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HEARING

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

EIGHTY-NINTH CONGRESS

FIRST SESSION

ON

H.R. 7847

A BILL TO AMEND THE SMALL BUSINESS ACT TO INCREASE AUTHORIZATION FOR ITS PROGRAMS UNDER THE SMALL BUSINESS ACT OF 1958

JUNE 18, 1965

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INCREASE SBA AUTHORIZATION FUND

FRIDAY, JUNE 18, 1965

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

The subcommittee met, pursuant to notice, at 10:07 a.m., in room 5302, New Senate Office Building, Senator William Proxmire (chairman of the subcommittee) presiding.

Present: Senator Proxmire.

Senator Proxmire. The subcommittee will come to order. Today the Small Business Subcommittee is holding hearings on H.R. 7847, a bill to amend the Small Business Act. The bill provides for an increase in SBA's revolving fund of $120 million for use in its program under the Small Business Investments Act of 1958. The bill passed the House on June 10, 1965. A copy of the bill will be included at this point.

(The bill follows:)

89TH CONGRESS
1ST SESSION

H. R. 7847

IN THE SENATE OF THE UNITED STATES

JUNE 11, 1965

Read twice and referred to the Committee on Banking and Currency

AN ACT

To amend the Small Business Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 4 (c) of the Small Business Act (15 U.S.C. 633 (c)) is amended—by striking out "$341,000,000" and inserting in lieu thereof "$461,000,000."

Passed the House of Representatives June 10, 1965.

Attest: RALPH R. ROBERTS,

Clerk.

II

Our witnesses are Mr. Eugene P. Foley, Administrator of the Small Business Administration, and members of his staff.

Mr. FOLEY, I would appreciate it if you would identify for the record the gentlemen with you this morning.

STATEMENT OF EUGENE P. FOLEY, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION; ACCOMPANIED BY ROBERT LEISY, ASSISTANT DEPUTY ADMINISTRATOR FOR INVESTMENTS; AND KEITH HANNA, ASSISTANT ADMINISTRATOR FOR ADMINISTRATION

Mr. FOLEY. I have with me this morning Mr. Keith Hanna, Assistant Administrator for Administration, and Bob Leisy, Assistant Deputy Administrator for Investments.

Shall I proceed?

Senator PROXMIRE. Yes, please.

Mr. FOLEY. I am here this morning to support H.R. 7847, which amends the Small Business Act. It increases from $341 million to $361 million, in other words a total of $120 million, the amount of loans which may be outstanding from the Small Business Administration's revolving fund, for the exercise of functions under the Small Business Investment Act of 1958.

I want to stress, as strongly as I can, the importance of this legislation, and its urgency.

If the increase in authorization is delayed, two extremely important programs could be halted.

You are all familiar with both of these programs, of course.

One program provides the Government's share of funds for small business investment companies. Through these SBIC's long-term venture capital is pumped into small businesses. This venture capital is not as readily available anywhere else. Without it, many of the most aggressive, promising small businesses in the country would be put at a serious disadvantage.

The other program that depends on this authorization for its very existence is our local development company, or 502 program.

This program provides vital ingredients for economic growth. Working through local development companies, SBA offers long-term financing that means jobs and a sound tax base to communities across the country.

We are only beginning to see the full potential of the 502 program. If it is halted, efforts in many places to promote sound economic growth will be stymied.

I might just add here, Mr. Chairman, that yesterday I was in a little town in North Carolina called Lincolnton, a town of 6,000, the type of community that you and I know very, very well.

In 1963, slightly over 2 years ago, that county had an unemployment rate of almost twelve and a half percent. Because of the 17 loans that we have made under this particular program under section 502 of the Investment Act, the unemployment has gone down to 4 percent and the area is now being taken off the "redevelopment" classification.

Senator PROXMIRE. What are those figures again?

Mr. FOLEY. From 12½ to about 4 percent.

Senator PROXMIRE. Over what period?

Mr. FOLEY. Slightly over 2 years, less than 2½ years.

Senator PROXMIRE. You say it is traceable in large part to the 502 program?

Mr. Foley. Almost completely. As a matter of fact, the whole county held a special day yesterday, SBA Appreciation Day, because of it, and this is an extremely valuable program.

I think that it is really just now catching on around the country.

Senator Proxmire. That is a very interesting example. It is the kind of example that makes people understand the potentiality of this program and persuade them to try to use it elsewhere.

Mr. Foley. I know that this committee shares our commitment to these two programs. What, exactly is the current status of their funding?

Currently, the balance remaining of the present $341 million authorization is only $5.6 million.

We have on hand applications totaling $6.1 million for the purchase of SBIC subordinated debentures. SBIC operating loan applications total $4.1 million.

Local development company loans in process total $9.6 million.

Altogether, applications for funds which must be counted against our present ceiling come to $19.8 million—more than three times the amount of authorization we have left.

Of course, we realize we are bumping our heads against the ceiling. For the past 60 days, we have controlled our approvals on a priority basis. We hope to avoid a total cutoff of these programs. But even with the strictest priorities, we cannot operate them much longer.

The proposed increase in authority to $461 million is based upon careful, conservative projections. We do believe it will meet program needs through June 30, 1966.

I will outline briefly how these projections were determined.

SMALL BUSINESS INVESTMENT COMPANY PROJECTIONS

The annual rate of investment in small business concerns by SBIC's is $200 million. The repayment rate to SBIC's is approximately $100 million. That leaves a demand of $100 million annually.

As of June 1, 1965, we had 709 licensed SBIC's. Their total statutory capital and surplus is $630,537,064. Of this amount $487,095,869 is private funds and $143,441,195 represents debenture purchases.

In addition, SBA has granted operating loans totaling $125,115,310.

As of the September 30, 1964, reporting period, the industry as a whole had invested on a cumulative basis $704 million in 15,776 transactions with small business concerns.

At this same time (September 30, 1964) the SBIC's had balances outstanding in 12,000 transactions of $525 million.

Currently we are working to increase the operating flexibility and profitability of the SBIC's. This attracts more private equity funds into the program. We also work closely with private lending institutions through our loan guaranty program to provide operating loan funds to the SBIC's.

Many of the larger SBIC's have not yet called upon their total Government borrowing eligibility.

As they become fully invested, they are turning to us for more funds. Current trends, considering existing SBIC's and new formations, give us program projections for fiscal year 1966 of $35 million for debenture purchases, and $40 million for operating loans. We believe these projections are fully justified.

LOCAL DEVELOPMENT LOAN PROGRAM PROJECTIONS

This program began in 1958. It is sometimes called 502, because it comes under section 502 of the Small Business Investment Act of 1958.

Although the 502 idea took hold slowly, current national emphasis on the need for sound economic growth has expanded the program dramatically.

We've made loans to 651 community development corporations. These corporations, in turn, have made loans to small businesses totaling $129,500,000. Our share of this total is $87,500,000. Dedicated local citizens have raised $34 million in their communities. Local banks have also participated—their share is $8 million.

This investment has built fish canneries in Alaska, millwork plants in Wisconsin, textile mills in North Carolina—vitally needed local enterprises in 47 States. More than 31,700 new jobs have been created.

The program's growth during the past 2 years has been especially dramatic. We know we have only begun to touch its potential.

During the current fiscal year, we expect to make as many loans as we made during the entire first 5 years of the program.

We must measure also the $5.6 million in authorization left to finance all our investment programs, against 46 local development loan applications, totaling $9.6 million, now in the pipeline.

Looking ahead, on the basis of past growth averages, we could expect a 40-percent increase in local development loan activity next year.

This would mean 275 loans, and 14,000 new jobs in an economy that badly needs to provide them.

TOTAL REVOLVING FUND AUTHORIZATION

There is one other matter of importance I should call to your attention. The House bill increases from $341 million to $461 million the amount of loans which may be outstanding under the Small Business Act of 1958, but it makes no provision for funding this operation.

Heretofore, it has been customary to provide for funding of these authorization changes by increasing the authorization for appropriations along with the authorization for the amount of loans which may be outstanding.

If this bill is enacted in its present form, SBA would be authorized to have outstanding a total of $1,786 million in loans, including business and disaster loans, as well as those previously mentioned. But the authorization for appropriation for such loans would be restricted to$1,666 million.

Including the appropriation to the revolving fund included in the 1966 appropriation bill, our total appropriation under this authorization would amount to $1,645 million, leaving us unused authority of only $21 million.

If we should again in 1966 encounter disasters of the magnitude which occurred during the past year, it would be necessary that we come back again to this committee to ask for an increase in authorization for appropriation before we could ask for the appropriation necessary to make the loans which you will have previously authorized.

I strongly recommend, therefore, that as you increase our investment division's outstanding loan authority, by $120 million as provided by H.R. 7847, you amend the bill by striking out $1,666 million in section 4(c) of the Small Business Act and inserting instead, $1,786 million, an increase of $120 million in our total authorization for the agency.

That completes my formal statement, Mr. Chairman.

Senator PROXMIRE. Mr. Foley, that last request I think is something that was just an oversight. We will be delighted, or course, to correct that and I am sure there won't be any dispute on that at all. As a matter of fact, this whole request for authorization is one that obviously is urgent and needs some prompt action by the committee, and I think that there won't be much dispute on what you are requesting although I do think for the record, in view of that fact that this would seem to represent a sharp increase over the actual activity in both the SBIC program and 502 program last year, that we ought to get some specific additional justification.

I have a chart here showing the status of SBA's revolving fund for programs under the Small Business Investment Act of 1958. That is what you have been talking about this morning.

Mr. FOLEY. Yes.

Senator PROXMIRE. And it shows that between April of 1964 and April of 1965 there was a decrease in the fund of $53.7 million, from $73.2 down to $19.5. This is a net figure because one month, August, there was an increase in the fund. I guess that is when you acted on some loans that were called in.

Now, I recognize, of course, that in the last 6 months you were restrained by your appropriation ceiling.

MR. FOLEY. We were restrained from the first part of November to the latter part of May by our appropriation ceiling.

Senator PROXMIRE. Because of that, you had to follow a policy of not making——

Mr. FOLEY. We made very strict allocations in all of our programs.

Senator PROXMIRE. For SBIC and 502.

Mr. FOLEY. SBIC and 502, more in the SBIC than the 502.

Senator PROXMIRE. You see, what you are asking for now is doubling of the amount that was actually loaned under these programs last year. Last year was about $60 million and you are asking for $120 million. In the first 7 months you seemed to average around $6 to $7 million. That was partly because you had that one month that it was a minus rather than a plus. In April and May there was a decrease of $5.6 million. May and June, $8.9. June and July, $7.0. Then there was an increase in the funds in August of $5.1, a decrease of $8.6 in September, only $3.3 in October, $7.8 in November, and then after that you were really under the gun and it drops down to $4.6, $2.7, and so forth.

Now, $120 million would mean that you would anticipate that you would average $10 million a month which will be a pretty sharp increase.

Mr. FOLEY. Well, it would be about $7½ million for the SBIC program and then another $5 million per month roughly for the 502 program.

Senator PROXMIRF. Now, there is another part of the act relating to the 501 program, loans to State development programs, which many of us feel is potentially an excellent program and has a lot of merit. How about that? Do you expect that to be——

Mr. FOLEY. There is so very little activity in the 501 program, Mr. Chairman, I wouldn't want to say that I would expect an increase in that. That program really—it is an odd thing, it has never really taken hold in the States. Only two States or so have really done anything with it.

And——

Senator PROXMIRE. What two States are those?

Mr. FOLEY. North Carolina and I believe Rhode Island.

Senator PROXMIRE. I understand you made one to Wisconsin of $330,000.

Mr. FOLEY. Under the 501? I am not sure—Mr. Francis, who runs this program, shows me here that we have made loans in the following States, Rhode Island, North Carolina, New York, Arkansas, and Wisconsin.

I think the two big ones are Rhode Island and North Carolina.

Senator PROXMIRE. In this program a State has to take the initiative. In the 502 program, you have shown a lot of fine dynamism and imagination. The example you gave this morning is a very telling one. It has a great potentiality.

I notice from your sheet justifying the increase in authorization that you expect 35 less SBIC licenses to be in force in fiscal year 1966 than in 1965. Do you expect these licensees to leave the program voluntarily or do you expect that you will cancel them?

Mr. FOLEY. Well, I think some are going to leave, I think the majority will leave voluntarily. Very frankly, we are encouraging smaller ones to merge, so that they might become larger and be a little more effective. And also we are encouraging the inactive ones either to get out or get moving.

Senator PROXMIRE. What is that?

Mr. FOLEY. We are encouraging the inactive SBIC's either to get out or get moving because they become a drag on the program.

Senator PROXMIRE. What effect will the capital bank bill have on this that Senator Sparkman and I are cosponsoring?

Mr. FOLEY. If the capital bank bill were authorized in this session, of course, it will make a major change in what we are recommending here.

In the first year of the capital bank's operation I suspect it would not be abel to provide the full $75 million that we are requesting here for the SBIC program simply because of the time it would take to get operating. Eventually, however, we hope the capital bank will take care of the type of authorization that we are requesting for the SBIC program. But in the fiscal year 1966, even it this bill were to be passed this summer, I think this authorization would still be needed. The capital bank wouldn't be operating effectively probably until the end of the calendar year at the earliest.

Senator PROXMIRE. Well, the capital bank bill, as you know, is still under discussion in Congress and I think it has a big potential. It will probably give more leverage that we need in the program. I understand that Congressman Patman has raised some question about banks and other institutions forming SBIC holding companies.

Will you discuss this?

Mr. Foley. I am not aware of that, Mr. Chairman. I just don't know about it. I will say this. About a year and a half ago one of the heads of a prominent holding company did approach me to see about the possibility of their investing in the SBIC program and we just said no, we didn't want this program in any holding company operations.

Senator Proxmire. What is the rate of new applications for licenses?

Mr. Foley. I will ask Mr. Leisy, assistant director of administration of that program.

Mr. Leisy. Mr. Chairman, as you know, we had a licensing freeze while we were drafting new standards for licensees. The number of licenses issued this fiscal year is 14 and of that 14, 2 were issued under the new standards. The balance were those that were far enough along in process prior to the institution of the new standards last summer to be completed in their processing under the old rather than the new standards.

Our rate of new applications has been relatively low in recent months, in the order of two or three or a few per month. I think this reflects a desire on the part of people interested in forming SBIC's really to see what our regulation is going to be with respect to the new licensees.

Senator Proxmire. See if I understand: You say the rate of new operations for licensees is about two or three a month.

Mr. Leisy. That is right. That has been our present rate.

Senator Proxmire. And the number of SBIC's you have licensed, is 14 over the last 12 months, is that right?

Mr. Leisy. Yes; the number that we have licensed in this current fiscal year.

Senator Proxmire. So you are turning down about one for every one that you license, licensing about half?

Mr. Leisy. No; not exactly. During this entire freeze period, we had essentially no input of new applications. It is only within the last month or so that we are now beginning to see an increase in license applications. Even at the present time that rate of license applications is in an order of two or three per month.

Senator Proxmire. 673 licensed SBIC's now. That was at the end of fiscal 1965. So that would be 673, is that correct?

Mr. Leisy. Mr. Chairman, the number which we have issued since the inception of the program is 780. Of those, we have had 58 surrender and we have had 13 licensees dissolve due to merger which I think leaves a net now of 709 licensed SBIC's.

Senator Proxmire. How are those distributed throughout the country?

Mr. Leisy. They are distributed pretty broadly throughout the country in terms of every State having some participation with one or two exceptions. However, they are concentrated in the larger cities—New York, Los Angeles, San Francisco, the Dallas area.

Senator Proxmire. What in your judgment can we do to really move this program along except, of course, what you are asking this morning? Can you think of anything else we can do? This is a program I remember that President Johnson conceived when he was majority leader. He was the author of the bill. I cosponsored the bill. We thought it was an institution comparable to commercial banks. It would provide equity capital to small businesses everywhere to be used very widely. With the limited number we now have licensed and with the relatively modest amount that altogether has been loaned out, it seems the program hasn't moved as rapidly as it should. What can we do?

Mr. Foley. I think there are two big things, Mr. Chairman. One has to do with the tax bill, tax provisions affecting the SBIC's, and the other is the capital bank. I might say in perspective that the SBIC program has been developing very well the last year and a half or so. We have no way of gaging the prospect.

Senator Proxmire. Except during the last year there have been so few additional ones formed. It is true that some of them have been more active.

Mr. Foley. I think there is a lag in investor confidence in the program. There is a lag in terms of the potential of the program. But this has been coming back up.

For instance, about a year and a half ago, stocks of the publicly held SBIC companies were selling at about 47 percent of their book value. In May of 1965 they were quoted at about 72 percent, but there was no marked increase in sales activity. So there has been a steady increase in investor confidence.

Another thing, there are many more portfolio companies now showing great signs of progress and success and I think that fact is better known by the investing public. That in itself will help move the program along.

I will mention two major matters, however, just to be very specific in answering your question. One has to do with the tax provisions. Our big interest in the SBIC program, as you very clearly pointed out, is to provide equity capital for small businesses. There are some provisions of the tax law that work against an SBIC that wants to invest equity capital as compared to straight loan or debt financing in a portfolio company. We are working on tax matters now.

One has to do with subchapter M which is a passthrough provision, whereby the income of a qualified SBIC can be passed through to stockholders without tax to the corporation.

Currently certain of the companies are, in our point of view, discriminated against because of certain limitations under the present subchapter M of the tax law. I don't have the exact provisions in my mind. However, one provision tends to discourage SBIC's from using the equity capital route.

It is very, very technical and complicated and I will be glad to go into it if you like. Very briefly, the Small Business Investment Act permits an SBIC to invest 20 percent of its capital in any one portfolio company. Under the provisions of the tax law I am referring to, to get this passthrough privilege, a qualified SBIC can invest only 5 percent of its assets in any one portfolio company.

A related problem in the same area is that the same tax law will permit a qualified SBIC to invest in—that is, to acquire—only 10 percent or less of the portfolio company. However, under our regulation we will permit a larger share, although we do have regulations governing control. So there is a difference between what our act and regulations allow, and what subchapter M allows.

Now, if the Treasury could see their way to support changes in tax provisions to bring them in line with our own act and regulations, then the larger SBIC's, which are probably more likely to raise the investor capital, will be permitted and encouraged to make more equity-type investments as compared to loan-type investments. This is one major matter.

The capital bank bill is the other major matter. Of course, you are familiar with it because of your sponsorship. It is another thing that will give a big boost to the SBIC program.

I think with changed tax provisions and a capital bank you will find a very vigorous, aggressive, successful equity financing program which is really needed by small businesses in this country.

Senator PROXMIRE. Have you had a chance to study lately the distribution of loans by SBIC's? I remember a couple of years ago, we had some discussion of that and there was considerable discussion in the press indicating that SBIC's were making some awfully big loans. We documented that on the floor I think 2 or 3 years ago.

This is a small business investment company operation, but we felt that there were some examples that seemed to be abusive of it. For example, we had one SBIC loan to an outfit that had 150 branch outlets. We have several road construction outfits that were borrowing as small businesses from SBIC's, and I am just wondering are there any statistics available at the present time that are fairly current indicating what the distributuion of loans was to SBIC's now?

Mr. FOLEY. Mr. Leisy will respond, Mr. Chairman.

Mr. LEISY. Mr. Chairman, we are at this point anxiously awaiting the returns for all of the SBIC's as of the March 31 reporting date. Those will all be due by the end of this month and I think that we will see some very interesting statistics when those figures are in. But I do have some figures that may be of interest to you as of the 6-month period ending with September 30, 1964.

Senator PROXMIRE. I have a particular interest in this because it was the Proxmire amendment, as you may recall, which limited the number of loans over half a million dollars which any SBIC could make, and I would appreciate it if you could bring me up to date since that time.

Mr. LEISY. All right. I can give you just a few figures on that here and if any additional ones would be of interest, we would certainly supply that.

We find that the number of transactions exceeding $500,000 each for the 6-month period ending September 30, 1964, was 13, totaling $11,192,000.

Senator PROXIMIRE. What was the largest one of those 13?

Mr. LEISY. I do not have that figure, Mr. Chairman. We could supply it for you.

Senator PROXMIRE. They average about $800,000 to a million dollars, something like that. Only 13 transactions involving $11 million.

Now, what are the total transactions, of less than $500,000?

Mr. LEISY. Well, the total transactions during that same period——

Senator PROXMIRE. What period was that again?

Mr. LEISY. This is the 6-month period ending September 30, 1964. In other words, that is the latest reporting period that we have statistics on now.

Senator PROXMIRE. All right.

Mr. LEISY. So, there were 13 transactions, each over $500,000, totaling $11 million during this period. That relates to a total number of transactions during the same period of 2,476, totaling $96 million. So we have approximately 11 percent of the dollars invested during that period in loans of over $500,000.

Senator PROXMIRE. One more statistic along that line.

Do you have any figures indicating how many of the investments were less than a hundred thousand dollars.

Mr. LEISY. No. I have no statistics with me, Mr. Chairman.

Senator PROXMIRE. Would those be available later on?

Mr. LEISY. Yes; we could supply them.

Senator PROXMIRE. When they are available, I will appreciate receiving them. We will not hold the record open. We want to move this bill along. Whatever they are, I would appreciate them.

Mr. LEISY. Those under a hundred thousand dollars; yes, sir.

(The following information was subsequently supplied:)

SMALL BUSINESS ADMINISTRATION,
Washington, D.C., June 18, 1965.

Mr. REGINALD BARNES,
Assistant Counsel, Senate Banking and Currency Committee, Washington, D.C.

DEAR MR. BARNES: As promised at the hearing this morning, I am furnishing the information on the size of loans made by SBIC's.

The number of transactions reported as of September 30, 1964, was 2,476 totaling $96,006,590.

This total is broken down into size categories as follows:

Under $100,000, 2,318 transactions totaling $56,656,987.
$100,000 to $150,000, 69 transactions totaling $8,633,405.
$150,000 to $250,000, 50 transactions totaling $9,777,703.
$250,000 to $350,000, 11 transactions totaling $3,121,634.
$350,000 to $500,000, 15 transactions totaling $6,624,049.
Over $500,000, 13 transactions totaling $11,192,212.

Comparable statistics for the reporting period ended March 31, 1965, will be furnished as soon as they are available. As you know, the statements furnished as of March 31 are audited statements and the SBIC's have until June 30 to submit them. I expect that it will be approximately 90 days before the desired information will be available.

I trust that this information will meet your requirements as well as those of Senator Proxmire.

Sincerely,

ROBERT B. LEISY,
Assistant Deputy Administrator for Investment.

Senator PROXMIRE. We had some discussion on conflict of interest, too. I just want to clear up all the odds and ends. How many violations have there been under your new conflict-of-interest regulations?

Mr. FOLEY. Again I will ask Mr. Leisy to reply to that.

Mr. LEISY. Mr. Chairman, I will review the timing of the regulation required to augment the change that was made in the act. The first proposed regulation was issued August 27, 1964.

After evaluation of comments received, a second proposed regulation was issued December 2, 1964. The final regulation was adopted January 15, 1965, with an effective date of February 15, 1965.

Now, the figures I have here today are approximate and can be furnished in greater detail. Since February 15, 1965—I am not speaking now of violations—we have had approximately nine requests come to us for the kind of affiliated transactions which would require our prior approval. We feel that the SBIC's making the requests must have had a pretty good understanding of our ground rules for approval, because we found it was possible to approve all nine.

The regulation as written requires that after SBA approval, an SBIC must publish a summary of the transaction in a local paper before it can be consummated. If the publishing is not done, then our approval is no longer valid. And of the nine transactions we approved approximately six were so published. So we assume these were consummated.

I have no figures with me today on whether or not there are violations of this new regulation as written. We will pick up that information in the course of our examination operation.

Senator PROXMIRE. Are those regulations fairly concise and limited? Would they be appropriate for the record or are they too voluminous?

Mr. LEISY. They are quite voluminous. We would be happy to supply a copy for the record. I do not have it.

Senator PROXMIRE. Well, we wouldn't put it in the record of the hearings. We don't want to increase the cost any more than necessary. But I understand the committee has copies of those. I understand also that they are quite exacting and stringent. Have the SBIC's complained about them? Do you think this could be a factor in slowing down SBIC activity or not?

Mr. LEISY. We don't feel it will be a factor at all in slowing down the right kind of SBIC activity.

Senator PROXMIRE. You haven't received many complaints?

Mr. LEISY. We did receive a large volume of complaints and suggestions when we were drafting the regulation, primarily from companies which we felt were trying to do the job properly but felt that they might be penalized unreasonably. But since we have issued the regulation, we have had no large volume of complaints. Also, our new licensing standards emphasize that we have no intention of licensing companies which have in mind even requesting our approval of affiliated transactions as a matter of their regular course of business.

In other words, we tell them quite plainly, and spell out in the licensing regulations under our new standards, that if they contemplate regularly requesting our approval, contemplate regularly making transactions of this sort even though they understand the transactions require our approval beforehand, then perhaps the SBIC program is not the one for them.

Mr. FOLEY. I think the chairman might take some personal satisfaction in this report, because it was somewhat at his insistence that we did adopt such a regulation, and I think it was your prediction also that this would not unduly hamper the SBIC program. Mr. Leisy's report bears out your prediction.

Senator PROXMIRE. That is good to hear.

Then one other question.

What has been the attitude of the banks to your new extended maturity loan guarantee plan which went into effect February 15, 1965?

Mr. LEISY. The attitude of the banks so far has been a "wait and see" attitude. Most of the commercial banks find that the yield is lower than they would like to consider for a new piece of paper or as the basis of making the loan directly to the SBIC, subject to our guarantee. Also, the maturity is longer than most commercial banks like to talk about.

So we feel that until this program is better seasoned, we will be making most of these loans directly and then reselling them ourselves in large enough packages, primarily to other than commercial banks. But we do ask the SBIC's to continue working with their commercial banking and other private lending sources to keep them acquainted with the program, because we feel it has the advantage in the long term of getting the SBIC's and private sources of capital acquainted with each other and working together.

Senator PRIXMIRE. Is this program too new to have any figures that would be meaningful? I don't want to press you for anything that would be difficult to document.

Mr. LEISY. I could tell you, Mr. Chairman, the SBIC's have not yet placed any loans on a direct basis—I mean direct between the SBIC and the lending institutions. There have been no transactions of that sort consummated.

We have made approximately 18 loans ourselves since this program was instituted, for a total of approximately $2 million at 15 year maturity, 5½ percent interest.

Senator PROXMIRE. That is fine. Well, I think, Mr. Foley, you and your assistants have made an excellent presentation this morning.

I don't mean to be contradictory, but I want to be sure that you feel you have complete freedom to specify whatever you wish. Do you think there is enough money in this bill?

Mr. FOLEY. Yes. I think there is enough money in this bill.

Senaotr PROXMIRE. Of course, we are anxious to economize as much as we can on Government money with the capital bank bill moving as fast as possible to move the program along with private money, and, as you know, we have a really deep interest, although sometimes our actions may seem to contradict it, but we do have a deep interest in trying to get this program just as comprehensive and as widely used as we possibly can, and you are asking for a doubling today of the amount to be made available in the 12 next months than was actually used in the last 12.

Mr. FOLEY. The reason I hesitate, I think we will be comfortable on the SBIC program. I do feel if there is any problem it will be caused by the popularity of the 502 program; because of its tremendous growth in the last year and a half.

But $45 million is provided here, and that should be enough.

Senator PROXMIRE. Well, you are mighty welcome to come back in again if you want more—if you can show, of course, that you need more for either one of these two programs. These are both excellent programs that provide a stimulation ultimately to private enterprise. And I do hope that you may have a chance to take another look when the 501 program gets moving. I think sometimes there is more drive behind a city getting moving, even a small city, than there is a State. It is easier to talk about the State but it is a little large and may be unworkable for this kind of operation but because it has succeeded I guess in North Carolina, we like the beginning operation in Wisconsin.

This may have a potential.

Mr. FOLEY. Very good.

Thank you, Mr. Chairman.

Senator PROXMIRE. Thank you very, very much, Mr. Foley.

The subcommittee will stand adjourned.

(Whereupon, at 10:50 a.m., the subcommittee was adjourned.)

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