating to SBIC's in the Small Business Investment Act of 1958 with the SBA given power to exempt SBIC's, in whole or in part, where appropriate; in addition, the bill specifically exempts private SBIC's from certain sections; (3) incorporate into the Small Business Investment Act certain provisions of the National Bank Act, such as requirement that majority of directors of an SBIC should be U.S. citizens; (4) write into the act present regulations of SBA on such matters as changes in capitalization and issuance of stock options; and (5) exempt SBIC's from the Investment Company Act of 1940.

The membership of our association includes two-thirds of the 650 companies now licensed and operating under the SBIC program and our membership accounts for nearly three-quarters of the total funds committed to the program. We are very pleased to note that the bill before your committee, S. 298, which was introduced by Senator John Sparkman, chairman of the Senate Small Business Committee, is cosponsored by 16 of the 17 members of the Small Business Committee. The companion bill in the House, H.R. 799, was endorsed unanimously by the membership of the House Small Business Committee in its annual report submitted to the Congress in January. We are, therefore, most hopeful that all of the provisions of S. 298 will receive speedy approval from your committee and the Senate to the end of enabling our industry to accomplish its mission of supplying greatly increased amounts of long-term loans and equity financing to small business concerns.

In a message to our annual meeting last December, President Kennedy stated he believes our program "has great potential as a fourth banking system to fill the long-term and equity capital needs of small business." We believe the enactment of S. 298 would go far to enable us to do just that.

The need for this legislation as soon as possible in this session of the Congress is imperative. As you know, the SBIC program was slow in getting underway, but was caught up in the excitement of the bull market of 1961 and then lost much of its momentum with the market break of last May. That event, coupled with increasing problems incident to the launching of this program, have made the past year one of great trial and strain for the industry.

Of the nearly 700 companies licensed by the SBA since the inception of the program, some 30 have now left the program for a variety of reasons. Unfortunately, the past year has seen the departure of several companies including some sizable ones with the result that there has been a net decrease in the funds committed to this program since a year ago. While private dollars committed to this program a year ago outnumbered Government dollars by a ratio of 7 to 1, the departure of several companies from the program over the period of the last 12 months has reduced the ratio of private dollars to Government dollars to approximately 5 to 1.

This is just one indication of why I say that prompt and favorable action by the Congress in the legislative area is imperative if this program is to accomplish its mission. Those of us who have been in the program from its early days—and all of my colleagues here today are pioneers in this industry—are firmly convinced of the soundness of the program and its great potential for assisting small business and thus stimulating the national economy. But to the private investor, the persons whom you gentlemen wanted to encourage to come into the program, the external signs of trouble in the industry have served to dampen considerably the earlier investor interest in SBIC's.

As we visualize it, the SBIC program was conceived as a partnership between the Government and private individuals. By means of our legislative program, including S. 298, we are asking the Congress to shoulder its partnership responsibilities by enacting certain legislative proposals which in our view are necessary to further our partnership goals.

S. 298 would increase the amount of funds made available by the Government to SBIC's and would repeal the 1961 amendment placing a limitation of \$500,000 on the amount of funds that an SBIC might advance for any single enterprise.

My company, Growth Capital, Inc., was licensed in June 1960 and immediately thereafter raised \$10 million of private capital through a public offering of its stock. By means of bank loans, and without use of any Government funds, our assets on March 31, 1963, were increased to approximately \$22 million.

At the time our company was organized section 306 of the Small Business Investment Act of 1958 provided that our company would be permitted to invest up to 20 percent of its capital and surplus in any one small business concern. With our original capital and surplus of \$10 million we were thus authorized to invest up to \$2 million in any one enterprise.

The 1961 amendments to the act included a new restriction limiting the amount of our investment of \$500,000. True, the amendment authorized SBA to grant exceptions to this rule, and the Agency promulgated regulations permitting deviations from the rule, but this restriction nevertheless had a seriously adverse effect on our company and other licensees similarly situated. It is significant to note, for example, that when Electro Science Investors, Inc., of Dallas, Tex., a \$15 million private company elected to leave the program, they cited this 1961 restriction as one of the compelling reasons for their decision.

The \$500,000 limitations was enacted without notice to the industry and without it being given any opportunity to comment on it. It is our view that the limitation was and is unnecessary, that it was unfair to companies such as my own which had no inkling that the ground rules would be changed so drastically and so abruptly, and that it goes counter to the definition of small business which has been developed so carefully by the Small Business Administration and the interested committees of Congress over the years.

The 20-percent limitation contained in the original law is sound in that it insures diversification in the investment activities of SBIC's. But the \$500,000 limitation, placing as it does a mechanical and arbitrary limit on how much an SBIC may advance to a small business concern, can do no good for small business and can do much harm. In venture capital financing particularly, an SBIC must be prepared to go all the way in meeting the financing needs of its portfolio companies. Provided they meet the SBA tests of eligibility, it is our view that they should be entitled to receive all the funds they need up to the 20-percent limitation and without the necessity for having to obtain prior SBA approval.

Statistics published by SBA on the size of loans and investments made by SBIC's indicate that the transactions involving amounts in excess of \$500,000 are numerically insignificant. We are advised that for the year ending September 30, 1962, only about one-half of 1 percent of all loans and investments made by SBIC's involved amounts exceeding \$500,000 and that the total dollars involved in such transactions constituted less than 10 percent of SBIC loans and investments in that period.

In our view, the \$500,000 limitation is unnecessary and unwise, and we therefore urge your committee to approve the language of section 306 which would reenact the provisions of the original law limiting the size of our loans and investments merely to 20 percent of our capital and surplus.

In one other important respect, the 1961 amendments to the Small Business Investment Act changed the ground rules to the detriment of those of us already committed to the program. The 1961 law limited the amount which SBA could loan to any SBIC under section 303(b) to \$4 million. Admittedly, this restriction discriminated against only a few of the larger SBIC's, but the change in the rules did indicate that Congress was, in some way, out of sympathy with the aims and the achievements of our industry. Up until October 1961 my company was eligible to borrow \$5 million from the Small Business Administration and we so stated in our prospectus when we sold our stock. Since that date, we have been limited to \$4 million. May SBIC executives believe these two negative actions taken by Congress almost 2 years ago had a major impact on investors' interest in SBIC's. As SBIC managers and investors survey the risky role SBIC's have undertaken, they naturally seek to determine what offsetting advantages there are for SBIC's. Loans from SBA were one advantage which was curtailed; investments in small, independent businesses requiring more than \$500,000 also were limited.

Therefore, I believe most sincerely that Congress should unequivocally reassert its faith in the program by returning to the rules under which the program grew prior to October 1961.

At least three important results would flow from this action: (1) We would be able to help more qualified small businesses, including those which are in the best position to compete against very large corporations, (2) we would have more funds to help all small businesses, and (3) we would be able to attract additional funds from private investors once it is demonstrated that Congress is aware of the value of SBIC's to the national economy and willing to produce conditions suitable for their growth.

I shall now defer to my colleagues whose personal experience allows them to support S. 298 from other vantage points.

Thank you very much.

Mr. HOWARD. I would like to summarize then. My testimony goes into great length to discuss the subjects you raised, particularly the increase in the 303 funds at least to a \$8 million limit. And it also discusses the \$500,000 limitation.

I think we have had a great deal of testimony on the \$500,000 limitation. Invariably when I talk with people in the securities business and with investors generally the first thing they come up with is the \$500,000 limitation.

In the SBIC industry October 3, 1961, is like May 28 in the investment business. It was a black day when the bill was signed creating this \$500,000 limitation along with the other changes in 1961.

Senator PROXMIRE. What size firm do you have?

Mr. HOWARD. We have a capitalization of slightly over \$10 million. Our total assets at March 31, 1963, were \$22 million—\$22.5 million—of which \$12.5 million was on bank loans without Government guarantee.

Senator PROXMIRE. How much Government money do you have?

Mr. HOWARD. None.

Senator PROXMIRE. No Government money at all?

Mr. HOWARD. No Government money at all.

Senator PROXMIRE. How much of your money is invested in small business investments?

Mr. HOWARD. About \$16 million.

Senator PROXMIRE. How much of that \$16 million is invested in loans of over \$500,000?

Mr. HOWARD. Our range is from \$30,000 to \$2 million. I would say approximately \$8 million. About half.

Senator PROXMIRE. About half now?

Mr. HOWARD. Yes.

Senator PROXMIRE. How much of that, in your judgment, would be put into these bigger loans if the law should be changed?

Mr. HOWARD. Well, as a general rule I think the number of investments exceeding \$500,000 is somewhat a question of time. For 5 years we may have a relatively lower percentage than we might have 5 to 10 years from now, because as companies grow we will invest additional funds.

Ultimately I would think perhaps half our funds would be in investments aggregating the \$500,000.

Senator PROXMIRE. You have half in them now.

Mr. HOWARD. That is right.

Senator PROXMIRE. So it would not change your situation very much then.

Mr. HOWARD. It would to the extent of—

Senator PROXMIRE. You would be free to come in and go out?

Mr. HOWARD. That is right. Timing.

Senator PROXMIRE. But there would not be any great fundamental change. Then why is this so important? You are the head of NASBIC, and you are a big firm. You know this business backward and forward if anybody does. And yet you say that if we pass it this is not going to affect your portfolio very much?

Mr. HOWARD. No; I did not say that. I said that the actual dollars at any one time may approximate half of our total investment, but—

Senator PROXMIRE. The way it is now?

Mr. HOWARD. The way it is now. That is right. But the bulk of our investments now were made prior to the change in the law. In fact, about 20 out of 23 were made prior to the change in the law.

Now, at that time our only limitation was 20 percent of our capital and surplus. At that time we made an investment of \$30,000. We made investments of \$80,000 and \$70,000 and \$105,000—even at a time when we could go up to \$2 million in each situation.

The actual fact is, under the current regulations before an SBIC can exceed the \$500,000 limit, it must have an equal number of dollars in investments below \$500,000.

Now, if a new SBIC were organized today and tomorrow a businessman walked in the door who needed \$550,000, the SBIC could not make such a loan to him under the current regulations because they would not have had in their portfolio investments of a matching dollar amount. An SBIC must make investments in dollar amounts below \$500,000 before it can make a loan exceeding \$500,000.

Senator PROXMIRE. It would give you more flexibility, but it seems to me if you are really going to use that flexibility in a significant way you are going to have substantially more of your portfolio than 50 percent in loans of over \$500,000.

Mr. HOWARD. No; because our practice is to utilize outside financing as much as we possibly can.

Senator PROXMIRE. Now, have you analyzed this from a strictly investment profitability standpoint and determined that you can operate your SBIC most efficiently by having half of your loans below \$500,000?

Mr. HOWARD. No.

Senator PROXMIRE. Is it not perfectly possible that when you do that and you do not have any limitations you may find that the profitable thing to do is put practically all your money in the big loans?

Mr. HOWARD. I would say not.

Senator PROXMIRE. Why not?

Mr. HOWARD. Because investments, Senator, come in all sizes. A small investment may be just as sound. In fact, one of the best investments we have made in terms of return on that investment was an investment made for \$70,000. The company the first year we made the investment earned an amount equal to their net worth at the time we made the investment. They are growing very rapidly, and we have increased the initial investment.

Senator PROXMIRE. You know that those investments are pretty rare.

Mr. HOWARD. No; they are not, Senator.

The testimony today and our own experience would indicate that there are literally thousands of small business concerns with excellent growth prospects and excellent profitability prospects who need financing. Many of these are in very specialized areas.

Senator PROXMIRE. Right now there is a real incentive because of the Government regulations for you to look for those. You are pretty much forced to look for those smaller investments. As a matter of fact, you have to if you have to have half of your money in them if you are going to comply with the law.

Mr. HOWARD. No—

Senator PROXMIRE. If we eliminate this, then it would seem to me there is a natural tendency not to pay as much attention to the smaller companies who would need the lesser amounts of money than to the big companies.

Furthermore, with your association in the industry I should think you might say let some of these other gentlemen who can only make the smaller loans make these smaller investments because it is all they can do.

Mr. HOWARD. To that extent you artificially do force the larger companies to make smaller investments and to compete with smaller companies for the same investment.

If you make the assumption they are giving x number of loans at \$500,000 or below \$500,000, by forcing the whole industry to compete in that area you force the industry—

Senator PROXMIRE. Exactly right. I am looking at it—maybe I should not—but I am looking at it pretty much from the standpoint of the business who wants the money. In other words, the customer, the small business. And the more competition he gets from SBIC's the better. I mean the more competition there is to loan him money, to invest in his company, the better from his standpoint.

From your standpoint, of course, it is the other way around.

Mr. HOWARD. Is it not far more constructive, Senator, to adopt the viewpoint that if you want to put more money in small loans or to put more money into the program, that you should encourage the formation of more SBIC's who are operating in that range than to artificially force the present members of the industry down into very narrow dollar segment?

Would it not be far better to adopt the positive approach?

It is like two men looking at a bottle of whisky. One guy, an optimist, says it is half full, and the other guy, a pessimist, says it is half empty.

We think it is far better to expand the program, to increase the number of operating SBIC's and to encourage the flow of funds into the program as a method of making it easier for small business concerns to get the type of financing they need.

Now, Mr. Dale testified to the number of rejects that he had. This is characteristic of all companies. We have no control over the next man who walks in our door. He may need \$500,000. He may need \$1.5 million. Or he may need \$50,000.

If it is a sound investment, without regard to the amount of the dollars involved, we will review it. We will spend as much time on the \$50,000 if it looks like it is a sound investment as we will on the \$1 million.

Senator PROXMIRE. I should hope so. I think that is a good answer. Let me ask one more question. You have no Government money now?

Mr. HOWARD. No.

Senator PROXMIRE. Would you contemplate borrowing from the Government in the event this law goes through, if we pass it?

Mr. HOWARD. We do not. We have a rather unique—

Senator PROXMIRE. Then what argument is there for changing the \$4 million limitation? If these fellows cannot borrow more than anywhere near that much anyway and you are a typical large SBIC and you have no Government money and most of them do not, why should we change this \$4 million and make it \$8 million?

Mr. HOWARD. You have a practical factor here. Every SBIC operates under its own philosophy. Many of them are using Government funds.

Senator PROXMIRE. The bigger ones are not so much.

Mr. HOWARD. Yes, several of them are. Several of them have not been able to arrange bank financing that we have been able to arrange. To my knowledge, our company is the only company in the industry with bank lines along the basis that we have.

We have a very unique arrangement with our bank, the Cleveland Trust Co., and this is not characteristic. We are not characteristic of the industry.

I would like to make a few more comments in this area.

There have been a great many misstatements made about the industry and the great tax benefits we enjoy. These are actually a myth.

For example, and speaking specifically about Growth Capital, if a normal corporation incurs a loss today of, say \$200,000, they can carry that loss back for 3 years and apply the loss carryback against income taxes paid in prior years or carry it forward against taxes due in future years. Our company as a regulated investment company cannot.

If we have a loss today of \$100,000 on an investment, if we do not have income of \$100,000, we must write that loss off. It is a loss of capital. We have no advantage of a tax carryback or tax carry forward, as a regulated investment company.

Now, this is a relatively little known fact, but it is well known in the investment industry.

Secondly, a basic question arises from the standpoint of value of a minority interest. Take the case mentioned earlier today where the SBIC has a potential equity position of 30 percent. There are many, many cases on record, documented court cases, where an investment interest of 49 percent was literally worthless when they tried to sell it.

There is a classic case in Ohio involving—

Senator PROXMIRE. Let me ask you: Have you proposed changing the carryback and carry forward provisions to make them conform with what other corporations have?

Mr. HOWARD. We have a bill, S. 297, and a corresponding bill introduced in the House, which would make fundamental changes in the tax laws.

Senator PROXMIRE. Yes, but how about this particular change you are suggesting now?

Mr. HOWARD. The changes outlined in that bill would compensate for this.

Senator PROXMIRE. But you are not asking that you be given the same privilege as other corporations as far as carryback is concerned and carry forward?

Mr. HOWARD. In effect we are, yes. The situation arises, Senator, because of a very complex tax law.

Senator PROXMIRE. Well, I do not want to delay you. This is not the committee to act on it anyway. But I wondered as a matter of information.

Mr. HOWARD. The problem will be solved by S. 297, our tax bill, which was introduced in the Senate, and a corresponding bill introduced in the House.

Senator PROXMIRE. Very good.

Mr. HOWARD. Now, there are other tax factors though. For example, just recently, the Treasury held that an investor could not take an ordinary loss on the sale of his SBIC stock because he had not purchased it for investment purposes. It was a short sale.

The Treasury cited testimony of one of the congressional committees to the effect that the purpose of providing the ordinary loss treatment for SBIC stock was to encourage investment in SBIC stocks.

They said that this man did not purchase for investment; therefore, he could not deduct the loss on the sale of his stock as an ordinary loss.

Now, this is the kind of situation that you get into and why I say that our industry is so regulated and is affected by so many different agencies all interpreting these features in their own terms so as to result in a morass that is today completely out of favor with the investment industry and investors generally.

For example, there is no reason why they might not say, once they make that premise, that a man who buys the stock and sells it 1 day later did not purchase it for investment, therefore he should be disallowed the ordinary loss.

What is the period of time necessary for an investment? Under the securities laws there is no specific time except that practice is you must hold it for 2 years.

These are examples. They do not relate directly to our testimony today, but we have three bills that have been introduced. All of them relate to each other. All of them are very important. I wanted to take the time to expand on this to point out some of the other problems, fundamental problems, that our industry has which we are trying to correct.

Our testimony today has not been new. We testified almost the same, verbatim, 2 years ago when we testified before this very committee. Different people testified, but the facts were the same.

At that time we were sort of like a man who has a leaky roof. Our roof was leaking and we told Congress that it was leaking. But the sun was shining. Therefore, why repair the roof?

Today it is raining. We need the roof repaired badly. This is exactly the situation that we are in.

At the time of our previous testimony the industry was misled as far as investor interest was concerned by an over-the-counter market that is not here today and probably will not come back for a long time. The SEC study will have a very important effect on the over-the-counter market. There is no question about it.

I think the quotation of the chairman of the study committee that it was a real "blockbuster" is apt. I think it is going to have a very important effect on the over-the-counter market and thus on SBIC's and on small businesses generally. It will help to create a greater need for equity capital in the range of what today consists of regulation A offerings, \$300,000 and under probably even up to \$500,000 and more, because there will not be a demand on the part of investors to invest their funds in this type of situation.

I think the opportunities for SBIC's are potentially far greater today and will be after the full study has been presented and legislation is enacted. I think that such legislation will expand the potential need and demand for SBIC's far beyond what it is today.

But this is again going beyond this program.

The President has indicated that our economy is lagging in the rate of investment spending. SBIC's put specific dollars—not potential benefits by tax aids but actual dollars—in the hands of small businesses, the bulk of which are used for long-term investment purposes.

As we testified and presented in an earlier case study, the actual dollars utilized in total are far beyond the specific dollars injected by the SBIC's themselves.

Now, one other factor. The SBA itself has been very dedicated to small business concerns. I think the present Administrator, John Horne, and Jim Parris, the Deputy Administrator, in charge of the SBIC program, are really dedicated people. They are working very long hours administering SBA's various functions as outlined by Congress and particularly the SBIC program. They are very fine men.

However, I would like to comment briefly on the testimony of Mr. Horne yesterday.

Mr. Horne and Mr. Parris have dealt firmly and promptly with licensees who have not followed the law and regulations and they have been extremely conscientious in trying to build and develop a sound workable SBIC program. Through their own lending experience at SBA they are familiar with the problems of small businessmen in obtaining financing. They have direct experience in that field.

However, I think that their position as outlined in Mr. Horne's testimony yesterday is indefensible, and I think it is actually contradictory on at least three points.

First, the administration would limit the additional subordinated debenture funds which SBA could purchase under section 302 of the act to a period of less than 2 years.

Now, this becomes meaningless, because under the further restrictions that they impose it would be almost impossible to draw down these funds.

They are proposing that the 302 funds be increased to \$700,000 to be drawn down—

Senator PROXMIRE. Your argument about less by 2 years is from 7 down to 5? Am I thinking of something else?

Mr. HOWARD. No, there are two points. Mr. Horne testified that section 302 funds should be raised to \$700,000 from the present \$400,000 limit but that increment, this extra \$300,000, should be drawn down by June 30 of 1965.

Now, by the time this bill is passed, it will be less than 2 years.

Senator PROXMIRE. I see.

Mr. HOWARD. He further states—

Senator PROXMIRE. Five years was for the new firms that come in.

Mr. HOWARD. Right. This is one of the contradictory points. They say for \$400,000 you ought to have 5 years, but for \$700,000 you ought to have less than 2 years.

Mr. Horne further restricted this saying that before an SBIC could draw down the extra \$300,000 of 302 funds it would have to draw down the first \$400,000 of 302 funds, and the \$400,000 of 303 funds, and invest this money, and then it could come back and draw down the additional \$300,000 after it had sold another \$300,000 privately.

Senator PROXMIRE. But you have had time. You have had 3 years from the time you were licensed to draw down at least part of this.

Mr. HOWARD. No. There are two sections here, Senator. The first \$400,000 is under the present 302 limit. Mr. Horne testified in favor of extending the time from 3 years to 5 years, under which those funds could be drawn down after a licensee is licensed.

The second part was that with regard to an increase in the 302 funds to \$700,000—S. 298 as it is drawn would provide for an increase to \$1 million in 302 funds—that such funds must be drawn down by June 30, 1965.

These two recommendations contradict each other. Mr. Horne further imposed the restriction that with respect to the \$300,000 (the increase from \$400,000 to \$700,000) that amount of money, could not be drawn down until first the \$400,000 was drawn down and \$400,000 more of section 303 funds were drawn down and the SBIC had then increased its capital to \$700,000 privately and had invested a substantial part of those funds. Then they could come back and draw down the additional \$300,000.

If there is a need to extend the time for the initial \$400,000 draw-down to 5 years, then it is patently in conflict to say that the top money should be drawn down by June 30, 1965.

By the time this legislation could become law there would be less than 2 years remaining. It is more likely to be a year and a half.

We believe if the bill were to be changed along the lines recommended by Mr. Horne, Congress would be just kidding itself and kidding some people perhaps in the industry, because it would not accomplish anything. The limit on 302 funds could be made at any amount because such funds could not be utilized. Only a few companies could possibly meet those conditions.

The other point that I would like to expand on is that the larger the capital base of an SBIC is raised the more apt that SBIC is to be considered an investment company.

Senator, you know from your own personal experience with S. 902 in 1961 what the problems are for an SBIC operating under the 1940 act. You introduced the bill and participated in the committee dis-

cussions and in testimony in 1961 when that bill was passed. In commenting on it on the floor of the Senate you stated you expected SEC to take action on certain matters like stock options within a reasonable period of time.

Our industry made an application to SEC for stock options. It took us 1 year to get a one-paragraph reply saying "No." Their answer was they did not feel it would be following the intent and purpose of the 1940 act to permit stock options.

Our company applied to SEC for a limited exemption from section 30(f). This was also an area on which we had testified in 1961. Our application was filed over 2 years ago, Senator, and we have not yet received an answer.

Under dual regulation an SBIC runs into many other areas of conflict. This is why I say all three of these small business growth bills tie in together.

As a company increases its capital to a million dollars as we are proposing under S. 298, at some point it may become a publicly held company.

There is no clearcut line as to when it becomes a publicly held company. It is a matter of hindsight. Some agency may look at it and say, "Look, you are publicly held. Therefore, you must register under the 1940 act and be subject to all its restrictions. You cannot have stock options. You have to get SEC approval before you can make a loan or investment to an affiliated corporation."

We will go into much greater detail when we are testifying on the other bill relating to this area. However, all of these bills relate to the overall problem of what it takes to make an SBIC successful.

SBIC's, had they been in existence when the 1940 act was passed, would have been specifically excluded. Every other type of financial institution was.

Senator PROXMIRE. I think that is a good point. This is not on this particular bill though.

Mr. HOWARD. No.

Senator PROXMIRE. But it does give us a picture of the necessity for having legislation which will encourage and benefit SBIC's.

Mr. HOWARD. That is right. And further it does become relevant to this bill when an SBIC raises its capital base from \$400,000 up to \$1 million. The larger an SBIC becomes in its base, the more apt it is to be considered a public company, so it becomes very germane.

Our industry could testify at length, and the people here from small SBIC's would be very happy to do so, on why they would not like to be publicly held SBIC's.

To sum it up, we believe that S. 297, S. 298, and S. 1427 all have very important features in them, that the three of them together can materially improve the flow of private equity capital into deserving small businesses, which was the intent and purpose of the original act.

I think that Mr. DeVore summed it up very well in his statement in which he said that Congress has a real opportunity here through these three bills if they really believe that SBIC's are performing a vital function in our economy, if they believe that they can stimulate the flow of private funds into small business concerns.

Remember that if SBIC's are not profitable, SBIC's will not exist. And if they are profitable they are only going to be profitable because

they have helped thousands of small business concerns to become more profitable.

If you believe that \$1 of public money loaned, not granted, can attract \$5 to \$7 of private money for investment in small businesses, and if you believe that these needs are in the national interest and serve a sound public purpose of enriched growth of American small business, then we believe that you will vote for and support S. 298, S. 297, and S. 1427.

Senator PROXMIRE. Thank you very much.

Once again, you gentlemen made a very fine presentation, and I am certainly very much impressed.

Thank you.

Mr. STULTS. Mr. Chairman, may we submit some technical observations on parts of Mr. Horne's testimony for the record?

Senator PROXMIRE. Yes indeed. I wish you would. That would be very, very helpful. We will be grateful.

I especially appreciate the comments of Mr. Howard on the Horne testimony. That is exactly the kind of testimony that is useful to us.

(The information referred to follows:)

NATIONAL ASSOCIATION OF SMALL BUSINESS INVESTMENT COMPANIES,
Washington, D.C., May 20, 1963.

Re S. 298.

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

DEAR MR. CHAIRMAN: We respectfully request that the following comments and observations, based on our review of the transcript of the hearings on S. 298 held by your subcommittee on May 14 and 15, be incorporated in the record of the hearings.

First and foremost, the membership of our association and the officers who testified at the hearings on their behalf are overwhelmingly in favor of the bill as introduced in the Senate, and we urge your committee to report it to the Senate in that form.

We have studied carefully the recommendations advanced by the administration for changes in the legislation, and our officers are of the opinion that most of the administration recommendations fall far short of the changes necessary in the existing law if the SBIC program is to be supported by the Congress, and indeed some of the administration's recommendations would do positive harm to the program if enacted as recommended by the administration.

Section 2 of S. 298, as introduced and cosponsored by 16 of the 17 members of the Senate Small Business Committee, and supported unanimously by the full membership of the House Small Business Committee, would increase from \$400,000 to \$1 million the matching Government funds available under section 302(a) of the act and would extend from 3 to 7 years after the enactment of the Small Business Investment Act Amendments of 1961 the period within which licensees might apply for the matching funds.

For the reasons stated by the association witnesses in their testimony on May 15, we firmly believe that both provisions of section 2 of the bill should be enacted as proposed.

In our view, the increase from \$400,000 to \$700,000 proposed by the Administration would be too little too late, and patently insufficient to permit licensees, particularly the smaller ones which make up the great bulk of the industry, to generate the income necessary to attain an economic operating level.

More importantly, the formula proposed by the Administration for making the increased matching funds available to licensees would discriminate against existing licensees and would encourage the reckless investment of funds by SBIC's, the very practice which the Administration states it wants to discourage in its support of the extension of the time for taking down matching funds up to \$400,000.

Under the Administration proposal, as we understand it, a licensee in business on October 3, 1961, would have until October 3, 1966, to take down matching funds up to \$400,000, but only until June 30, 1965, to take down the additional \$300,000 of matching funds up to the level proposed by the Administration, namely \$700,000. This position is patently inconsistent and fraught with great peril for licensees, small business concerns, and the Government. Adding to this proposal the Administration requirement that licensees make maximum use of the loan funds available under section 303(b) of the act and that 75 percent of a licensee's funds be disbursed or committed prior to its becoming eligible to receive the final \$300,000, simply compounds the futility of the proposal.

Assuming a minimum-size company licensed as of October 3, 1961, wished to undertake now to qualify for all of the funds proposed by the Administration, it would first have to raise \$550,000 from private investors, draw down \$400,000 of the matching funds now available to it under section 302(a) of the act, borrow the \$550,000 of loan funds available to it under section 303(b) and then invest or commit 75 percent of its total funds (\$1,237,500) all by June 30, 1965, before it could qualify to receive the additional \$300,000 in matching funds proposed by the Administration.

For companies licensed after the enactment of the amendments as proposed by the Administration, 5 years would be allowed to such companies to enable them to reach the \$400,000 level of private investment, or until some time in 1968, but their right to receive the final \$300,000 in matching Government funds would expire on June 30, 1965.

The chief thrust of the Administration's position seems to be to provide a very limited amount of assistance for a very limited period of time. The Government commitment should be substantially larger and of a more permanent nature. Without the assurance of a continuing responsiveness on the part of the Federal Government, we cannot attract substantial amounts of private capital.

We reiterate our support of the proposal to increase the matching Government funds to \$1 million and, in order to avoid discrimination against existing licensees and in order to give them a fair and intelligent opportunity to utilize the increased funds for the maximum benefit of small business concerns, we urge that the increased funds be made available to all licensees without limitation as to the time within which they may be taken down. This would be consonant with the original act which placed no limitation on the time when groups forming SBIC's might qualify to receive the matching funds made available under the original act.

If, nevertheless, the committee feels that some time limitation should be placed on the availability of such funds, then in order to avoid discrimination against existing licensees, we urge the committee to make those funds available for a period of 7 years running from the enactment of the Small Business Investment Act Amendments of 1963.

Section 3 of the bill would increase the loan funds available to licensees under section 303(b) of the act to 100 percent of paid-in capital and surplus, a \$8 million, whichever is less, where the loans are made by SBA pursuant to agreements to participate on a deferred or standby basis with banks or other lending institutions. Again, our association strongly favors the language in section 3 of S. 298 and is opposed to the administration recommendation which would phase out the standby program and merely increase the maximum loan funds for \$4 to \$5 million.

As pointed out by our witnesses, the increased Government loan funds under section 303(b) are urgently needed in order to give SBIC's increased leverage and the funds necessary to enable them to operate at economic levels.

We find it most curious that the Administration proposes to phase out the standby program in view of the congressional admonition to the administration to encourage private investment in the SBIC program. Bank participation in the program clearly helps achieve this congressional goal, and thus the administration proposal to discontinue the standby program seems to us to be a backward step and one likely to frustrate both the intent of the Congress and the purposes of the SBIC program.

Operations under the standby program to date have assisted materially in two important ways. First, they have enabled the Government to stretch available dollars twice as far in that while direct SBA loans or commitments to licensees have had to be funded 100 percent, SBA's standby guarantees to banks have been funded at just 50 percent. Secondly, it has been the hope of the industry

that banks participating in the standby program would thus gain knowledge of the operations of the program and confidence in their SBIC clients to the end that such banks might ultimately be willing to advance funds to SBIC's without the benefit of the Government guarantee.

The Administration recommendation to phase out the standby program thus will have the effect of ending these two most desirable goals, namely the conservation of Government funds and the increased participation of private funds through banks in the program.

We therefore urge your committee to reject the recommendations of the Administration with reference to section 3 of S. 298 and to approve the language as contained in the bill. If in spite of the foregoing observations you are persuaded that the standby program should be discontinued, then we nevertheless recommend approval of the proposed increase in loan funds to 100 percent of capital and surplus or \$8 million, whichever is less.

The foregoing suggestion might be accomplished by amending section 3 of S. 298 to read as follows:

"(b) To encourage the formation and growth of small business investment companies, the Administration is authorized (but only to the extent that the necessary funds are not available to the company involved from private sources on reasonable terms) to lend funds to such companies through the purchase of their obligations which shall bear interest at such rate, and contain such other terms, as the Administration may fix. The total amount of obligations of any one company which may be purchased and outstanding at any one time by the Administration under this subsection (including commitments to purchase such obligations) shall not exceed 100 percent of the paid-in capital and surplus of such company or \$8 million, whichever is less. All loans made by the Administration under this subsection shall be of such sound value as reasonably to assure repayment."

We are pleased that the Administration chose to support in full the provisions of the section 4 of S. 298 which would result in the repeal of the \$500,000 amendment enacted in 1961. We refer to the testimony of the association's witnesses in support of section 4 and will be pleased to supply any additional information you may need with reference to this proposal.

As pointed out by the association's witnesses, the SBIC program is urgently in need of improvement in the legislative climate if it is to accomplish the goals set for it by the Congress. We are confident that you share with us our concern for the future of the SBIC program, and we therefore urge you to act promptly and favorably on the recommendations now before your committee and as outlined herein.

Sincerely yours,

JAMES W. HOWARD,
President.

Senator PROXMIRE. Thank you very much.

Our next witness is Mr. McCurrach. Mr. McCurrach is the president of Florida Capital Corp. of Palm Beach, Fla.

Mr. McCurrach, I understand you are appearing for yourself and your company.

STATEMENT OF GEORGE A. McCURRACH, PRESIDENT, FLORIDA CAPITAL CORP., PALM BEACH, FLA.

Mr. McCURRACH. That is correct. And you will be delighted to know my statement is only two pages.

Senator PROXMIRE. All right, sir.

Mr. McCURRACH. I will give you a little more pedigree, however, on the subject of Florida Capital Corp.

In very round figures we have an equity base of \$10 million. We have between 5,800 and 5,900 stockholders holding a million and a half shares that are traded daily over the American Stock Exchange.

I think that a more important part of our pedigree is that we were one of the first in the SBIC program, and we were in it on the minimum

base, and we were called down here to testify before Senator Sparkman's committee because at that time the subject matter was: "SBIC's, you have formed now. Why aren't you getting the money to work?"

And we had already done so. We were brought down as a test witness to find out how we were doing so much business.

We subsequently went public, and we now have a large SBIC.

Now, I am going to read the statement. I assure you it will not take long. However, I must say first that I picked up here again today the expression that I have heard applied so often to the SBIC program, namely, the honeymoon is over.

Now, gentlemen, I want you to know that I am not concerned with the honeymoon being over. I am considerably concerned with the likelihood of immediate divorce.

And I do not think that anyone yet has made it sufficiently clear to Government that the SBIC program is in a very critical stage.

I would like to back that statement up with a very brief piece of arithmetic.

Our shareholders, 5,800 or so of them, hold stock which is selling today at \$4. From watching the action of that stock for the last year, we are confident that more than half of those stockholders bought at around the \$4 price. The balance of them by now have long since—those who got in earlier at a higher price—become pretty well reconciled to a \$4 holding price.

And yet our company can be liquidated very easily for at least \$6, very likely \$6.50.

Now, if the Government does not actually do their part of the job, the part of the job that we told them that they had to do 2 years ago at this hearing, and which they implied or promised that they would do, it will not be long before we will be hearing from those 5,800 stockholders. And this applies to many other SBIC's that are publicly held. And they are all in the same spot.

The stockholder will simply say: "Gentlemen, nothing is happening, so I will tell you what I will do. I will take a \$2 profit. I will take a 50-percent profit."

We do not want this. We have worked too hard—Florida Capital. We have worked entirely too hard on this program to see it blow up.

I think the SBIC's, if I may say so, should be sitting up there and Government should be sitting down here, because at the time that they proposed this program they made certain implications and promises, and they printed them in Government pamphlets.

And I might add, if those pamphlets had had to go through SEC, by this time the Government would have been held to account for not having come through—because they have not.

Now, I will just read parts of this to you so it will not take too long.

To a degree, the bills being discussed at this hearing represent the answer to the decision whether the SBIC program will go forward vigorously or whether it will liquidate.

Frankly, the stockholders of Florida Capital have become restive, and if changes are not made by Congress in the next few months we may be faced with a clamor for liquidation. We are hopeful that this hearing will bring about the proper remedies.

Fundamentally, there is nothing wrong with the program excepting that the Government has never lived up to the obligations and promises originally implied to SBIC investors.

When the 1958 act was passed, literature was printed to encourage the formation of SBIC's, and two of the strongest selling points were "the enormous leverage of a 4-to-1 borrowing ratio" and "the 20-year debenture loans available to SBIC's with no principal repayment for 10 years."

This arithmetic was printed in Government pamphlets, and if it had been issued in prospectus form, cleared through SEC, the Government would be in trouble.

The fact is the 4-to-1 ratio was a complete myth from the start, and yet it was used to raise public money, gentlemen. And, as a matter of fact, the Government has not even carried out its original proposal of lending at least a dollar for every \$2 privately invested.

It developed that their debentures were for only 5 years, when the Government knows that an SBIC is constantly making 10- and 15-year loans.

I would like to add at this point, gentlemen, that I would like to meet the genius who feels that a 2-to-1 ratio is quite proper for an SBIC of \$150,000, \$400,000, now maybe \$1 million, but is not proper above that. Why, if you want to know the honest truth, you cannot possibly make money in a small SBIC. It is that simple. We have been one.

We knew we could not make money. We ran a pilot operation to find out whether it was worth devoting our life to this thing. When we finally did achieve an organization—and we are extremely proud of it, and we run our boat real tight, and we are doing an awfully good job right now—we have got an organization and we have got enough money to have invested it. Now, why suddenly do you cut down and say to us, "You cannot possibly borrow any more Government money than \$4 million"?

Perfectly frankly, gentlemen, if something is not done about that, we will be a subject for liquidation.

That is a strong statement, but I sincerely mean it.

Originally, SBIC's were restricted to only one form of investment—convertible debentures. At the time of that hearing that was the only kind of investment allowed to us. Losses on these were deductible from ordinary income. Later, other kinds of securities were permitted, but the income loss was not extended to these securities. Was this a matter of oversight, or was it inertia?

Again I go back to that time 2 or 2½ years ago when we were testifying. And we brought out then the immediate necessity for a tax-free loss reserve. We knew it was a risky business.

And I do not need to tell you gentlemen that it has been proven to be a very risky business, and we have not got a dollar's worth of action, gentlemen, not a dollar's worth of action.

This is why I am worried about the divorce. I know the honeymoon is over. I just do not want a divorce.

I do not mind telling you I did not have to get into this thing personally. I have been working like a dog at it for 2½ years. I think we have made great progress.

I come back to my partner who got me into the thing first, and I ask him: "What are you going to do?" Frankly, I have not had an answer. I have not had a dollar's worth of answer. And, frankly, I think the time has come for answers.

I think in the first place that the leverage should certainly be raised, the maximum should be raised, to \$8 million, no less than that.

The question of a standby loan makes no difference whatsoever. That is just a lot of terminology. The maximum should certainly be raised to \$8 million immediately.

And please, Senator, do not get the idea—I am glad that Mr. Howard corrected you on this—do not for one moment get the idea that the large publicly held SBIC's do not need leverage to make this expensive business pay.

The reason that most of them have not got to that point is that they have not been working as long or as hard as we, or perhaps they raised a little more money.

Now, we have an equity of \$10 million. We have invested \$9 million.

By the way, last year I might add we were repaid \$2.8 million in round figures and reinvested \$2.1 million.

Perfectly frankly, gentlemen, and I do not mean this in any severe way, we do not intend to borrow much Government money and get in any further than we are with the program until we learn from the Government that they are going to do their part in the program.

One of their parts in the program is to supply the leverage that they suggested, implied, and even promised when they first proposed the SBIC program.

If we do not get some relief on this matter of tax-free loss reserve, we will leave the program on that one basis.

We declared a dividend this year. All the profit that we made should have been available as a tax-free loss reserve. But for tax purposes—and you are making us keep two sets of books—it was a profit so we simply had to act as any regulated investment company would and give the dividend to the shareholders instead of putting it in small business.

Senator PROXMIRE. For tax purposes what was the profit?

Mr. McCURRACH. \$370,000.

We gave it all to the stockholders. And we would much rather have simply set up the reserve and used the \$370,000 for reinvestment in small businesses.

By some ludicrous set of I don't know what, we have to juggle, do everything in this business to save ourselves from the very Government that put us in this business in the first place.

I am at a loss to understand. Perhaps I am not being duly respectful. But I am at a loss to understand why our original partner, who suggested the whole idea, has not come to our aid.

You will not find any reference to the \$500,000 individual investment in our statement. Perfectly frankly, here again I am a little puzzled because it is the first time in my 35 years of business experience that I have ever known of a firm being cataloged as to size on the basis of how much money it can borrow or how much money somebody decides to lend it. I do not think that is the point.

By the way, I wish you would look at our record and our statement. We have only one loan now over the \$500,000 mark, it so happens. We have 28 companies, and 10 of them are \$100,000 and under.

So you see our point is this: We were told as investors, "Look, you fellows invest and work and work darned hard in financing small business, and we will enthusiastically join you, and here is what we are going to do." And we have not heard from you.

Frankly, we are deeply concerned with it. It has not got to our stockholders in this way. But we have to represent our stockholders. To a degree we have to think for them first. And I just hope that they do not start doing the thinking for us at the annual meeting or thereafter.

I do not know whether I have made my points clear or not.

Senator PROXMIRE. I think you have. You certainly have made them emphatically clear. It was a very strong, vigorous statement, and I think you have expressed your viewpoint with vigor and with real effectiveness. Thank you very, very much. We appreciate your coming before us.

(The complete prepared statement of Mr. McCurrach follows:)

STATEMENT OF GEORGE A. MCCURRACH, PRESIDENT, FLORIDA CAPITAL CORP.,
PALM BEACH, FLA.

The SBIC program is a business operation and, at the moment, it faces a classic decision that has been presented to thousands of businesses before—whether to redouble its efforts and go forward, or whether to liquidate.

To a degree, the bills being discussed at this hearing represent the answer to that decision. Frankly, the stockholders of Florida Capital have become restive and if changes are not made by Congress in the next few months, we may be faced with a clamor for liquidation. We are hopeful that this hearing will bring about the proper remedies.

Fundamentally, there is nothing wrong with the program excepting that the Government has never lived up to the obligations and promises originally implied to SBIC investors.

When the 1958 act was passed, literature was printed to encourage the formation of SBIC's and two of the strongest selling points were "the enormous leverage of a 4-to-1 borrowing ratio" and "the 20-year debenture loans available to SBIC's with no principal repayment for 10 years." This arithmetic was printed in Government pamphlets and if it had been issued in prospectus form, cleared through SEC, the Government would long since have been called to account for suggesting inducements which never materialized.

The 4-to-1 ratio was a myth from the start and, as a matter of fact, the Government has not even carried out its original proposal of lending at least a dollar for every \$2 privately invested. It developed that the debentures were for only 5 years, when the Government knew that SBIC's were making 10- and 15-year loans.

It has been proposed that the maximum 302 money should be raised from \$400,000 to \$1 million. It has been proposed that the 303 maximum should be raised from \$4 million to \$8 million. Although these proposals do not go far enough, they should be enacted quickly to aid in revitalizing the program.

Originally, SBIC's were restricted to only one form of investment: convertible debentures. Losses on these were deductible from ordinary income. Later, other kinds of securities were permitted, but the income loss was not extended to these securities. Was this a matter of oversight, or was it inertia?

As proposed in the new legislation, losses on any SBIC investment should be deductible from ordinary income, as this was the original intention in the act.

The whole SBIC program was originally conceived and promoted by the Government to induce private investors to risk their money in term loans to business concerns that could not get such loans from other institutions. Everyone admits that small business lending is a risky undertaking. Therefore, the need for a

tax-deductible loss reserve of 20 percent was expressed at Senate hearings 3 years ago, and it has certainly been justified in actual practice since then. But, no reserve has even been granted.

Tax-free loss reserves as proposed up to 20 percent should be made effective for the fiscal year ending March 31, 1964.

We are appearing at this hearing on behalf of our 5,900 stockholders who were led to believe that the Government was going to join them and cooperate with them in financing small business. To date, this spirit of cooperation has been apathetic and the time has come for the Government to take its first forward steps in the program by enacting the proposed legislation, or at least its major features outlined above.

The Government should recognize that at today's discounted market prices, the larger SBIC's could give their stockholders a profit by liquidation. Let us hope that this hearing will result in legislation that will remove this temptation.

NOTE.—Another subject not covered in the proposed bills is the excessive cost of SBA funds loaned to SBIC's. Five percent is too high a charge for "wholesale" money. The Federal home loan bank charges only 3½ percent to savings and loans.

Obviously, if the SBIC pays 5 percent for money, they must charge a maximum rate to the small business who borrows from them. The operating expenses of SBIC's are too high because they require a staff to monitor the loans and to help the borrower to remain profitable or become profitable. Oftentimes the smaller loans prove unprofitable due to the amount of supervision they require, even where the money loaned is not Government money which is hired at 5 percent.

Furthermore, the burden is particularly heavy to an SBIC where idle funds are concerned because the 5-percent money can be reinvested only in Government securities yielding approximately 2.8 percent. Idle funds are a necessary evil in any lending business but a cost squeeze of 2.3 percent is unwarranted.

SBA should lower its interest rate and should permit reinvestment in Government obligations paying as much as 4.8 percent.

Senator SPARKMAN. Let me ask just one question. I suppose I ought to know the answer to this. Why do we charge 5 percent for money from the SBA to SBIC when, as you point out, Federal Home Loan Bank Board charges only 3.5, is it not?

Mr. McCURRACH. That is all, Senator. I wrote this statement, and that is the statement of one of my associates, and it is also my opinion. Your money is too expensive. Five percent is too much for you to charge.

Senator SPARKMAN. Well, you make a point. I am rather impressed by what you say there.

Mr. McCURRACH. Let me say this, if I may, Senator. It is not only that 5 percent is more than factors pay who have a far higher rate of income. It is not only a great deal more to pay for money than savings and loans have to pay which have secured investments which do not, as a witness said, take much watching compared to ours. But there is a much more serious situation with your charge, and we are facing it at this very moment, to tell you the truth.

Every financial institution has to have idle funds. They do not want to have, but they have to have them. So on one hand you charge us 5 percent, and now you say, "But, look, we know you have to keep that money to be ready for these." We have got four deals in legal closing right now. One of them may come up next week. The next one may not come up for 3 months. But you say to us, "Here, we are going to charge you 5 percent, but while you are holding this money waiting for legal closing do not invest it anywhere where you can get more than 2.8 percent."

So here we are.

By the way, we have not got our commitment yet. We owe you \$1.2 million. We are torn as to whether to pay you the \$1.2 and take a chance, because we hate paying \$2,000 a month net, and that is what we are paying for your money. We do not like it. And yet we do not dare give it up because we have not got our commitment yet.

This is a very peculiar way for a financial institution to have to work with its banker. And make no mistake about it, gentlemen, you are our banker. If there is going to be an SBIC program, you are going to be our banker.

The only reason there is an SBIC program in existence today—and mark it well—is that sometime in 1961 an awful lot of people all figured they were Bernard Baruchs and they went around buying growth industries and new businesses, and for that reason there has been enough money.

Senator PROXMIRE. There is nothing in the law that requires, as I understand it, 5 percent. That is in the regulations.

Mr. McCURRACH. That is correct, sir.

Senator PROXMIRE. And, No. 2, there has been a moderate rise in the interest the Government is paying for its new money. It is paying a little more than 4 percent now.

Mr. McCURRACH. Senator, I pursued that. The fact is if we had a lot of cash idle as some SBIC's do—and many of them really did not go to work—if we had a lot lying idle we could take certificates and long-distance first obligations of the Government and eke out—

Senator PROXMIRE. I am talking about it from the other standpoint. I think the feeling on the part of some people in Congress, also some in the SBIC area, is that they did not want this in the area of subsidized program in the sense of giving you Government money at less than the Government has to pay for it plus the service charge of the Government handling the money.

Therefore, there is a bottom limit. Probably at the present time the Government has to pay a little over 4 percent, and it costs half of 1 percent, maybe less, to handle the money. So there would be a bottom of around 4.5-plus percent, so that 5 percent is maybe too high, but at the same time it is hard to get it much below, say, 4.5. That would help I know. Every little bit helps.

Mr. McCURRACH. It would considerably. Because we talk about big-ness. We never intend to keep idle funds. We want a commitment.

Senator PROXMIRE. You would not want 3 percent money, would you? You would not want money for less than the Government has to pay for it, would you? Do you want this to be subsidized?

Mr. McCURRACH. Senator, I would like 1 percent money, but I do not expect the world. I do not like to be caught, frankly, in a squeeze.

You say we cannot reinvest it over 2.8, for all practical purposes. Yet you say, "We are going to charge you 5 percent."

It is a very difficult position for idle funds, frankly.

Did I cover that, Senator?

Senator SPARKMAN. Yes.

That is all. Thank you very much.

The last witness is Mr. Charles Salik, president and chairman of the board of Electronics Capital Corp.

We have had Mr. Salik before, and he is a very able man and a very able witness.

We are delighted to have you. I want to apologize to you for keeping you waiting so long.

STATEMENT OF CHARLES E. SALIK, PRESIDENT AND CHAIRMAN OF THE BOARD, ELECTRONICS CAPITAL CORP.; ACCOMPANIED BY BERNARD KOTEEN, SECRETARY AND GENERAL COUNSEL, AND RICHARD SILBERMAN, EXECUTIVE VICE PRESIDENT

Mr. SALIK. Thank you very much, Senator.

It was a pleasure to have been kept waiting by so outstanding a spokesman for Florida Capital Corp. We think his words will resound in this hall for a long time. And we second a great deal of what he had to say.

We believe that the problems that he faces are similar to the problems that we face and that the Congress must take heed because we are in difficulty.

Senator PROXMIRE. Will you identify the eminent man on your right?

Mr. SALIK. On my right is Bernard Koteen, secretary and general counsel of Electronics Capital Corp. On my left is Mr. Richard Silberman, executive vice president.

Senator PROXMIRE. I know Mr. Koteen very well. I wanted it for the record.

Mr. SALIK. Yes, sir. There has been so much said in connection with these proposed acts that all I could do is commit a redundancy by repeating many of the things that have already been said and that are so profound. And I can only second a great deal of the points.

I can elaborate to some extent from our own viewpoint of 4 years' experience in the field as the largest small business investment company and the first to go public.

Senator PROXMIRE. How large is your firm?

Mr. SALIK. Our net assets are \$32.5 million. And I understand that makes us the largest under the present rule.

First let me say that an SBIC is a maximum risk investment company. It is almost a shame that it is called an investment company, because it is really not. It is a capital bank. Therefore, I want to make an analogy with the banking system.

The banks, who make essentially minimum risk investments or loans, are allowed to take such risks with a great deal of freedom. They are allowed to, for example, make loans of up to 10 percent of their paid-in capital and surplus with no limitation to the dollar amount.

I believe that had they had a limitation the progress of our economy would have slowed long ago, many, many years ago.

They do, however, make predominantly small loans. In terms of numbers of people, numbers of loans made, of course, the smallest largely predominate the list of any loan portfolio of a bank. Recognizing—

Senator PROXMIRE. Would you suggest we drop the first word in the Small Business Investment Company and just make it a Business Investment Corporation by knocking out the \$500,000 limitation and

assume that on the basis of the experience with the banks that you would make your fair share without any limitation of investments in small business?

Mr. SALIK. First I would say I would choose the word "Small Business Capital Bank" as more descriptive.

Senator PROXMIRE. How about "Business Bank"?

Mr. SALIK. Small Business Capital Bank.

Senator PROXMIRE. Why "small" if you are not going to have a limitation, if you are going to put it on the same foursquare basis as the commercial bank? These are not for small business purposes. They are for all business purposes without limitation.

Mr. SALIK. On a commercial banking basis that is true. But, as you know, with the exception of the big New York and west coast banks most banks are small business banks themselves. But their kind of lending is short-term and an entirely different approach to the function that we envision the Small Business Investment Act was passed for.

Senator PROXMIRE. I think you have got a very, very interesting and provocative idea. Maybe you are right. But I feel very strongly Congress did not have this idea in mind when they created this institution.

Maybe what we need is more risk capital in our economy at all levels. That is probably true. But the basis and the justification for creating the SBIC—with whatever privileges it has, and a lot of people feel they do not amount to very much—whatever they are are to help small business—small business. And the "small" is the biggest word in that description. Small business investment company.

Mr. SALIK. I agree.

Senator PROXMIRE. If you knock down the "small," you have got to operate on a different basis. And many people would say that Morgan Stanley or some other firms can take care of the rest of the market, the big ones.

Mr. SALIK. But there is a tremendous gap between what the investment bank such as Morgan Stanley; Bear, Stearns and other firms that would normally take an issue of the kind Electronics Capital would invest in. The gap is very enormous. There are so many people who can use \$1 million, \$2 million, \$3 million, \$250,000, \$500,000 who are definitely and factually small business that the word "small" effectively applies.

But when it comes to the word investment company, then we come into areas of great problems. Specifically in dealing with the day-to-day operations of a small business we have to say that it is the hardest job there is, I think, in finance. Small business is almost certainly prone to failure. Until the Small Business Investment Act came along I think you could almost be sure that the percentage of small business failure would increase continuously.

I think the percentage will tend slowly after a few years more to decline because of the small business investment companies' existence.

We can afford to go the extra mile, to lend that extra money at the critical juncture of a small business' growth; a bank cannot. Its stockholders will not allow it. Its approach is entirely different.

This is true of almost every other financial institution.

Now, if you proceed with this high risk theory, then I think to arbitrarily limit the amount of money than can be risked deprives a great segment of small business of funds desperately needed.

Most of the electronics manufacturers are small business. Percentage-wise, the percentage is enormous. People who supply the Defense Department with electronic equipment, however, need a great deal of capital, much more so than the average industry.

We find that it takes \$25,000 of capital per job to create an effective working unit.

In other words, we are limited to creating a new business that is limited to 20 people, 25 people at the most. I think this is wrong.

I think that most electronics companies tend to grow very quickly once they get in stride. And 25 people is a drop in the bucket in our field.

We think of 100, 200, 500.

Senator PROXMIRE. What portion is invested in small business of the \$32 million you have?

Mr. SALIK. Approximately \$20 million is now invested of our \$32 million—invested and committed.

Senator PROXMIRE. \$20 million? How much—

Mr. SALIK. Pardon me. I am sorry. I was corrected by Mr. Silberman—\$20 million is invested and \$25 million committed.

Senator PROXMIRE. So an aggregate of \$25 million altogether is committed?

Mr. SALIK. A total of \$25 million is committed to small business.

Senator PROXMIRE. How much of this \$25 million that is invested and committed is invested or committed in amounts of \$500,000 or more?

Mr. SALIK. I would say that three-quarters, or that 15 or our 20 companies are investments of \$500,000 or more, and 5 are less than \$500,000.

Senator PROXMIRE. You are right at the limit now?

Mr. SALIK. Yes.

Senator PROXMIRE. Your legal limit. In fact, because of the hold-over in the law, you probably have more than half. Do you have more than half of your money invested in over \$500,000 loans?

Mr. SALIK. Yes.

Senator PROXMIRE. So you cannot make any more investments over \$500,000?

Mr. SALIK. That is right. We have many investments sitting on the back burner at the moment waiting for your action, hoping—

Senator PROXMIRE. With this change I take it then you would move into a situation where you would have 80 or 90 percent of your funds invested in loans of \$500,000 or more?

Mr. SALIK. Yes, very likely. We think, to deal specifically with the point you raised a number of times today, that the very fact that there is a 20-percent limitation will cause smaller small businesses to be adequately and thoroughly taken care of by the small SBIC's. I mean if you analyze—

Senator PROXMIRE. Now, Mr. McCurrach, who is a very able man, who made a very impressive statement, said he found out that the small SBIC's just cannot operate economically, and I think he is probably right. I think that is the kind of testimony we get.

Some people for pro bono publico reasons might want their little community to have something. They can afford the time, and they will make the sacrifice and invest. But you are not going to get much of this.

But, by and large, if you proceed on the basis that this elimination of the \$500,000 provision would encompass, you would have a situation I would think where rather quickly you would get mostly big firms, making big investments of \$500,000 or larger.

Mr. SALIK. But the fact of the matter is there are 600 small business investment companies and only 50 public companies, of which I would say only 35 would be big in the sense of a big small business investment company.

Senator PROXMIRE. Yes, but if I can believe my ears, from the testimony I have heard yesterday and today, we are not going to have many of those firms persisting very long because they are finding they just cannot make out.

Mr. SALIK. I think those statements are true, because, as I testified over 3 years ago, in 1959 if I recall correctly, I felt—someone asked me, and I think you did, what was the smallest size that I thought could effectively operate—that it was \$5 million.

Nevertheless, even at \$5 million, using the 20-percent principle, and knowing that a \$5 million small business investment company is not going to commit all of its assets in 5 companies, I think you can be assured that they will have 20 or so portfolio companies and they will invest in essentially less than \$500,000 investment situations.

I think you have to be also aware constantly that a small business can and constantly does need much more than \$500,000. I have found in my experience—

Senator PROXMIRE. What you are telling us is that you in your best judgment—and you have the biggest firm and certainly one of the most successful and with a fine reputation—is you would make your investments in the big loans. You would put your money, 90 percent of it—

Mr. SALIK (interrupting). That is correct.

Mr. PROXMIRE (continuing). Into the \$500,000 or over. Well, your judgment is good. I am inclined to feel maybe if I was in your position I would do exactly the same thing.

Therefore, if we pass this provision, why can we not realistically envision that the sensible, prudent, effective operation is going to go into the bigger loans?

Mr. SALIK. We are, of course, a specialized investment company in this case. But I think you have to go back to the basic theme of the small business investment company. I think you have to say to yourself that the arbitrary limit of \$500,000 just will not hold in companies of our kind, our size.

We are a fact; we are not a fancy. We are not thinking theoretically. We are here now.

Now, the only thing you can do to us is say, "Well, you have got a \$500,000 limitation, and you are stuck with it."

Now, we did not know that when we went in the business. We probably would not have formed Electronics Capital Corp. if that had been in the act to start with. I can say that with a great deal of confidence.

I can also say, as others have said, that it will put a severe strain on our ability to stay in the program.

Now, we do not say we will liquidate, but we will use every resource available to us to continue to operate just as we have, as a small business investment company, but possibly and hopefully outside of this limitation, even if it has to be outside of the act.

We think that there is a great need for small business to receive a half million dollars to a million to 2 million, to 4 million even.

Now, this is still a small business requirement. I know many, many small businesses at this moment could not get a dime, much less a half million, but deperately need it and can justify it.

We have a company I am thinking of right at this moment that would like a million dollars. It is an excellent company. It is truly a small business. It will make a great deal of money some day, and we will make a great deal of profit. But we cannot touch it because if we give them the half million and we know they need a million we are fooling only ourselves.

If we give them a half million dollars and promise that maybe some day the act will change, we would be misleading them.

Senator PROXMIRE. Can you not participate?

Mr. SALIK. We have given participation a great deal of thought. We have found in our view participation can cause a great deal of problems.

We think that particularly in our size of investment company a participation means that we will have to bear the principal burden of the management of this investment, providing the services, and we will have second companies participating in the benefits without participating in and therefore not really sharing the burden. Our name will be at stake but yet we will not have the total authority.

We think that our kind of investment——

Senator PROXMIRE. You are permitted to charge a management fee, are you not?

Mr. SALIK. We always do.

Senator PROXMIRE. Why would that not take care of it?

Mr. SALIK. It does not take care of the responsibility. It does take care of the cost. But I am not so much concerned with the cost aspect because we always spend more than we receive in terms of management services.

But I am thinking more when we analyze it more carefully of the divided responsibility and the divided results achieved and the results achieved for other shareholders not shareholders of our company.

And also I think it will be a great burden to the small business company to have this divergent view constantly impressed upon them. Because I can envision if there were three small business investment companies each putting half a million dollars into a company, they will each want a member on the board, and they may each have different investment objectives than we do.

Some may want to have an immediate return and push for fancy earnings regardless of whether this affects the growth. Others may be willing, as we are, to go for the long pull. And you may just have battles that are unnecessary.

We think we can successfully service the larger small business and do an effective job and thereby improve the economy.

Now, when you talk about borrowing from the Government, we do not envision borrowing from the Government, but we certainly like the idea of having the Government back there in the background as a lender of last resort.

We will never of our own free will come to the Government and take down money to lend to small business. We think this is wrong. We think this is inflationary.

As you know, I proposed an intermediate bank which would do more of this risk taking. I stopped going any further with this when this limitation came, because I wanted to first see how this was going to go, because we all seriously thought of getting out of the program when this hit us.

Senator PROXMIRE. Do you think it is wrong and inflationary to borrow Government money and lend it to small business?

Mr. SALIK. Yes, I think it is inflationary where it takes money out of the Treasury which I think should come out of public hands directly, people who willingly, of their own free will, invest risk money for high gain.

Senator PROXMIRE. If you really feel that way, that is a pretty important public consideration, and I would think you would oppose provisions to increase the amount of Government money going into small business for SBIC's.

Mr. SALIK. I would not oppose it as a lender of last resort. You realize we are taking extremely high risk. We get into trouble and banks are not going to listen, and no other institution lending money is going to listen. The only people we can then go to if we are in trouble and need to roll over funds is the Government.

I would much rather have an intermediate agency like the Federal Reserve Board arrangement with the district banks. I would much rather have that kind of system to go to than the Government.

Senator PROXMIRE. How about standby to do that?

Mr. SALIK. What was that?

Senator PROXMIRE. How about standby? You know the SBA says that they will pick up from the banks in the event that anything goes wrong.

Mr. SALIK. It certainly adds a great deal, and it is extremely helpful, but it is only a stopgap measure. It is a short-term thing that I think the banks also look at with a great deal of skeptical attitude, mainly because I think they really do not want the Government to perform this service if they can possibly do it themselves.

But it is always wonderful to have that as a reserve; that is true. We need this desperately.

Now, a final point. All I can say is I think the small business investment program, in spite of what I have said and others have said, will succeed, will never fade from the scene. Because we are here, this in itself will mean that we will perpetuate this program.

Those of us who have a great deal of daily problems tend to forget the long-term picture. But, in fact, this is a very, very important program to the American economy. We think it has tremendous success potential.

We are confident that we are going to succeed. We have problems. One, for example, is that we have to live under another law that was never designed to deal with small business investment companies.

We asked that permission be given to merge two companies. We filed 6 months ago under this law for permission to bring this merger about. We have as yet to hear anything. And two small companies literally die on the vine if they have agreed to merge, if they psychologically are set to merge, but nothing happens. They constantly ask us, "We are either going to have to break apart or have to die or you are going to have to infuse funds to both of us or we cannot keep our heads above water."

We have lost hundreds of thousands of dollars because we are living under two acts that do not make sense. They do not work together. The Small Business Investment Act does make good sense by itself, but under the 1940 act—and I must say here the SEC has done a great job in trying to deal with this problem. We have no criticism of the SEC. We have criticism of the law that they have to administer. It is a most difficult, difficult situation.

We contemplate more mergers because of various weaknesses we see in management as we go down the line because of the need for greater facilities, because it makes better sense sometimes for two technical heads to be under the same roof, and we see that we are going to have a constant, ever-increasing problem because this 1940 act has never been properly amended to reflect how it should deal with small business investment companies.

We think this is so serious as to be as great a problem as anything that has been brought up to date.

We think it is going to be greater as the so-called section 17(d) of the 1940 act is more and more applied to small business investment companies.

There is the very fact that by buying a convertible debenture as contemplated by the 1958 act in order to convert we have got to get permission under the 1940 act, and it takes sometimes 3 to 6 months, maybe longer, just to get permission to act when we have every right to do it under the basic act, the 1958 act.

This kind of problem I think has to be dealt with and has to be dealt with very soon.

We expect to go over and ask the SEC this afternoon if there could be some enabling rule. We do not expect that we will get very far because we recognize the problems they have. They are understaffed. They are overworked. And they have a heck of a problem just looking at our problems, much less the problems of a whole industry.

The 1940 act was designed for big business. It does not apply to small business. And when you try to set this jigsaw up against it it just does not work. It does not work.

Well, I sort of got off the track on that, but that I feel is as critical as all these other provisions of the act.

I do appreciate the time that you have given me even though I know it is late for lunch, and so forth.

I would also like to say that at any moment that you decide to hold additional hearings we will drop everything and come here. As you know, I have come quite a distance. I will be glad to do it again.

If there is any way we could aid you to come to a fair decision with regard to this, we will do it. I think the whole industry will do it. We are at a point of no return. We really cannot go backward, and, as one person said, we are looking toward a divorce.

I think the obstacles can be met, and they will be met by Congress. Thank you very much, sir.

Senator PROXMIRE. Thank you for an excellent and fine statement. We are happy that you have come here all the way from California and are very grateful.

I would like to simply ask you this: On the basis of the present regulations, you have been able to operate profitably. You are publicly held. What was your reported profit last year?

Mr. SALIK. Last year before reserves \$600,000 after taxes.

Senator PROXMIRE. What is your equity?

Mr. SALIK. The equity? \$32 million.

Senator PROXMIRE. \$32 million is your capital and surplus?

Mr. SALIK. Our basic capital, against 2,450,000 shares.

Senator PROXMIRE. So is it a fair statement to say you made about 2 percent?

Mr. SALIK. Well, the least concern of ours is earning of ordinary income. We are going for long-term capital gains. We think in reality our earnings are infinitely greater than that. They are unrealized, but they are.

In the case of Potter Industries and another company we have public, it is already evident it is there. We have not yet capitalized on it by turning it in.

Senator PROXMIRE. When you say \$600,000, you are talking about the net income which you realized that year primarily from interest payments, and so forth?

Mr. SALIK. That is correct, and from management fees.

Senator PROXMIRE. You did not take any large capital gains last year?

Mr. SALIK. We took none. No capital gains.

Senator PROXMIRE. You were in position to take some, in which case you would have had a healthy profit picture?

Mr. SALIK. Extremely healthy profit picture.

Senator PROXMIRE. The question that comes up in my mind is that I suppose this is exceptional and no one company, of course, in a field this large is typical, but if you are doing this well under present law how well do you have to do?

Mr. SALIK. Sir, we are doing well because of the old law before the law was changed. We have not made new investments since.

Senator PROXMIRE. On the basis of the law before there was a \$500,000 limitation?

Mr. SALIK. That is correct.

Senator PROXMIRE. That is the one prime objection you have?

Mr. SALIK. Yes, sir.

Senator PROXMIRE. There are other very important ones, most of which are not before us today, but that is the one in this particular bill?

Mr. SALIK. Yes, sir. That stopped us cold.

Mr. SILBERMAN. Senator, one point I think should be clarified. On the \$500,000 limitation, there is no question that we would be looking at larger investments. We think that is the role we serve.

On the other hand, I think it is wrong to assume that overnight the public or the investment companies will have sufficient capital that

every public company will be in a position to make \$500,000 investments.

And what we are saying is that the small business community of our economy is very broad and this law has within it the power to serve all elements of that community, and we think it should continue to serve all elements, and specifically we see sound companies at a \$5 million level, and if a \$5 million SBIC has a restriction of 20 percent on its capital it will not make \$1 million investments. It will be looking at \$300,000 and \$400,000 investments.

Likewise, there will be all size small business investment companies.

Second, I think the example of Florida Capital shows there are certain large SBIC's that as part of their philosophy can organize themselves to make a large number of loans.

Our particular philosophy, because we specialize in an industry with high capital cost, has been to the contrary.

Senator PROXMIRE. How many loans do you have?

Mr. SILBERMAN. Twenty.

Senator PROXMIRE. And you have approximately 3 times the capital and surplus of Florida, and they have 28?

Mr. SILBERMAN. That is right.

Senator PROXMIRE. Thank you very, very much.

This has been very educational for me.

This concludes the hearings. The record will be kept open for a few more days.

(Whereupon, at 1:27 p.m., the subcommittee adjourned subject to the call of the chairman.)

(The following material was later supplied for the record:)

STATEMENT OF PHILIP F. JEHL, WASHINGTON REPRESENTATIVE AND ASSOCIATE GENERAL COUNSEL OF THE NATIONAL ASSOCIATION OF RETAIL DRUGGISTS

Mr. Chairman and members of the Banking and Currency Committee, I appreciate this opportunity to present the views of America's independent druggists, as represented by the National Association of Retail Druggists, on the program you are now considering. The NARD, as you know, speaks for 36,000 independent drugstore owners.

While I cannot speak on the specifics of the legislation before you, I can certainly testify on the need of druggists for long-term loans and equity capital. As the members of this committee so well know, the existence of a gap in this Nation's institutional sources of such funds has long been recognized.

I believe that the SBIC program represents a good start toward filling the needs of many new and growing small and independent business enterprises—including those in the retail drug field. In today's world, the owner-operator of a drugstore is faced with all sorts of powerful competitive forces which threaten his very existence. To be able to survive in such a situation, he needs many resources, and one of these is money.

There are several SBIC's specializing in providing long-term financing for retail druggists. This is a good start, but we need many more, I believe. One way to channel more assistance to the druggist—and to all independent retailers—is to attract more capital to the SBIC industry. As I read the bills before you, and the statements made by their sponsors and their supporters, I believe that they are directed to that very purpose.

Several years ago, I spent much of my time over a period of several months trying to interest the various segments of the entire pharmaceutical industry in establishing a large SBIC which would exist only to provide financing for worthy and qualified druggists. Unfortunately, I was not successful at that time, but I still believe that it would have been a good idea, and I believe that it is needed even more today.

On the other hand, there were, and are, difficulties in running a profitable SBIC. In most cases, their resources are too small.

SBIC's are a unique experience in Government-business partnership and they have been authorized to attempt to fill a role which no other institution can undertake. Therefore, I can say in all sincerity that whatever this committee does to make the SBIC industry more attractive will redound to the immediate benefit of the millions of independent retailers in the United States.

STATEMENT OF JOHN A. GOSNELL, SECRETARY AND GENERAL COUNSEL, NATIONAL SMALL BUSINESS ASSOCIATION

Mr. Chairman and members of the committee, the bills before you today would amend the Small Business Investment Act of 1958 in several particulars. At the outset, let me say that I support these amendments and I hope that the committee will favorably report them to the Senate for action.

On the other hand I ask your indulgence to speak about the SBIC program more generally since the industry witnesses themselves have covered the particulars of these bills.

In the first place the members of our association are independent, small businessmen who have the traditional hopes and problems of American entrepreneurs. Over the past 20 or 30 years one of the chief problems facing them has been their difficulty in amassing enough capital to operate efficiently and to grow.

From the thirties up to the present, numerous studies have confirmed what these men have learned pragmatically; that is, high taxes sap much of the oldtime juice of expansion, retained earnings. Neither the business itself nor its owners are able to plow back every dollar of earnings, as they would have done 60 years ago. For the same reason, the resources of relatives and friends are less likely to be available and adequate for starting and expanding a business.

On the other side of the coin, the public-securities markets are seldom open to the typical small business, and when that course is open, the costs are extremely high. Incidentally, I have recently read an SEC report which indicates that the smaller public offerings of stock—the so-called Reg A offerings—fell off almost to nothing during 1962, and very few have been floated thus far in 1963.

Other institutional sources of equity capital or long-term credit are also few, and usually closed to smaller firms, so we have all seen many cases where the well-qualified, well-managed business with a good potential has found that its growth was severely restricted. Often the owners of such a business sold out to another company, as the only alternative to a locked-in, stagnant future.

It was a recognition of these facts of economic life that led the Congress to pass the Small Business Investment Act of 1958. Once again, I wish to compliment you, Mr. Chairman, and the members of this committee for the important role you played in enacting that legislation.

It has now been almost 5 years since the act was passed, and just a little more than 4 years since the first SBIC's were licensed. What has been their record?

I believe that the program has gotten off to a good start; I believe that operations to date prove that the concept was sound and the need was real. I know that the 7,000 small businesses which have received over \$350 million of SBIC financing are the best witnesses this committee has—even though few, if any, of them are here today.

Therefore, the NSBA is glad to continue to support the SBIC program.

On the other hand, the start which has been made is just that—only a beginning. We believe that the need for SBIC assistance runs many times beyond the resources the industry now has in its possession or at its command.

Furthermore, the remarkable momentum gathered by this new and pioneering industry during 1960 and 1961 seems to have been checked. During the past year, a number of SBIC's have left the program and few more proposals for new licenses have been filed.

I do not pretend to know all the reasons for this setback, but I do know that it is not a good portent. Unless the SBIC program survives and grows, it will fail to meet the hopes of its supporters and the needs of the economy.

Therefore, the association supports S. 298 and the other similar bills; we also support the companion measures which have been referred to other committees,

since we believe that a number of features of the program require changes. By the way, the fact that Congress is asked to amend this law is not strange, since it is such a unique undertaking. When the 1958 act was passed, everyone who spoke on the floor of the Senate or the House pointed out that it was pioneering legislation establishing a new program and would inevitably require revisions—and perhaps major rewriting.

In closing, I respectfully urge the members of this committee to support the bills before you and press for their prompt passage. I feel strongly that such action will restore vigor to the SBIC program which is so crucial to the needs of our national economy and free enterprise system.

OPINION ON THE STANDBY PROGRAM

SMALL BUSINESS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., August 10, 1962.

HON. JOSEPH CAMPBELL,
Comptroller General of the United States,
General Accounting Office,
Washington, D.C.

DEAR MR. CAMPBELL: Your opinion is requested as to whether your Office will interpose objection to the disbursement of funds by this agency under the "standby" program, described below, employed in connection with the performance of the functions and responsibilities of the Small Business Administration under section 303 of the Small Business Investment Act of 1958, as amended (15 U.S.C. 661).

RELEVANT STATUTES

Section 303 of the Small Business Investment Act, as amended in 1961 (SBIA), states:

"SEC. 303. (a) Each small business investment company shall have authority to borrow money and to issue its debenture bonds, promissory notes, or other obligations under such general conditions and subject to such limitations and regulations as the Administration may prescribe.

"(b) To encourage the formation and growth of small business investment companies, the Administration is authorized (*but only to the extent that the necessary funds are not available to the company involved from private sources on reasonable terms*) to lend funds to such companies through the purchase of their obligations which shall bear interest at such rate, and contain such other terms, as the Administration may fix. The total amount of obligations of any one company which may be purchased and outstanding at any one time by the Administration under this subsection (*including commitments to purchase such obligations*) shall not exceed 50 percent of the paid-in capital and surplus of such company or \$4,000,000, whichever is less. *All loans made by the Administration under this subsection shall be of such sound value as reasonably to assure repayment.*" (1961 amendments in italic.)

Section 102 of the SBIA directs that the congressional policy to improve the economy through a program intended "to stimulate and supplement the flow of private equity capital and long-term loan funds" for small business concerns "shall be carried out in such manner as to insure the maximum participation of private financing sources."

Section 201 of the SBIA confers and imposes upon the SBA Administrator and the SBA, in connection with the performance of the functions, powers, and duties under the SBIA, the functions, powers and duties set forth in the Small Business Act (15 USC 631).

Section 5(b)(2) of the Small Business Act authorizes the SBA Administrator to " * * * assign or sell * * * or otherwise dispose of * * * in his discretion and upon such terms and conditions and for such consideration as the Administrator shall determine to be reasonable, any evidence of debt, contract, * * * held by him in connection with the payment of loans * * *."

Section 5(b)(7) of the Small Business Act authorizes the SBA Administrator to " * * * take any and all actions * * * determined by him to be necessary or desirable in making, servicing * * * or otherwise dealing with loans * * *."

BACKGROUND

From the inception of operations under the SBIA until recently, SBA endeavored, but without success, to induce banks, insurance companies and other financial institutions to provide loan funds to small business investment companies licensed under the SBIA (licensees) through purchase of their obligations, in order to give effect to the congressional policy stated in section 102 of the SBIA. However, since the latter part of 1961, private financial institutions have been induced to participate in the investment program by providing loans to licensees under the standby program, thereby carrying out the policy of Congress referred to above.

In August 1961 Mr. Fine, then SBA Deputy Administrator, Investment Division, and I testified before Small Business Subcommittees of the House and Senate Committees on Banking and Currency in connection with pending amendments to the SBIA. In discussing section 303 we referred to the fact that SBA intended to initiate a standby program in order to attract maximum private funds, involving commitments for the use and benefit of and to attract private financing sources.

At page 121 of the transcript of the hearings (held August 1, 2, 3, and 5, 1961) on the 1961 SBIA amendments (H.R. 6672) before Subcommittee No. 2 of the House Committee on Banking and Currency, Mr. Fine testified as follows:

"* * * There will be a time, sir—it is bound to come—when these companies will have operating experience and will become bankable risks. As a matter of fact we are now—in an attempt to solve the problem that you are raising—working out a commitment program whereby our 303 funds will be committed to a SBIC. Then rather than borrow from the Government, they will go to a private source and say, 'Look, we have a Government guarantee. At any time you want to get your money back, you can come and ask us and the Government will give us the money to give to you.' * * *

At page 121 of said transcript of the hearings I indicated the long-term advantages of a standby program as follows:

"* * * If we can get into operation the program that Mr. Fine has outlined, we think that within itself will induce private lenders, banks, or insurance companies, and other sources, to come on in and make the loans, knowing that they can call on the Government if they want to."

At page 4 of Senate Report No. 801, 87th Congress, 1st session, accompanying S. 902 (1961 SBIA Amendments) the following statement is made:

"Section 7 of S. 902, as amended, would limit the amount that SBA could make in loans to a single SBIC to \$3 million. The committee believes that SBA loans should be extended to SBIC's only after the borrowing SBIC has demonstrated its inability to make a substantially similar loan from private sources. The committee appreciates the imagination of SBA in developing 'standby' provisions putting SBA credit behind the borrowing SBIC. However, it is not contemplated that this procedure will enable private sources of capital to make loans, in effect guaranteed by the Government, at unreasonably high rates of interest."

Senator Proxmire, floor manager of S. 902 and Chairman of the Subcommittee on Small Business of the Senate Banking and Currency Committee, during Senate floor discussion of the bill (Congressional Record, Sept. 1, 1961, p. 16807), stated:

"* * * SBA has indicated that its policy is not to grant loans under section 303 of the act unless there are no funds available from private sources. In its regulations, published in the Federal Register for August 31 of this year, the SBA states that private funds are considered unavailable when the appropriate certificate submitted to SBA so indicates. The certificate submitted by an SBIC includes a statement that the money sought was not otherwise available. Perhaps this might be clarified to include the statement that no funds were otherwise available, even on an SBA standby takeout commitment. I know that other Senators and I were impressed with the description of SBA's procedure for standby takeout commitments. In essence, SBA stands ready to loan money to an SBIC when the lender of prior privately loaned money calls it in * * *"

In October 1961 the standby program under section 303 was put into operation on a test basis.

The success of this test is evidenced by the fact that to date 23 banks participating in the standby program have agreed to provide \$4,660,000 in private funds to licensees.

Certain additional banks desiring to participate in the program have requested advance assurance that your Office will interpose no objection to SBA disbursements which may be made under the program.

By letter dated January 15, 1962, Mr. Saxon, Comptroller of the Currency, informed SBA that loans made by national banks under the 303(b) standby program fall under exception 10 to R.S. 5200 (12 USC 84) and hence are not subject to the percentage of capital and surplus limitations imposed by such section.

In March of this year I appeared before a subcommittee of the House Committee on Appropriations in connection with our 1963 budget request. In the budget justification, which is part of the record of those proceedings, it is stated that we anticipate that \$64 million will be disbursed to licensees by commercial banks under our subject standby program (p. 855 of transcript of Hearings on Department of State, Justice, and Commerce, the Judiciary, and Related Agencies Appropriations for 1963, 87th Cong. 2d sess.).

Between February 24 and April 18 of this year the Senate Select Committee on Small Business held hearings in Washington and principal cities throughout the country, reviewing the operations of small business investment companies. The standby program was referred to and discussed at various times during these hearings. For instance, at the Washington hearing Mr. Fine, after noting that the program should lessen the drain on Federal funds and attract private lending institutions to the investment program, described precisely the manner in which the program operates.

THE 303 STANDBY PROGRAM

When a licensee applies for a direct loan from SBA under section 303(b) of the SBIA, SBA will not issue its commitment to purchase the licensee's obligations unless the latter certifies as to its inability to obtain the needed funds from private sources alone, as well as its inability to obtain such funds from private sources under the standby program.

If a private financial institution is willing to provide the licensee with the loan funds under an SBA standby arrangement, SBA thereupon processes the loan application of the licensee, including the obtaining of executed loan documents and related instruments, in the same manner and under substantially the same terms as when SBA issues a loan commitment to a licensee and purchases the obligation of the licensee directly. However, where the standby arrangement is involved, the SBA commitment to the licensee indicates that either SBA or the private source will disburse the loan funds and will hold the note.

Simultaneously with the issuance by SBA of a loan commitment to a licensee under the standby program, SBA and the private lending source (ordinarily a bank) execute an agreement under which:

(a) SBA assigns to bank the executed note of the licensee and bank assumes the obligation under the SBA loan commitment to disburse funds to the licensee under the note, but only when so directed by SBA.

(b) Bank may reassign the note to SBA at any time and SBA will thereupon pay bank the outstanding principal under the note. Recoveries of unpaid interest by SBA are prorated between SBA and bank.

(c) SBA may at any time require bank to reassign the note upon payment to bank by SBA of the outstanding principal thereunder. If at the time SBA ever exercises its right of reassignment, there is no default under the note in principal or interest, SBA will pay bank, in addition to outstanding principal, any accrued interest under the note.

(d) The commencement of bankruptcy or similar proceeding involving the licensee-borrower effectuates an automatic reassignment of the note from bank to SBA and the obligation of SBA to pay bank outstanding principal.

(e) Bank pays SBA a service and commitment charge of 1 percent per annum upon outstanding principal under the note while held by bank.

Primarily, disbursements by SBA of outstanding principal under a licensee's 303 note, indicated in (b), (c), and (d) above, are the matters on which we are requesting your opinion.

AUTHORITY FOR THE PROGRAM

Prior to initiation of the standby program, our General Counsel, Mr. Fredric T. Suss, advised me that, in his opinion, the program was authorized under the SBIA.

In brief, Mr. Suss based his opinion upon the following principles, facts, and conclusions:

(1) Under established principles of statutory construction, the cardinal purpose and intent of the SBIA (to improve the economy through stimulation and supplementation of the flow of private equity capital and long-term loan funds for small business concerns with maximum use of private funds), stated in section 102 of the act, are the guides in construing particular sections of the statute, including section 303 thereof.

The legislative history, referred to above, is a source for determining or confirming the intention of Congress in enacting the SBIA.

Sections 5(b)(2) and 5(b)(7) of the Small Business Act authorize the Administrator to take all actions determined by him to be necessary or desirable in making and servicing loans.

(2) The standby program is in no way prohibited by the SBIA. In fact, under section 303(b), SBA can lend funds to licensees through the purchase from anyone of the obligations of licensees which bear interest at a rate and contains terms fixed by SBA. Further, under the section, SBA can issue commitments to anyone to purchase such obligations.

(3) The legislative history cited previously in connection with the 1961 amendments to the SBIA clearly discloses a congressional authority and intent that a 303 standby program (such as the subject program) would and should be employed by SBA to induce and encourage maximum use of private funds in the investment program.

(4) The standby program is obviously the necessary initial step to attract private lenders into the investment program with the hope that through favorable and profitable dealings with the licensees under the program, they will be encouraged to eventually deal independently in such matters with the licensees. The program stimulates and supplements the flow of private equity capital and long-term loan funds for small business concerns with the maximum use of private funds; and, hence, plainly accomplishes the congressional purpose and intent specifically stated in the SBIA.

(5) The program employs appropriations in a manner which not only obtains maximum use of private funds but also accomplishes maximum use of Government appropriations through maintenance of the reserve referred to below.

(6) The subject program provides SBA with ultimate contract terms and other rights against licensees identical with those employed when only SBA funds are involved; and never obligates SBA to disburse amounts in excess of those involved had SBA disbursed to the licensee directly.

Based on the foregoing, our general counsel concluded that the standby program effectuates both the authority of SBA contained in section 303 of the SBIA and the policy of the Congress contained in section 102 of that act.

It is also the opinion of the general counsel that standing alone, sections 5(b)(2) and 5(b)(7) of the Small Business Act each provides ample legal authority for the standby program.

OTHER INFORMATION

At the time we initiated the standby program, we cleared informally with your representatives the reserve which is maintained (50 percent) against our standby commitments to the disbursing banks. Previously, in addition to discussions before congressional committees as indicated above, we also informed the Bureau of the Budget of our intention to initiate the program and establish such reserves. Also, we understand that your representatives discussed said reserve with the Bureau of the Budget.

Enclosed are copies of the following form instruments which are employed in connection with the processing, disbursement, and servicing of a section 303 standby loan: Loan Application (SBA form 416); Note (SBA form 546); Loan Agreement (SBA form 547); Assignment Agreement (SBA form 548); Commitment Agreement (SBA form 549); and Certification and Statement and Request for Funds (SBA form 420).

I would appreciate your opinion, as requested above, at your earliest convenience.

Sincerely,

JOHN E. HORNE, *Administrator.*

(Enclosures, as stated above, not printed.)

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., September 4, 1962.

B-149685

Hon. JOHN E. HORNE,
Administrator, Small Business Administration.

DEAR MR. HORNE: By letter of August 10, 1962, you requested our opinion concerning the legal propriety of the "standby" program initiated by the Small Business Administration in connection with carrying out the functions and responsibilities imposed under section 303 of the Small Business Investment Act of 1958, as amended, 15 U.S.C. 683. Section 303(b) as amended by the Small Business Investment Act Amendments of 1961, 75 Stat. 752, provides that:

"S. 683. Borrowing power; purchase of obligations by Administration.

* * * * *

"(b) To encourage the formation and growth of small business investment companies, the Administration is authorized (*but only to the extent that the necessary funds are not available to the company involved from private sources on reasonable terms*) to lend funds to such companies through the purchase of their obligations which shall bear interest at such rate, and contain such other terms, as the Administration may fix. The total amount of obligations of any one company which may be purchased and outstanding at any one time by the Administration under this subsection (*including commitments to purchase such obligations*) shall not exceed 50 percent of the paid-in capital and surplus of such company or \$4,000,000, whichever is less. *All loans made by the Administration under this subsection shall be of such sound value as reasonably to assure repayment.*" (1961 amendments in italic.)

Operation of the standby program is, quoting from your letter, as follows:

"When a licensee applies for a direct loan from SBA under section 303(b) of the SBIA, SBA will not issue its commitment to purchase the licensee's obligations unless the latter certifies as to its inability to obtain the needed funds from private sources alone, as well as its inability to obtain such funds from private sources under the standby program.

"If a private financial institution is willing to provide the licensee with the loan funds under an SBA standby arrangement, SBA thereupon processes the loan application of the licensee, including the obtaining of executed loan documents and related instruments, in the same manner and under substantially the same terms as when SBA issues a loan commitment to a licensee and purchases the obligation of the licensee directly. However, where the standby arrangement is involved, the SBA commitment to the licensee indicates that either SBA or the private source will disburse the loan funds and will hold the note.

"Simultaneously with the issuance by SBA of a loan commitment to a licensee under the standby program, SBA and the private lending source (ordinarily a bank) execute an agreement under which:

"(a) SBA assigns to bank the executed note of the licensee and bank assumes the obligation under the SBA loan commitment to disburse funds to the licensee under the note, but only when so directed by SBA.

"(b) Bank may reassign the note to SBA at any time and SBA will thereupon pay bank the outstanding principal under the note. Recoveries of unpaid interest by SBA are prorated between SBA and bank.

"(c) SBA may at any time require bank to reassign the note upon payment to bank by SBA of the outstanding principal thereunder. If at the time SBA ever exercises its right of reassignment, there is no default under the note in principal or interest, SBA will pay bank, in addition to outstanding principal, any accrued interest under the note.

"(d) The commencement of bankruptcy or similar proceedings involving the license-borrower effectuates an automatic reassignment of the note from bank to SBA and the obligation of SBA to pay bank outstanding principal.

"(e) Bank pays SBA a service and commitment charge of 1 percent per annum upon outstanding principal under the note while held by bank."

You point out that from inception of operations under the Small Business Investment Act until recently, the Small Business Administration was unable to induce banks, insurance companies, and other financial institutions to provide loan funds to small business investment companies licensed under the act and that the standby program was instituted as a means of obtaining participation by such institutions in the investment program. The program was put into operation in October 1961 on a test basis and proved successful to the extent of

23 participating banks. Certain additional banks desire to participate in the program but have requested assurances that this office will not interpose objection to Small Business Administration disbursements which may be made thereunder.

Where the Congress, in connection with Small Business Administration activities, has intended to provide authority for loans by the administration in participation or deferred participation with private lending institutions, it has done so specifically. See sections 7 (a) and (b) covering loans to small business concerns and disaster loans under the Small Business Act, as amended, 15 U.S.C. 636 (a) and (b); and section 502, covering loans to State and local development companies under the Small Business Investment Act, as amended, 15 U.S.C. 696, for plant construction, conversion or expansion. Except for a general statement of policy contained in section 102 of the Investment Act, 15 U.S.C. 661, that the small business investment program "shall be carried out in such manner as to insure the maximum participation of private financing sources," there is no indication whatever in the basic act or its amendments that Congress intended to authorize such deferred participation with private lending institutions with respect to section 303(b) loans as is provided for under the standby program. Moreover, the specific authority for participation loans granted under the Small Business Investment Act as well as under the Small Business Act limits the permissible amount of deferred participation to 90 percent of the loan balance outstanding at time of disbursement. Ordinarily it would be difficult to rationalize the proposition that the general statement of policy referred to may be relied upon as authority for making 100 percent deferred participation loans when the same act involved specifically enumerates a limited category of loans which may be made on a participation basis and limits such participation on a deferred basis to 90 percent.

However, the legislative history of the 1961 amendments to section 303(b) clearly shows—whatever the intention of Congress may have been in enacting the Small Business Investment Act in 1958 so far as concerns authority to make section 303(b) loans under the standby procedure—that it was the intention of Congress in enacting the 1961 amendments for the standby program to be continued. The program was described to Subcommittee No. 2 of the Committee on Banking and Currency, House of Representatives, in hearings on H.R. 6672 covering the Small Business Investment Act Amendments of 1961. See page 121 of the transcript of hearings held August 1, 2, 3, and 4, 1961. At page 4 of Senate Report No. 801, August 28, 1961, accompanying S. 902 (1961 SBIA amendments) the Committee on Banking and Currency stated that it appreciated "the imagination of SBA in developing 'standby' provisions putting SBA credit behind the borrowing (small business investment company)." And the floor manager of S. 902 and chairman of the Subcommittee on Small Business of the Senate Banking and Currency Committee stated during discussion of the bill on the Senate floor that:

"SBA has indicated that its policy is not to grant loans under section 303 of the act unless there are no funds available from private sources. In its regulations, published in the Federal Register for August 31 of this year, the SBA states that private funds are considered unavailable when the appropriate certificate submitted to SBA so indicates. The certificate submitted by an SBIC includes a statement that the money sought was not otherwise available. Perhaps this might be clarified to include the statement that no funds were otherwise available, even on an SBA standby takeout commitment. I know that other Senators and I were impressed with the description of SBA's procedure for standby takeout commitments. In essence, SBA stands ready to loan money to an SBIC when the lender of prior privately loaned money calls it in." (See Congressional Record for Sept. 1, 1961 (daily), at p. 16807).

In view of the legislative record established, it is manifest that lack of specific authorization to follow the standby procedures in question is due not to the lack of congressional intent to provide such authority but, rather, is due to the fact that both your administration and the Congress did not deem that an explicit provision of law was required in the matter. Although we cannot clearly discern authority for the program in question from the language of the statute alone, we do not believe we would be justified in disregarding the evidence of congressional intent in the matter. The amendment of section 303(b) was effected with knowledge of the construction—so far as concerns authority for the standby program—placed upon the section by the official charged with its administration. If the legislative body had considered the Small Business

Administration interpretation erroneous it doubtless would have amended the section or at least recorded disapproval of the proposed agency action. Its failure to do either, together with the positive statements of approval appearing in the legislative history, requires the conclusion that the standby program is not consistent with the intent of the statute. See *Massachusetts Mutual Life Insurance Co. v. United States*, 288 U.S. 269, 273 (1933).

The question presented is answered accordingly.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

MID-STATES BUSINESS CAPITAL CORP.,
St. Louis, Mo., March 6, 1963.

HON. STUART SYMINGTON,
U.S. Senate,
Washington, D.C.

DEAR SENATOR SYMINGTON: As the first publicly held and most active Federal licensee in the State of Missouri operating under the Small Business Investment Act of 1958, we have a vital interest in small business growth bills H.R. 583 and H.R. 799 and companion bills S. 297 and S. 298 and, H.R. 2242. All Republicans and Democrats on the respective Small Business Committees unanimously supported these bipartisan bills, which are designed to correct technical inequities and omissions in the present law thereby fulfilling the original intent of Congress to develop a workable program to aid small business.

This legislation is necessary if the young SBIC industry is to successfully fulfill the function of supplying equity capital and long-term funds to small business. By providing venture capital to small business enterprises, SBIC's assume financial risks which banks and other lending institutions will not accept. By making both capital and management counseling available to small businesses, SBIC's offer a vital combination of services for which a continuing desperate need exists.

In the short time Mid-States Business Capital has been in operation, we have made investments in five Missouri small business concerns and one in Illinois ranging from a manufacturer of precision medical equipment to that of a quartz crystal manufacturer for the communications and space industry. Many new jobs have been created and sound financial measures have been programed for these small business concerns.

Although no Government money has been utilized by our corporation, we can foresee the necessity of additional funds to meet future demands. Unquestionably, a substantial contribution to the economy of the country is being made by all actively participating SBIC's.

Unfortunately, as a consequence of the present restrictive legislation, two major SBIC's have recently withdrawn from the program. Others, both large and small, are considering similar action, but are waiting to see whether or not Congress will make those changes required to assist small business concerns secure long-term equity funds for growth under the SBIC program. It is our opinion that although the original objectives were well conceived, the SBIC program will fail to accomplish its purpose unless more equitable legislation is enacted.

The members of the board of directors of Mid-States Business Capital are all prominent businessmen with whom, I am sure, you are personally acquainted. None of these men receive any compensation from the company for their time spent in its management. They regard their efforts as a public service. Rather than burden you with individual letters from each of them enlisting your consideration of these measures, their names and affiliations are set forth for your information.

L. J. Sverdrup, chairman of the board, president, Sverdrup & Parcel, Inc.

H. A. Collinger, president, president of the company.

Preston Estep, director, president, Transit Casualty Co.

James P. Hickok, director, chairman of the board, First National Bank in St. Louis.

William A. McDonnell, director, chairman of the board, Frisco Railway.

W. R. Persons, director, president, Emerson Electric Manufacturing Co.

Sidney W. Souers, director, chairman of the board, General American Life Insurance Co.

Elliot H. Stein, director, vice president, Scherck, Richter Co.
 H. M. Stolar, director, partner, Stolar, Kuhlmann, Heitzmann & Eder.
 Erwin P. Stupp, director, president, Stupp Bros. Bridge & Iron Co.
 Nicholas P. Veeder, director, president, Granite City Steel Co.
 John L. Wilson, director, chairman of the board, Universal Match Corp.
 Fred L. Kuhlmann, director, partner, Stolar, Kuhlmann, Heitzmann & Eder.

They join with me in urging your support of these important measures in the furtherance of this beneficial program for small business. Should you have any further questions, I shall be very happy to answer them for you.

Sincerely,

HARRY A. COLLINGER, *President.*

MICHIGAN EQUITY CORP.,
Kalamazoo, Mich., March 7, 1963.

HON. PHILIP A. HART,
U.S. Senate, Washington, D.C.

DEAR SENATOR HART: We are one of the many small SBIC's operating under the Small Business Investment Act of 1958. We have been dealing in small loans varying in amounts from \$10,000 to \$60,000.

Like many other small SBIC's we have come to the point where we are substantially loaned up and need to raise more capital.

We cannot now raise capital by going public; the climate for that is not sufficiently favorable. But we believe that it is possible for us to raise our minimum capital from \$150,000 to \$400,000 privately and locally, particularly if certain inequities and omissions from the act itself were corrected. I refer, for example, to the failure of the act to provide for a tax-deductible reserve against losses, the failure to exempt SBIC's from the accumulated-earnings tax, the failure to exempt SBIC's from the personal holding company surtax, and the failure to provide that equity losses be offset in full against ordinary income.

We have been telling our prospective investors for 2 or 3 years now that surely such omissions as the foregoing will be corrected, that they were primarily oversights. But such statements are beginning to fall on deaf ears, and we need to be able to say to prospective investors that the corrections have been made.

The large SBIC's have their problems too, but I have not presumed to speak for them. We feel sure that the whole climate for the SBIC's generally would be greatly improved by the passage of the small business growth bills 1, 2, and 3, summarized, for the sake of convenience, on the attached page.

We believe that the SBIC is destined to fill a large place in serving as an institutional channel through which near-equity loans can flow to businesses that are not large enough and are not sufficiently well-known to raise funds through the regular investment channels.

Respectfully submitted.

HAROLD T. SMITH, *President.*

SMALL BUSINESS GROWTH BILLS SUMMARIZED

SMALL BUSINESS GROWTH BILL NO. 1

Bills to amend the Internal Revenue Code: H.R. 583, introduced by Mr. Patman.

S. 297, introduced by Senators Sparkman, Humphrey, Smathers, Morse, Bible, Randolph, Engle, Bartlett, Williams of New Jersey, Moss, Saltonstall, Javits, Cooper, Scott, Prouty, and Cotton.

1. Provides for tax-deductible reserves against losses and bad debts up to 20 percent of SBIC loans and investments.

2. Exempts SBIC's from accumulated earnings tax.

3. Exempts SBIC's from personal holding company surtax which might otherwise be assessed through application of attribution rules to SBIC and its shareholders.

4. Allows all SBIC's to qualify for privilege of passing through income to stockholders without intermediate corporate tax.

5. Allows all equity losses to be offset in full against ordinary income.

6. Permits closely held corporations to exercise option to be taxed as partnership despite SBIC stock ownership.

SMALL BUSINESS GROWTH BILL NO. 2

Bills to amend the Small Business Investment Act of 1958: H.R. 799, introduced by Mr. Patman.

S. 298, introduced by Senators Sparkman, Humphrey, Smathers, Morse, Bible, Randolph, Engle, Bartlett, Williams of New Jersey, Moss, Saltonstall, Javits, Cooper, Scott, Prouty, and Cotton.

1. Increases matching section 302(a) funds from \$400,000 maximum to \$1 million. SBIC's would be given 5 years (7 years in Senate version) to draw down 302(a) subordinated debenture funds, rather than present 3 years.

2. Retains limit on direct SBA loans to SBIC's under section 303(b) to 50 percent of capital and surplus with top limit of \$4 million. On the other hand, where bank lends to an SBIC under "standby" program, SBIC may borrow up to 100 percent of capital and surplus with maximum of \$8 million.

3. Removes limitation of \$500,000 on loan or investment by an SBIC in any one small business.

SMALL BUSINESS GROWTH BILL NO. 3

Bill to amend Investment Company Act and Small Business Investment Act: H.R. 2422, introduced by Mr. Patman.

1. Directs SBA to protect interests of investors as well as those of small business and economic growth.

2. Incorporates sections of Investment Company Act of 1940 relating to SBIC's in the Small Business Investment Act of 1958 with the SBA given power to exempt SBIC's, in whole or in part, where appropriate. In addition, the bill specifically exempts private SBIC's from certain sections.

3. Incorporates into the Small Business Investment Act certain provisions of the National Bank Act, such as requirement that majority of directors of an SBIC should be U.S. citizens.

4. Writes into the act present regulations of SBA on such matters as changes in capitalization and issuance of stock options.

5. Exempts SBIC's from the Investment Company Act of 1940.

RIVERDAN INVESTMENT CORP.,
Danville, Va., March 18, 1963.

HON. A. WILLIS ROBERTSON,
U.S. Senate,
Washington, D.C.

DEAR SIR: We are writing you to urge your support of Senate bills Nos. 297 and 298. Both of these bills are in regard to small business investment companies and we are of the opinion that both bills should be passed.

I am specifically interested in S. 297, section 4, which amends the section of the Internal Revenue Code that exempts the small business investment companies from being held to be a "personal holding company." During the formation of the Riverdan Investment Corp., of which I am president and majority stockholder, we did research into the small business investment companies as to the advantages and disadvantages. One of the advantages of the small business investment company was the exemption from personal holding company penalties. In coming to this conclusion we relied upon the Internal Revenue Code, section 542(c)(11), which states as follows:

"(c) EXCEPTIONS.—The term 'personal holding company' as defined in subsection (a) does not include—

"(11) a small business investment company which is licensed by the Small Business Administration and operating under the Small Business Investment Act of 1958 and which is actively engaged in the business of providing funds to small business concerns under that Act. This paragraph shall not apply if any shareholder of the small business investment company owns at any time during the taxable year directly or indirectly (including, in the case of an individual, ownership by the members of his family as defined in section 544(a)(2) a 5 per centum or more proprietary interest in a small business concern to which funds are provided by the investment company or 5 per centum or more in the value of the outstanding stock of such concern."

In applying this section, the Internal Revenue Service maintains that stock acquired by the small business investment company in a small concern must be

attributed to the shareholders of the small business investment company, in proportion to their respective stockholdings in the small business investment company, to determine whether or not any one of such shareholders owns as much as 5 percent of the small concern.

If the Treasury Department's ruling is followed then Riverdan Investment Corp. will be held to be a "personal holding company" and we would either have to distribute all earnings as dividends, or be subject to personal holding company penalty. The Riverdan Investment Corp. would be unable to accumulate earnings to repay the money borrowed from the Small Business Administration and to have a normal growth, and under those conditions we would be forced to either sell or liquidate the corporation. Therefore, in our opinion, this bill S. 297, should be passed to remedy an inequity that has been made by a ruling issued by the Treasury Department.

Your attention is respectfully called to an analysis and explanation of Senate bills 297 and 298 by Senator Sparkman appearing in the Congressional Record for Friday, January 18, 1963. Also, as throwing additional light on this matter generally, your attention is respectfully called to the remarks of Representative Wright Patman appearing in the Congressional Record for Monday, January 21, 1963.

We would appreciate any consideration that you can give in this matter and again urge you to support the two bills, S. 297 and S. 298.

Very truly yours,

HEDRICK K. JOHNSON, *President.*

LINCOLN DEVELOPMENT CORP.,
Cambridge, Mass., March 19, 1963.

HON. WILLIAM PROXMIRE,
Chairman of the Senate Banking and Currency Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR PROXMIRE: The attached comments on the SBIC program will, I hope, be of interest and value to you.

We have for the past several years and predating the 1958 act been closely involved with small business investment and are very anxious to see the program progress to the point where it is fulfilling its function to the full satisfaction of those interested.

We are anxious to do anything we can to assist.

Very truly yours,

ROBERT H. BALDWIN.

EDITOR OF THE HARVARD BUSINESS REVIEW,
Soldiers Field Road, Boston, Mass.

GENTLEMEN: The article, "Are SBIC's Doing Their Job?" in your current issue is an interesting study, objectively made, of a major attempt by the Government to improve the sources of long-term financing available to small companies. There are a couple of significant issues raised or touched upon by the article which I think bear further comment.

The first of these is the growing objection to the size limitation on the dollar amount an SBIC can invest in any one company. The objection is primarily generated by those larger SBIC's who are reluctant to apply their costly staff to the evaluation and followup required on a relatively small investment and wish to make investments of more than \$500,000. Their position is accentuated by the fact, anticipated by those previously in the field, that the minimally capitalized SBIC's have an extremely difficult time in supporting appropriate staff and by the growing tendency of these SBIC's to increase in size to economically provide the management required, of which more in a moment.

I am in complete accord with those who feel that the small SBIC's are in a terrific bind. It is my feeling, however, that these circumstances in no way justify increasing the limit on the size of investment that an SBIC can make in a company. I am sympathetic to the desires of the larger SBIC's to make bigger and better investments. At the same time, such a move is completely opposed to the principles of the SBIC program. It is human nature for individuals or companies to want to grow up to bigger and better things, and the efforts of the SBIC's to be allowed to make bigger investments reflects this. However, if such an allowance were given them, we would, I am sure, see in a few years

that the larger SBIC's would be completely removed from investment in so-called small businesses and would have become conventional investment companies, except for maintaining the Government support as qualified SBIC's. This is in no way appropriate. If these investment companies are to get their start and their growth and a major part of their capital as a result of special Government terms given them to encourage their investment in small companies, they have no right to throw off their obligations of investing in small companies as soon as the benefits of the Government inducements are no longer of value to them.

Furthermore, raising the limit will not solve any of the important problems. It will merely weaken the program.

The reasonable solution to this investment limit problem appears to lie in the affiliation of the SBIC with a conventional investment company wherein the professional staff can be more efficiently utilized and can gain broader exposure. This conventional investment company would, however, be completely separated from the SBIC in terms of its capital. It would not receive the special tax advantages nor the government leverage that the SBIC does. Thus, the larger SBIC's would be able to play a role in the investment in bigger companies, but on comparable terms with present investment companies, while they continue to meet their undeniable responsibilities to small businesses.

The other critical element which is clearly brought out in the article is the difficulty of supporting competent management for any but the largest SBIC's. There is, in my opinion, no part of the investment business which requires greater depth of evaluation, greater detail of negotiation, and greater competence in the important continuing advisory role; yet, it is patently impossible for the small SBIC's to maintain anywhere near the competence needed on the return to be developed from their limited capital. A serious offshoot of this is the type of investment which the smaller SBIC's must make in order to come as close as possible to meeting their overhead requirements. They are forced by this system to require high interest payments and/or high consulting fees from small growing companies who cannot afford and should not be burdened with such heavy fixed payments during their critical period of growth. Thus, the nature of the beast has caused considerable hardship both on the smaller independent SBIC's and the companies in whom they invest.

The small business investment field is a specialized one requiring greatly different techniques and skills than the investment in larger, more mature companies. The SBIC program has of necessity borne considerably more qualified people in this field than existed before 1958. There are still far too few people available to evaluate small business investment opportunities and to properly work out financing arrangements for them and to rationally monitor the investment when made to serve anywhere near all of the presently constituted SBIC's. Yet, due to the regulations, those who are well trained for this job are not permitted to assist more than one SBIC in any formal manner. The primary reasoning behind this is to maintain the independence of each SBIC and prevent one man's veto from closing the door to several capital sources.

I feel that this restriction is unwarranted and extremely harmful to the program. It seems to me that wider independent use of what sound guidance is available is a far better direction for the program to go than syndication. Syndication by its nature eliminates the freedom of action of an SBIC in handling its investment portfolio. It further tends to accelerate the movement of the SBIC program into larger investments and away from support of the smaller companies. Where a small SBIC would normally be investing in a relatively small company if operating independently, once it begins to syndicate as a normal practice, it turns its back on the smaller situations, welcomes the spreading of the risk and the responsibility through syndication, and becomes a small contributor to a large investment in a large small business and is soon a deteriorating satellite to the larger SBIC's.

Far better it would be for this SBIC to look to one of those individuals or firms who were especially qualified in the small business investment field to bring to it a larger and more varied selection of investment opportunities with an objective appraisal of the subject company's merits and demerits. It would then be for the board of that SBIC to decide whether that investment fit within its investment policy and met its standards. It is certainly clear that any particular investment might well be turned down by one SBIC and heartily accepted by another. This group would also be used by the SBIC to investigate

those situations which came directly to that SBIC so that the directors' decisions could be made on the basis of competent presentation of the facts. The argument that such a procedure would allow the consulting firm to squelch the capital-seeking company in the eyes of several SBIC's seems to carry very little weight. Surely, it is not in the interest of the SBIC program to support the financing of ill-conceived companies. It hardly tends to maximize the productivity of the Nation's capital and the small businessman is being done a greater favor when he is turned down for appropriate reasons than when he is provided capital to squander. It is only in clear-cut cases of such ill-conceived plans that the consulting company would take any strong position against investment. The more common situations would be those in which the evaluation would spell out factually the company's profile, indicating clearly where the potential lay, and where the risk lay and leaving it for the directors of the specific SBIC to judge the balance of risk versus potential. This would lead welcome to qualified independent investment decisions by the SBIC's and a constructive boost to the program.

The past 10 years have shown weaknesses in the SBIC program, as is to be expected. The future success of the program depends on the manner in which these are cured. I worry about the program if the SBIC's are not allowed to make effective use of the limited supply of skilled people in the field and if they are enabled to capitalize on the inducements of the program while escaping its responsibilities.

Very truly yours,

ROBERT H. BALDWIN.

BONZER INVESTMENT CO.,
Minneapolis, Minn., April 8, 1963.

Senator WILLIAM PROXMIRE,
Senate Office Building,
Washington, D.C.

DEAR SENATOR: I enjoyed your talk before our regional association last Friday and applaud your efforts toward effecting greater economy in Government operations. However, it is my opinion that the SBIC program is not related to Government spending.

Bonzer Investment Co. is a privately owned minimum SBIC. The funds which we have received from the Government are not given, but loaned to us at the rate of 5 percent. In addition to paying this interest, this money must be paid back within a given period of time. We therefore try to be as cautious as possible in lending our funds. The criticism which you made of the SBIC program is not warranted by the facts.

To begin with, when making loans of \$60,000 or less, such as we are doing, it is unrealistic to ask for warrants or equity. Small concerns that are in need of this amount of funds just do not fit into this category. All of our loans to date have been straight term loans of 5 to 10 years.

When you consider the fact that we are paying 5 percent interest on our borrowed funds, plus our cost of administration, you can understand that we must of necessity receive a reasonable interest rate in order to make any money. In fact, it is this present limit on interest rate that restricts our ability to make loans to certain types of businesses, such as retail clothing.

Let me give you an example: We have received several applications from retail merchants who wished to obtain loans for expanding their operation. One retail shoe dealer wanted to open up a store in a shopping center. Another maternity clothes retailer wished to do the same thing. In both cases the individuals involved were good businessmen and making money in their present operation. However, they had limited net worth and the only collateral that they could supply were the fixtures in their stores. Being somewhat familiar with the retail business myself, I know that store fixtures have value only while the store is a success and the liquidation values of these items are negligible. We therefore had to turn these people down because the possible return on our money was not great enough to warrant the risk involved.

I believe that a study should be made of ways and means to encourage companies such as ours to make loans to these small merchants. A possible answer might be in some sort of Government-sponsored insurance program similar to that which is used with American businesses selling in the international market.

In other words, if insurance could be placed on loans of \$60,000 or less, then we would be willing and anxious to make straight term loans to small companies.

I believe that the current legislation now being proposed in Congress to aid the SBIC program is necessary. I further feel that additional study should be made to augment the program so that the small minimum companies can prosper and at the same time faithfully serve the function for which the entire SBIC program was designed.

Yours truly,

ROBERT H. KARATZ, *President.*

