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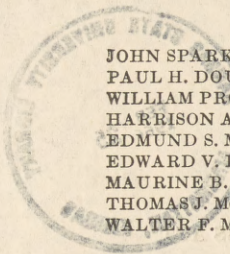
ESTABLISH SEPARATE SBA REVOLVING FUNDS

HEARINGS
BEFORE
THE
SUBCOMMITTEE OF THE
COMMITTEE ON BANKING AND CURRENCY

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ESTABLISH SEPARATE SBA REVOLVING FUNDS

TUESDAY, JANUARY 25, 1966

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

The subcommittee met, pursuant to call, at 10:03 a.m., in room 5302, New Senate Office Building, Senator William Proxmire, chairman of the subcommittee, presiding.

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

Senator PROXMIRE. Today the Small Business Subcommittee is holding hearings on S. 2729, a bill introduced by myself and Senator McIntyre, and also on an emergency increase in authorization for SBA's revolving fund, which is, of course, a different proposal.

S. 2729 would create a separate revolving fund for regular business loans, title IV loans under the Economic Opportunity Act of 1964, and SBA's authority to enter into prime contracts. It would also create a separate revolving fund for SBA's disaster loans and retain the separate revolving fund for programs under the Small Business Investment Act of 1958, other than title IV pertaining to lease guarantees.

A separate revolving fund for lease guarantees was established when this new program was created by the Housing and Urban Development Act of 1965.

The bill provides that appropriation shall be made to each fund separately.

The subcommittee will also receive testimony regarding SBA's need for an emergency increase in authorization for its revolving fund for use in its regular business loan program, for loans under title IV of the Economic Opportunity Act of 1964, and its disaster loan program.

I am also putting a list into the record which shows the dates of suspension or curtailment in SBA's regular business loan programs, because of lack of funds, not authorization.

This shows that part of 8 out of 11 years this program was either suspended or the loan limit vastly limited. I think a strong case can be made from this list that SBA's regular business loan program has long been made the whipping boy by the Budget Bureau. The regular business loan program is SBA's basic—and I repeat, basic—loan program, its main reason for being.

Certainly the justification for the SBA which those of us who are in the Senate and the House think of, and what we consider the SBA's prime service to small business, is this regular business loan program.

There has been no suspension or curtailment of SBA's disaster loan program. To date there has been no shortage of funds for small business investment companies and State and local development company loans. There have been restrictions placed on these programs by Budget but no shutdown has been necessary as has so often been the case in the regular business loan program.

Budget restrictions have also resulted in the failure of small business development centers to be approved.

No title IV poverty loans will be made unless there is an approved small business development center in the area.

An additional \$3 million has been authorized for title IV loans, an increase from \$25 million to \$28 million, for fiscal 1966. This compares with \$33 million authorized by Budget for loans under title III of the Economic Opportunity Act for rural areas administered by the Department of Agriculture.

So it seems to me that small business, at least in this area, is to be a sacrificial lamb in this situation we find ourselves in, with some inflation in the economy and with a war on our hands.

I am sure from what I have seen of the small businessman he is perfectly willing to make any sacrifice for his country. At the same time, there is such a thing as justice and proportion and recognizing the sacrifices that should be made by others. It seems to me most illogical that this program has been interrupted so steadily and regularly:

In 1956 for a couple of months.

In 1957 for 3 months.

In 1958 again.

Between 1961 and 1962 at least in part for nearly a full year.

In 1962 it was modified in two ways.

Between November 10, 1964, and October 12, 1965, there were strict limits because of the lack of funds.

Of course, since October 12 there has been a discontinuance of the business loan applications except under the loan guarantee program. That has been going on for 3½ months.

(The complete list of suspensions and curtailments referred to follows:)

History of business loan approvals being suspended or curtailed because of shortage of funds

Period	Basis	Advice of favorable consideration used
Apr. 10 to May 21, 1956.....	Suspended to reserve funds for disaster loans.....	Yes.
Feb. 1 to Apr. 22, 1957.....	do.....	Yes.
June 6 to 13, 1958.....	do.....	No.
Dec. 1, 1961, to Oct. 12, 1962.....	Applications were restricted to a maximum of \$200,000 SBA share for other than "defense oriented" firms.	
Mar. 2 to Aug. 31, 1962.....	Funds available only for "urgent" cases and released on a case-by-case basis. From continuing resolution amount in both July and August, some funds were released for approval of oldest cases in backlog.	Yes.
Nov. 10, 1964, to Oct. 12, 1965.....	Effective Nov. 10, 1964, applications limited to \$15,000 direct loans and \$50,000 SBA share of immediate participations.	
	Effective Dec. 18, 1964, priority order by program for loans approved in field offices was established and as modified on Dec. 23 became (1) EOL loans, (2) physical disaster loans, (3) guaranteed business loans, (4) all other disaster loans, (5) local development company loans, and (6) all other business loans. Use of advice of favorable consideration instituted.	Yes.
May 19, 1965.....	Application ceiling was raised to \$100,000 for direct loans and SBA share of immediate participations with less than 25 percent bank participation. These are presently in effect. Discontinued use of advice of favorable consideration technique.	
Oct. 12, 1965, until the present time.	Discontinued acceptance of business loan applications except under loan guarantee program.	

Senator PROXMIRE. This is a program that has been moving by fits and starts, and there is a great deal of dissatisfaction and unhappiness on the part of small business.

I have had small businessmen, not only in my State but in Kentucky and Georgia and in a number of other areas where I have been lately, say that as far as they can see the SBA is just out of business.

That is the reason why Senator McIntyre and I have introduced this bill and feel so strongly that the regular business loan program should go along on some kind of regular, systematic basis and not be starting and stopping, and so forth, in a way which disrupts the plans of small business and makes it so difficult for them.

Now Senator Tower I understand may have a statement. The floor is his.

Senator TOWER. May I say I concur with your remarks, Mr. Chairman, and I would like to submit to Mr. Davis a set of questions here which he may answer in writing for the record, with the consent of the committee.

I have an appointment at the Armed Services Committee with the Joint Chiefs, and, therefore, I feel I am obligated to attend that.

Therefore, with the chairman's permission and the permission of the committee, I should like to submit these questions to be answered for the record.

Senator PROXMIRE. Yes, indeed. That will certainly be done. I am sure Mr. Davis will be happy to answer the questions, and I appreciate very much, Senator Tower, your coming here this morning, recognizing your other obligations.

Senator TOWER. Thank you, Mr. Chairman.

(The questions and answers referred to follow.)

SMALL BUSINESS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., February 3, 1966.

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

DEAR SENATOR PROXMIRE: The enclosed information is being submitted in response to the six questions raised by Senator Tower at the hearing before your subcommittee on January 25, 1966.

Sincerely,

ROSS D. DAVIS,
Executive Administrator.

Senator Tower has asked me to answer six questions. The first three of these questions read as follows:

"Without consideration as to whether a single or multiple pooling of funds would lead to more efficient operation of the Small Business Administration, what was the real reason for the shortage of funds for regular loans to small businesses throughout the country?"

"Hurricane Betsy's damage and its possible cause for extensive demands for disaster funds in all categories was known long before Congress adjourned. Why weren't funds requested in sufficient amounts to handle the disaster and regular loan demands through the adjournment period and until Congress could act on new authorizations and appropriations?"

"You say in your statement that regular business loans were suspended in October, 1965. The suspension must have followed a considerable period of concern over the diminishing funds in the pool, caused by Hurricane Betsy and other disaster demands. There still was time for Congress to act on emergency legislation if it had been asked to do so. Why was it not asked to do so?"

The preceding three questions are interrelated and, therefore, will be answered together.

Supplemental appropriations to meet disaster needs were requested and passed by the Congress before its adjournment last fall; therefore, the impact of the disaster on other programs from the standpoint of utilization of funds was of a temporary nature (less than 1 month).

The basic problem with respect to the business loan program was that the budgeted level which had been planned for the Agency for this fiscal year and approved by the Congress through the normal budget process was being used at a rate which would result in exhaustion of the amount before the end of the fiscal year. With the exception of the disaster activity, the amounts which are set forth in the budget each year represent target figures for planning purposes and our program activities should be controlled within such amounts. Obviously, unless such control actions are taken throughout the Government, it would be impossible to control and manage the Federal budget in the manner contemplated by the Budget and Accounting Act or the Anti-Deficiency Act. Unfortunately, the application rate for business loans accelerated during the summer months when the normal pattern is for a smaller volume. Consequently, before we could take other measures, we found that our loan approval rate during the first 3 months of the fiscal year was running at an annual rate of \$412 million as compared to the budgeted amount of \$259.6 million. In addition, a tremendous backlog had developed.

We were faced with the alternatives of (1) scaling back in some manner the volume of applications being received with resulting long delays in processing because of the backlog, or (2) discontinuing the acceptance of applications for a temporary period until we could eliminate these excessive delays and at the same time determine our status with respect to the amount which would be available for the balance of the year. We selected the latter as being the less objectionable of the two undesirable alternatives.

It is apparent that with the increased publicity which SBA has received over the years through its regular programs and our disaster work, the potential demand upon SBA is almost without limit. With the many other demands which are being made on the Federal Government, it becomes a question of relative priority for many of these requests; and since it is obvious that all of them cannot be met, then the question becomes that of determining the amount of money which could be devoted to each. As I brought out in the hearing, the amount of money made available to SBA for lending purposes has steadily increased year by year and a further increase is planned for fiscal year 1967.

The remaining questions of Senator Tower read as follows:

"Passage of the participation legislation would also have relieved the budget of the impact created by emergency legislation calling for more authorization and more appropriations to continue the normal, or near normal, operations of the Small Business Administration until such time as a more complete look at the situation could be taken this year—is that not true?"

"Then, the Bureau of the Budget tried to create an emergency for passage of the bill for sale of participations—in fact, this very subcommittee voted the bill to the full committee without hearing any witnesses other than proponents of the scheme. Is this not true?"

"Isn't it truthful, then, to say that the Bureau of the Budget had uppermost in its mind last session the political position of the budget rather than the economic position of the small businessmen who were deserving of Government assistance?"

Passage of the participation legislation would have relieved the emergency needs for appropriations but it would not have any impact on the need for increased authorization. The reason for the latter is that the individual loans made by SBA are not sold but are pledged in a trust fund as collateral for the participation share sold. Consequently, such loans continue on our records as loans outstanding and, therefore, continue as charges against the authorization which limits the amount of loans which may be outstanding at any one time. The passage of the participation pool legislation, if enacted early enough, would have avoided the need for the emergency appropriation for the disaster last fall.

I cannot agree with your assumption that the request for the passage of the participation legislation was political rather than economic from the standpoint of the Bureau of the Budget. I believe the testimony of Mr. Charles L. Schultze, Director of the Bureau of the Budget, before your committee explained well the philosophy of this request.

(Senator Tower subsequently submitted the following comment:)

I accept the answers submitted to my questions as being, possibly, the best explanation the Small Business Administration officials have to offer for the unreasonable situation whereby small business loans were not available, but I am convinced that Congress could have met the problem before adjournment last fall if it had been advised of the impending shortage of funds. After all, Congress passed an emergency disaster bill in 4 days near the end of the session. The same expeditious action, I believe, would have been taken to meet a request for funds needed to keep the program going for the regular small business loans.

Senator PROXMIRE. Without objection, the following material will be also put in the record: A copy of the bill, S. 2729, to amend section 4(c) of the Small Business Act, a report on the bill from the Treasury, a letter from Senator Sparkman relating to the bill, a copy of a letter of transmittal, a copy of a proposed bill to increase SBA's authorization, and an analysis of the bill.

(The documents referred to follow:)

A BILL

89TH CONGRESS
1ST SESSION

S. 2729

IN THE SENATE OF THE UNITED STATES

OCTOBER 22, 1965

Mr. PROXMIRE (for himself and Mr. McINTYRE) introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

A BILL

To amend section 4 (c) of the Small Business Act.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 That section 4 (c) of the Small Business Act is amended to
4 read as follows:

5 “(c) (1) There are hereby established in the Treasury
6 the following revolving funds: (1) a business loan fund
7 which shall be available for financing functions performed
8 under sections 7 (a) and 8 (a), and pursuant to title IV of
9 the Economic Opportunity Act of 1964, including adminis-
10 trative expenses in connection with such functions; (2) a
11 disaster loan fund which shall be available for financing

2

1 functions performed under sections 7 (b) and 7 (c) (2), in-
2 cluding administrative expenses in connection with such
3 functions; and (3) a small business investment fund which
4 shall be available for financing functions performed under the
5 Small Business Investment Act of 1958, other than title
6 IV thereof, including administrative expenses in connec-
7 tion with such functions. All repayments of loans and
8 debentures, payments of interest, and other receipts aris-
9 ing out of transactions heretofore or hereafter entered into
10 (A) pursuant to sections 7 (a) and 8 (a), and title IV of
11 the Economic Opportunity Act of 1964, shall be paid into
12 the business loan fund; (B) pursuant to sections 7 (b) and
13 7 (c) (2), shall be paid into the disaster loan fund; and (C)
14 pursuant to the Small Business Investment Act of 1958,
15 other than title IV thereof, shall be paid into the small busi-
16 ness investment fund.

17 “(2) Unexpended balances of appropriations made to
18 the fund established pursuant to this subsection, as in effect
19 immediately prior to the effective date of this paragraph,
20 shall be allocated to one or more of the funds established
21 pursuant to paragraph (1) in such amounts as the Admin-
22 istrator shall determine. In addition to any sums so allo-
23 cated, appropriations are hereby authorized to be made to
24 each of such funds, as capital thereof, in such amounts as
25 may be necessary to carry out the purposes of this Act,

1 which appropriations shall remain available until expended:
2 *Provided*, That the total amount of loans, guarantees, and
3 other obligations or commitments, heretofore or hereafter
4 entered into, which are outstanding at any one time (A)
5 under sections 7 (a) and 8 (a), and pursuant to title IV of
6 the Economic Opportunity Act of 1964; shall not exceed
7 \$1,075,000,000; (B) under sections 7 (b) and 7 (c) (2),
8 shall not exceed \$300,000,000; and (C) under the Small
9 Business Investment Act of 1958, other than title IV
10 thereof, shall not exceed \$461,000,000.

11 “(3) The Administration shall pay into miscellaneous
12 receipts of the Treasury, following the close of each fiscal
13 year, interest on the outstanding cash disbursements from
14 each of the funds, established pursuant to paragraph (1),
15 at rates determined by the Secretary of the Treasury, taking
16 into consideration the current average yields on outstanding
17 interest-bearing marketable public debt obligations of the
18 United States of comparable maturities as calculated for the
19 month of June preceding such fiscal year.”

THE GENERAL COUNSEL OF THE TREASURY,
Washington, D.C., January 21, 1966.

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

DEAR MR. CHAIRMAN: This is in response to your request for the views of the Treasury Department on S. 2729, to amend section 4(c) of the Small Business Act.

The proposed legislation would establish in the Treasury to replace the existing Small Business Administration general revolving fund a separate revolving fund for financing functions under each of the following Small Business Administration programs, including administrative expenses thereunder: (1) Regular business loans under section 7(a) and 8(a) of the above act and under title IV of the Economic Opportunity Act of 1964; (2) disaster loans under sections 7(b) and 7(c) (2) of the Small Business Act; and (3) programs under the Small Business Investment Act of 1958, exclusive of title IV of that act. The bill would set the amounts of loans, guarantees, and commitments that may be outstanding at any one time from each of the funds and would require that the Small Business Administration pay into miscellaneous receipts of the Treasury at the close of each fiscal year interest, at rates determined by the Secretary of the Treasury, on outstanding cash disbursements from the funds.

The Treasury Department, under the guidelines of the Budget and Accounting Procedures Act of 1950 and working with the General Accounting Office and the Bureau of the Budget in the joint financial management improvement program, has fostered the simplification of appropriation and fund structures in conjunction with the development of accounting systems designed to provide all the financial information and control needed by both the executive and legislative branches.

While we have no special knowledge of the necessity for the proposal embodied in S. 2729 from the standpoint of administration of the three Small Business Administration programs, we believe that the same results can be realized within the present section 4(c) revolving fund, with the establishment, within this fund, of appropriate ceilings over the total amount of loans, guarantees, and other obligations or commitments for each of the three program categories. This would provide the program control which the bill's proponents no doubt seek, while, at the same time, retaining the desirable degree of simplicity in the Small Business Administration's financing and funding structure.

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.

U.S. SENATE,
SELECT COMMITTEE ON SMALL BUSINESS,
Washington, D.C., January 17, 1966.

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

DEAR BILL: Since I have a commitment in Alabama on January 18, 1966,¹ the day scheduled for the hearing on your bill S. 2729, which provides for the establishment of three separate revolving funds for the various lending functions of the Small Business Administration, I want you to know that I heartily approve of the bill. I consider that many of the difficulties experienced by the Small Business Administration in the shortage of loan funds have been due to the fact that separate revolving funds have not been established.

In addition to the revolving funds for disaster loans, business loans, and investment company loans, I should like to see your bill amended to provide a separate revolving fund for State and local development company loans. Such action would be in keeping with the intent of the bill (S. 3199) which you and I sponsored in the 2d session of the 88th Congress, which passed the Senate but was never acted upon by the House, the content of which was finally passed in the 89th Congress as an amendment to the Housing Act of 1956 (Public Law 89-117, sec. 403(b)).

¹ Original date set for the hearing.

This amendment empowered the Administrator of the Small Business Administration to remove title V from the Small Business Investment Division and place it in SBA wherever he thought that it could best serve its purpose of economic development. I prefer to see it as a separate division.

If title V loans are established as a separate division directly under the Administrator, I would prefer that such loans have a separate revolving fund. If, however, this is not feasible, I think that State and local development company loans should receive their funds from the business loan revolving fund rather than from the investment company revolving fund.

With best wishes, I am,
Sincerely,

JOHN SPARKMAN.

SMALL BUSINESS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., January 13, 1966.

HON. HUBERT H. HUMPHREY,
President of the Senate,
Washington, D.C.

DEAR MR. PRESIDENT: Enclosed are four copies of a draft bill amending the Small Business Act, together with an analysis thereof. For the reasons stated in the analysis, we believe that there is urgent need for this legislation.

The bill would effect two changes in section 4(c) of the Small Business Act. First, it would increase from \$1,841 million to \$1,966 million the maximum amount of money which may be appropriated to the revolving fund of the Small Business Administration. Second, it would increase from \$1,375 million to \$1,500 million the maximum amount which may be outstanding from the fund at any one time for the purposes of (1) the regular business loan program conducted by SBA pursuant to section 7(a) of the Small Business Act, together with the loan program for very small business concerns conducted by SBA, under a delegation of authority from the Office of Economic Opportunity, pursuant to title IV of the Economic Opportunity Act of 1964; (2) the disaster loan programs conducted by SBA pursuant to sections 7(b) and 7(c)(2) of the Small Business Act; and (3) the prime contract authority vested in SBA by section 8(a) of the Small Business Act.

I want to emphasize that, as explained in the sectional analysis of the bill, this is emergency legislation which has been prepared solely to meet the needs of the current fiscal year. At a later date we will submit proposals for further increases to carry our programs through the fiscal year 1967.

At the request of the President, we recently commenced a special effort to provide a financial assistance to small firms suffering substantial economic injury as a result of the transit strike in New York. If the strike is prolonged, this lending activity may accelerate the date when the current balance will be exhausted.

It is my hope that the bill will be promptly enacted.

The Bureau of the Budget has advised that it has no objection from the standpoint of the administration's program to the submission of the bill to the Congress.

Sincerely,

ROSS D. DAVIS,
Executive Administrator.

A BILL 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 is amended—

- (1) by striking out "\$1,841,000,000" and inserting in lieu thereof "\$1,966,000,000"; and
- (2) by striking out "\$1,375,000,000" and inserting in lieu thereof "\$1,500,000,000".

ANALYSIS OF THE BILL

The bill would effect two changes in section 4(c) of the Small Business Act. First, it would increase from \$1,841 million to \$1,966 million the maximum amount of money which may be appropriated to the revolving fund of the Small Business Administration. Second, it would increase from \$1,375 million to \$1,500 million the maximum amount which may be outstanding from the fund

at any one time for the purposes of (1) the regular business loan program conducted by SBA pursuant to section 7(a) of the Small Business Act, together with the loan program for very small business concerns conducted by SBA, under a delegation of authority from the Office of Economic Opportunity, pursuant to title IV of the Economic Opportunity Act of 1964; (2) the disaster loan programs conducted by SBA pursuant to sections 7(b) and 7(c)(2) of the Small Business Act; and (3) the prime contract authority vested in SBA by section 8(a) of the Small Business Act.

At the present time the total amount outstanding for the purposes of these programs falls just short of the existing limitation of \$1,375 million. Substantially all of the available balance is required to cover disaster loan applications on hand. Thus, new approvals for business loans, economic opportunity loans and displaced business disaster loans are almost entirely dependent upon an increase in the balance generated through loan repayments, cancellations, and sales. It is unlikely that such resources will be adequate to carry these programs beyond February of 1966. Meanwhile, there is no leeway whatsoever for new disaster loan requirements which may develop.

Including a contingency amount of \$74 million for natural disaster loans, a projection made by SBA indicates that, as of June 30, 1966, outstanding loans and commitments for business loans, economic opportunity loans, and disaster loans would total \$1,500 million. To meet the needs thus projected, the bill proposes an increase of \$125 million in the existing limitation of \$1,375 million. It also proposes a commensurate change in the maximum amount which may be appropriated to the fund, raising that figure from \$1,841 million to \$1,966 million.

The increases proposed in the bill are of an emergency nature. They are designed solely to prevent the necessity for drastic curtailment of the affected programs while the Congress considers various legislative proposals concerning the limitations contained in section 4(c) of the Small Business Act on the amounts which may be outstanding under the various programs.

Senator PROXMIRE. Are there any further statements?

Senator McINTYRE. Mr. Chairman—

Senator PROXMIRE. Senator McIntyre.

Senator McINTYRE. I certainly want to echo the thoughts that the chairman has expressed.

This fall as I moved around the State of New Hampshire I found almost continual faultfinding by and disruption of the plans of small businessmen because of this sudden stop in the loan money. That is why in the closing days I was only too happy to join with you in sponsoring legislation that would give integrity to this program so it will not be disrupted by sudden emergencies and disasters that might occur all over the country.

I am very anxious to get on with the legislation and see if we cannot get it on the books.

Senator PROXMIRE. Thank you very much.

Senator SPARKMAN.

Senator SPARKMAN. Mr. Chairman, I apologize for coming in late, but I want to say that I do not know of anything that has distressed me more than the beating that the small business program has taken over the last 6, 7, or 8 months.

We had some hearings in the select committee, not long ago.

Senator PROXMIRE. Those were excellent hearings; December 15 I believe.

Senator SPARKMAN. Yes. That is right. At that time I pointed out that this was the only activity so far as I knew that had been shut off—that is, the business loans.

The SBA has done a remarkably good job in a relatively small operation, I mean as compared to the big programs. The SBA program has been small, but it has done a wonderful job across the board, but particularly with the small business loans.

I find it almost impossible to explain to small businessmen from my State what is happening to the small business regular loan program. I think it is a terrible situation and one that surely ought to be corrected.

Senator PROXMIRE. I appreciate that very much.

Again I want to reemphasize the fact that this is not something that just happened this year. It has been continuous. As we said, in 8 out of 11 years they have stopped this program for a substantial period of time, have interrupted the regular business loan program because primarily of the disaster fund demand, which we all know must be met but which should be met on a basis that does not cripple the heart and soul, the essence, the reason for being of the SBA.

Senator SPARKMAN. My recollection is that we combined the revolving funds for ease of operation. Yet it has proved to be the thing that has killed the operations so far as business loans are concerned. And that is the activity for which SBA was set up originally.

Senator PROXMIRE. The Senator from Illinois.

Senator DOUGLAS. No comments.

Senator PROXMIRE. Our first witness this morning is Congressman Widnall, of New Jersey. We are delighted to see him.

Congressman Widnall, will you come to the table?

Mr. Widnall is a firm and well-established friend of small business as well as an old friend of the committee and is a member of the Banking Committee of the House and of the Small Business Subcommittee.

STATEMENT OF WILLIAM B. WIDNALL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. WIDNALL. Thank you, Mr. Chairman.

I certainly appreciate the opportunity of appearing before you this morning on a subject that I know is dear to your heart, my heart, and that of many Members of Congress over a long period of time.

It is just a tragedy, with the wholesale support that the Small Business Administration has in the House and Senate, that we have allowed it to get into what I call a chaotic position at the present time and consistently, continually running out of funds and not having the wherewithal to take care of the emergency situations that have arisen.

With your permission, I will read the short statement that I prepared.

Senator PROXMIRE. Go right ahead.

Mr. WIDNALL. I appreciate the fact that this subcommittee is giving serious consideration to the problem of developing a rational and adequate system of funding for Small Business Administration operations. I am sure that the Nation's small business community will be encouraged by your efforts. I think you are performing a vitally needed service.

Before commenting on specific legislative proposals, I would like to briefly sketch some of the background that convinces me of the need for immediate action by Congress in this field.

Since 1962, the Small Business Administration has been operating with a combined fund for regular small business loans, disaster loans, small business investment corporation program authorizations, and, most recently, small business poverty loans. During this past year and a half, the SBA has gone from crisis to crisis, switching funds, so

it appears, from one hand to the other, first shortchanging the conventional small business loan sector, then delaying poverty loans, or scrambling to Congress for emergency disaster requests.

As you know, the SBA has for several months simply stopped accepting small business applications altogether for its regular loan program.

It has been, and remains, a chaotic picture.

Perhaps no domestic program has ever received more bipartisan support than that for small business. Yet, in 1962, when Senate and House conferees agreed upon a combining of loan funds for SBA, the minority House conferees felt so strongly that this proposed departure from sound practice would injure the program that they refused to sign the conference report.

I suggested to the House at that time that it was only common-sense to keep these funds separate. Otherwise there would be the constant temptation to sacrifice one program for the immediate needs of the other.

I think the events of the last 18 months have borne out the soundness of that position. In addition, I think that these events have shown that the hopes Congress placed in the 1962 Saltonstall amendment were, unfortunately, not realized. That amendment, as it came out of conference, required the SBA to notify the House and Senate Banking and Currency and Appropriations Committees whenever the estimate for regular business or disaster loans was exceeded.

More importantly, it contained an expression of congressional intent that the Congress should be advised every 2 years of an estimate of future authorization needs.

The chairman of this subcommittee explained its purpose at the time by stating on the floor of the Senate:

This would provide for an orderly review of this program by Congress, and would avoid emergency appeals by SBA for additional authorizations.

Chairman Wright Patman of the House Banking and Currency Committee expressed similar views on the amendment, indicating a hope that this would avoid the situation "whereby appropriations action on the SBA budget request would have been dependent on almost simultaneous increases in the revolving fund authorization."

This congressional intent has not been followed. We had two appeals for extra authorizations last year, after the SBA badly underestimated the disaster fund needs, which itself may have been done in the hope of diverting funds to its stalled regular loan and poverty loan programs.

In October, we had simultaneous authorization and supplemental appropriation action.

During last year's hearings I could find no one who recalled SBA reports and estimates as suggested by the Saltonstall amendment. In fact, the best the SBA officials could say for themselves last year was that they considered the amendment a one-shot proposition, applying only to the first authorization needed after the 1962 bill.

Last January, I introduced a bill, H.R. 2860, which would provide an additional \$200 million in a separate disaster loan fund, in effect creating two funds again.

Although I can report to this committee that interest was shown in this approach on a bipartisan basis by House colleagues, I drew no

reaction from the SBA until May of last year. At that time, I was promised that on their very next appearance before the House Banking and Currency Committee the SBA would have comments prepared on the bill.

In October, when a new emergency request was made, no report on my bill was given by agency officials testifying before our committee.

Since that time, however, S. 2729 has been introduced by Senator Proxmire and Senator McIntyre, and Congressman Jackson Betts of Ohio has received a November 29, 1965, letter from the Acting Small Business Administrator at that time stating:

We are giving serious thought to the proposal of Congressman Widnall, and others, that we have a separate revolving fund for disaster loans.

The action by this subcommittee in holding hearings will now provide Congress with an opportunity to see just how serious the Small Business Administration thinking has been.

I am sorry to take so much of the subcommittee's time reciting past events, but I wanted to make it fully understood why I feel so strongly on this matter, and why I urge this subcommittee to view favorably legislation such as S. 2729.

The setting up of specific funds for small business loans, disaster loans, and the small business investment program is clearly called for. I would suggest, however, that you give consideration to placing funds for the poverty program loans in a separate status also.

Given the events of this past year, I think neither the ordinary small businessman nor the prospective businessman qualifying under the Economic Opportunity Act would be adverse to this type of approach, provided that both programs are adequately financed.

When the Economic Opportunity Act was passed, no specific authorization was set up for poverty loans and disaster loan victims. Sometimes they have been given priority; sometimes they have only met with delay. I think a separate fund would be helpful.

Keeping funds separate for specific purposes would be an important step in preventing a recurrence of the present intolerable situation. Adequate financing is, of course, also necessary.

My own bill would provide for a revolving fund of \$200 million for disaster loans in addition to any amounts already outstanding for that purpose. We cannot predict natural disasters, but we certainly can anticipate them more adequately within the authorization process, to save a step or two when time is important and appropriations are needed.

There is another aspect that deserves exploration by this subcommittee. I very definitely believe that serious consideration should be given to placing into the law an automatic report and estimate of need requirement that can be clearly understood by the agency. It should go into action any time the moneys in a particular fund are committed to within a certain percentage of the total amount authorized or appropriated.

During the past year, for example, the SBA came to Congress twice with respect to disaster loan money but never asked for anything more for its regular and poverty loan function, despite a severe lack of funds.

Had Congress, by law, specifically required the SBA to report within 10 days of the date when, say, 80 percent of the funds authorized or appropriated for that particular function had been committed,

it is unlikely that the SBA today would still be refusing to accept applications for loans. Congress and the small business community would have known early enough where this fund stood and could have then acted in appropriate fashion.

The specific time for reporting or the percentage of funds acting as a triggering device could certainly differ from what I have suggested in my example. The important point, however, is that despite the past notable lack of success on the part of the SBA with its predictions, I think we should return to the sound idea of advance notice of and planning for small business needs. Since the congressional intent expressed in 1962 has been ignored, I think we will have to spell it out in detail for the agency.

In summary, I think that separate funds for particular functions, adequately financed, with some type of built-in early warning system to allow for timely congressional action, are both necessary and appropriate.

Senator Proxmire and Senator McIntyre have performed a significant service to the small business community by introducing legislation aimed in this direction. Hopefully, as a result of the interest generated by this subcommittee's action, House action on my own bill, H.R. 2860, will also be stimulated.

Again, I appreciate this opportunity to appear before you this morning.

Senator PROXMIRE. Thank you very, very much, Congressman Widnall. I think this is an excellent statement, and I certainly subscribe wholeheartedly to it.

As I understand, you do favor separate revolving funds for disaster and for the regular business loan program?

Mr. WIDNALL. Very much so.

Senator PROXMIRE. I think this is a statement that answers the questions I would have of the witness.

The Senator from Alabama.

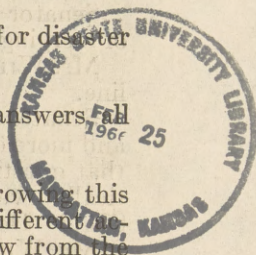
Senator SPARKMAN. Let me ask you this: I am just throwing this out cold. You know, in some agencies where there are different activities there is a provision whereby one activity can borrow from the other but has to pay it back.

Do you think it would be feasible to have such a plan as that in case the disaster loan fund did get in trouble? Well, of course, I like your notice, because I believe Congress will respond any time that that notice is given of the need for additional funds. But what would you think of that transferability arrangement?

Mr. WIDNALL. Well, first of all, I am sure that Congress would respond if they were given adequate notice, because of the intense interest in the program and their own knowledge of the value of the results that would be obtained by action in the field through the Small Business Administration.

I think that there are certain types of funding where there should be adequate authorization there, and one particularly in the emergency or disaster loan field. I do not think that they should be dependent on interagency borrowing, and I think it should be in a position where you know you are not going to have a timelag and have to have a great deal of action taken either by an agency or by Congress itself.

If you decided to do it on an interagency basis with respect to the rest of the activities of SBA, I do not see as much objection to that as I would with respect to the disaster loan funds.



Senator SPARKMAN. You will recall that when we set up the disaster relief program we asked the Small Business Administration to do it because it was organized and they had the proper machinery for carrying it out.

Now, do you not agree with me that it has actually proved a dead-weight on small business by virtually destroying the business loan activity which was the thing for which SBA was originally set up?

Mr. WIDNALL. This is true. I am sure that Congress in its wisdom when it merged the funds certainly hoped that a better job would be done in action than had been done in the past, but I certainly feel the record proves up to date that this was not a wise move, and I hope we go back to segregated funds.

Senator SPARKMAN. You are conscious of the fact that the Small Business Administration is without an Administrator; are you not?

Mr. WIDNALL. Yes, I am.

Senator SPARKMAN. And it has been since September, hasn't it?

Mr. WIDNALL. I am not certain of the date, Senator, but it is a pity that in a field that has such importance within the American economy that it has been lagging a bit too because there has not been any permanent Administrator.

Senator SPARKMAN. I do not know that this is the place and time to discuss this, but it seems to me that an agency that is left headless is bound to lose a great deal of usefulness, and its personnel, it seems to me, would lose morale. Do you think so?

Mr. WIDNALL. It could have that effect.

Senator SPARKMAN. Have you heard any talk about the possibility of merging SBA into the Department of Commerce?

Mr. WIDNALL. I think once I heard some "scuttlebutt" along that line.

Senator SPARKMAN. Well, I have heard it, and I have heard more and more of it. Do you remember that when we established the SBA that question was up, and we fought it out quite well then and practically everybody decided there ought to be a separate agency for SBA? Do you still adhere to that?

Mr. WIDNALL. I believe there is great value in having it as a separate agency.

Senator SPARKMAN. And you would not favor merging it into the Department of Commerce?

Mr. WIDNALL. I would certainly like to hear the arguments in favor of such a move, but right at the moment I am far from convinced that it would be wise.

Senator SPARKMAN. Well, we heard them when we set up SBA and turned them down, did we not?

Mr. WIDNALL. It is all part of the record; yes.

Senator SPARKMAN. And I think it would be very bad to merge it in to the Department of Commerce, and I certainly hope that these rumors that we hear may prove to be baseless.

Thank you very much.

Mr. WIDNALL. Thank you.

Senator PROXMIRE. Senator Douglas.

Senator DOUGLAS. No questions.

Senator PROXMIRE. The Senator from New Hampshire, Senator McIntyre.

Senator McINTYRE. Thank you, Mr. Chairman.

I want to thank the Congressman for a very constructive statement and particularly for those parts of it that bring out the past history.

As I indicated to the chairman, it was frustrating this fall moving around my State because we were faced with the question of the moratorium that came up. None of us could say he was opposed to the funds going to the disaster victims, as in Hurricane Betsy. But it puts you in a very difficult spot.

I think, as Congressman Widnall has stated, that if we keep SBA to the point where they would at all times be making us aware of any deficiencies or any possibilities that they may be lacking in funds—this triggering device that you mentioned—this would be helpful.

It was the intent of Congress for this program to run for the fiscal year and not to dry up suddenly and to leave many businessmen stranded who were planning on it and hoping that they would be in position to secure these loans successfully and to go on with their business venture.

So I want to thank you very much, Congressman, for this very good statement.

Senator PROXMIRE. I might say I agree, of course, with Senator Sparkman and Senator McIntyre, but I want to make it crystal clear that I feel that any device other than separate airtight funds both for authorization and for appropriation is not going to work.

In my judgment, the hurricane situation, the disaster situation, has been used to some extent as an alibi for not having adequate funds for small business. The Administration could have, any number of times, come up and asked for these funds and we would have given them immediately. But they used Hurricane Betsy as an excuse for getting off the hook.

And that is going to continue to be done. They can notify Congress, but if the Budget Bureau and the administration are not in favor of a certain appropriation at a certain time, you and I know how difficult it is to get it through either Appropriations Committee, let alone both of them.

So unless there is a separate fund which is authorized and appropriated for the regular business loan program and its integrity respected, it seems to me we are going to continue to be in trouble one way or the other.

And I would not want to compromise that out, because of the very sad experience we have had over 10 years.

Mr. WIDNALL. Mr. Chairman, I just cannot understand why the Administration did not act last year after the example they had when we had the serious flooding in Washington and Oregon and California and we were out of funds for emergency purposes at that time.

We had a clear example of what could happen in case of a future disaster. And without doing anything about it, we ran into it again with Hurricane Betsy.

I do not think as Congressmen we are actually doing a job for the Nation's welfare if we allow this thing to happen. There is no reason why it should happen.

Senator PROXMIRE. Thank you very much, Congressman Widnall, for a fine statement.

Our next witness is Mr. Ross Davis, who is the Executive Administrator of the Small Business Administration.

Will you come forward?

Is anyone here from Mr. Corman's office, incidentally? I understand he is going to file a statement. He could not be here himself.
(Congressman Corman's prepared statement follows:)

STATEMENT OF JAMES C. CORMAN, A REPRESENTATIVE IN CONGRESS FROM THE
STATE OF CALIFORNIA

Mr. Chairman, I appreciate this opportunity to appear on behalf of your bill, S. 2729.

This legislation, which I have introduced in the House as a companion bill, would replace the present revolving loan fund utilized by the Small Business Administration with three separate funds. The first of these funds would finance the business loan program authorized by section 7(a) of the Small Business Act and the loan program established by the 1964 Economic Opportunity Act. The second fund would support the disaster loan program, and the third would finance loans under the Small Business Investment Act of 1958, other than the lease guarantee functions.

Mr. Chairman, since October 11 of last year, the Small Business Administration has not only failed to grant any further business loans, with a minor exception during the New York transit strike, but they have also refused to accept any applications for direct financial assistance—regardless of need. We are told by SBA that these drastic steps are necessary because of drains on the present loan fund due to several natural disasters, especially Hurricane Betsy.

It is my contention that this emergency requires another supplemental appropriation as well as a change in the structure of the loan program itself.

The Congress created the Small Business Administration in 1953 because independent and vigorous support was needed in the executive branch of Government for the Nation's 4.6 million small businessmen. There is no area where such support is more essential than the granting of small business loans.

Big business often has the flexibility to withstand temporary setbacks simply by shifting resources from another section of the firm or calling upon their ample conventional credit sources. When the same challenge is hurled against a small businessman, he may go under—not for any lack of ability or dedication, but simply because he does not have time to gather money needed to provide a transition to the next opportunity for profits, financial repair, and growth.

Yet, since last October, the assistance that Congress has declared should be available from SBA has been denied. In effect, we have said to the small businessman, "When disaster strikes elsewhere in the Nation, you must bear a special burden. You must survive without the programs that Congress said you should have." And, Mr. Chairman, this is by no means the first time that regular business loan suspensions have been decreed. And, unless Congress acts, it will not be the last.

The loan program suspension comes upon the heels of another serious blow at small business credit by the Government—the increase in the rediscount rate by the Federal Reserve Board. The consequent rise in the cost of credit is already being felt throughout the Nation.

Thus, small business now faces a two-pronged crisis in credit.

The purpose of S. 2729 is to insulate the business loan program against drains caused by natural disasters. I recognize that the bill before you does not solve the problem of stabilizing the disaster loan program so that its proper benefits will always be available. The unpredictable timing and scope of such disasters poses special dilemmas in assuring the full effectiveness of such a program. Possible remedies in this field merits the attention of Congress. But I must strongly insist that the brunt of such disasters should not be placed upon small businessmen throughout the United States.

The business loan program must be given a permanent and protected status. Appropriations for these loans must be carefully planned, fully evaluated by Congress, and should not be permitted to rise and fall on the whim of nature.

Congress has wisely recognized the crucial value of small business to our free enterprise economy. This subcommittee and its chairman have proven themselves consistent friends of small business.

Therefore, I come before you today to plead for the reform and reinvigoration of the small business loan program and to recommend S. 2729 as a most important measure to translate congressional promise into permanent performance for the small businessmen of America.

Senator PROXMIRE. Will you come forward, Mr. Davis?

I might note for the record that Mr. Davis is accompanied by Mr. Keith Hanna.

**STATEMENT OF ROSS D. DAVIS, EXECUTIVE ADMINISTRATOR,
SMALL BUSINESS ADMINISTRATION, ACCOMPANIED BY KEITH
L. HANNA, ASSISTANT ADMINISTRATOR FOR ADMINISTRATION**

Mr. DAVIS. Thank you, Mr. Chairman.

Mr. Hanna is our Assistant Administrator for Administration. Among his many virtues is that he is a pretty fast man with a decimal point, and I hope that he will be able to answer your questions with the status of our various funds in a reasonably lucid way.

I might also add, Mr. Chairman, that I very much personally appreciate your holding this hearing over for a week so that I could appear.

Mr. Chairman, as a matter of procedure, if this would be satisfactory to you, I would like to submit for the record, in its entirety, my formal statement. I do this so that my various collaborators in making this statement will be satisfied that we have not in our discussions lost any of the nuances of this statement.

Indeed, by this system of operation I will not have broken their lucid process in any way.

Senator PROXMIRE. Without objection, the statement will be printed as it appears here in the record.

(The statement referred to follows:)

**STATEMENT OF ROSS D. DAVIS, EXECUTIVE ADMINISTRATOR, SMALL BUSINESS
ADMINISTRATION**

We meet here today, Mr. Chairman, to discuss two matters. The first of these is the request we have made for emergency increases in the revolving fund authorization of the Small Business Administration, embodied in section 4(c) of the Small Business Act. The second is your proposal (S. 2729) that this revolving fund be displaced by three separate revolving funds.

I will address myself first to the emergency legislation.

EMERGENCY AUTHORIZATION INCREASES

The draft bill we have prepared would effect two changes in section 4(c) of the Small Business Act. First, it would increase by \$125 million (from \$1,841 million to \$1,966 million) the maximum amount of money which may be appropriated to the revolving fund of the Small Business Administration. Second, it would increase by the same amount (from \$1,375 million to \$1,500 million) the maximum amount which may be outstanding from the fund at any one time for these three purposes: (1) The regular business loan program conducted by SBA pursuant to section 7(a) of the Small Business Act, together with the loan program for very small business concerns conducted by SBA, under a delegation of authority from the Office of Economic Opportunity, pursuant to title IV of the Economic Opportunity Act of 1964; (2) the disaster loan program conducted by SBA pursuant to sections 7(b) and 7(c)(2) of the Small Business Act; and (3) the prime contract authority vested in SBA by section 8(a) of the Small Business Act.

At the present time the total amount outstanding for the purposes of these programs falls just short of the existing limitation of \$1,375 million. Substantially all of the available balance is required to cover disaster loan applications on hand. Thus, new approvals for business loans, economic opportunity loans, and displaced business disaster loans are almost entirely dependent upon an increase in the balance generated through loan repayments, cancellations and sales. It is unlikely

that such resources will be adequate to carry these programs beyond February of 1966. Meanwhile, there is no leeway whatsoever for new disaster loan requirements which may develop.

Including a contingency amount of \$74 million for natural disaster loans, a projection made by SBA indicates that, as of June 30, 1966, outstanding loans and commitments for business loans, economic opportunity loans, and disaster loans would total \$1,500 million. To meet the needs thus projected, the bill proposes an increase of \$125 million in the existing limitation of \$1,375 million. It also proposes a commensurate change in the maximum amount which may be appropriated to the fund, raising that figure from \$1,841 million to \$1,966 million.

In view of the urgencies I have described, we are hopeful that the subcommittee will immediately approve these increases without waiting to dispose of the issues raised by S. 2729, to which I will now turn.

REVISION OF SBA FUNDING SYSTEM (S. 2729)

Toward the end of the last session of Congress, Mr. Chairman, you introduced this proposal (S. 2729) to reorganize the methods by which SBA's lending programs are financed. At present we operate with a commingled revolving fund—that is to say, all appropriations and repayments which come into the fund may be used for the purposes of any of the lending programs conducted by SBA under the Small Business Act and the Small Business Investment Act of 1958. The bill would displace this single, commingled fund with three separate funds, each subject to separate limitations on loans outstanding.

In substance, the measure contemplates that the first of these three funds would be used exclusively for the purposes of the business loan program embodied in section 7(a) of the Small Business Act, and of the very small loan program embodied in title IV of the Economic Opportunity Act of 1964. The second would be used exclusively for the purposes of the disaster loan programs embodied in sections 7(b) and 7(c)(2) of the Small Business Act. And the third would be used exclusively to finance the operations of SBA under the Small Business Investment Act of 1958—other than the lease guarantee functions authorized by title IV thereof.

Purpose of the bill

The purpose of S. 2729, as I understand it, is to prevent curtailments of the business loan program which may result if substantial sums are diverted to meet emergency needs arising under the disaster loan program. There have been a number of such diversions, but it should be pointed out that the diversions have been only temporary. In each case the funds were eventually restored to the disaster loan program by means of supplemental appropriations. But such restorations take time. On one occasion, indeed, nearly 6 months elapsed before the money could be returned. This was in 1962, when from March 2 through August 31 business loan approvals were limited to urgent cases. Business loan approvals were suspended entirely during April and May of 1965 and between February 1 and April 22 of 1957. A similar suspension occurred for a brief period in June 1958. And, of course, there was the recent suspension of approvals during October 1965, occasioned by Hurricane Betsy. These experiences do provide concrete evidence that the business loan program may be disrupted as we concentrate our resources, in terms of personnel as well as funds, to meet extraordinary disaster demands.

Reevaluation of disaster loan program

Before addressing myself to the remedy proposed in the bill, I would like to make some general observations about the disaster loan program itself. Serious questions have been raised about the advisability of continuing it indefinitely. As the President remarked when he attached his signature to the Hurricane Betsy bill (Public Law 89-339), that statute represents the sixth law passed within a period of 18 months to broaden the program. All of these actions were taken under emergency pressures. Three of the six enactments involved were concerned with one specific disaster.

This piecemeal approach to disaster problems was unavoidable, and it was adequate to meet the conditions which prevailed in the past. But the magnitude of the physical disasters which have struck the Nation since the spring of 1964, culminating in the incredible havoc spread by Betsy, emphasizes the limitations of that approach and the need of planning on an overall basis. The disaster loan concept, as it has evolved over the years, requires thorough reexamination. One of the related considerations is whether it can be displaced, in whole or in part, by a better method of assisting disaster victims with their financial problems.

In recognition of these considerations Congress included in the Betsy bill an authorization for appropriations to finance a study, under the direction of the Secretary of Housing and Urban Development, of alternative programs which could be conducted to provide financial assistance in the future to those suffering property losses from natural disasters—including, but not limited to, disaster insurance. Despite the difficulties that lie in the way, we at SBA are hopeful that the study will eventually lead to a satisfactory substitute for the disaster loan program. Not the least of the resulting benefits will be the elimination of the related funding problem.

Unpredictability of demand for disaster loans

Until such a solution is reached, we will have to cope with a major difficulty attending disaster loan operations—the unpredictability of demands generated by the program. Perhaps I can best demonstrate this feature of the program with a brief comparison of an estimate, made on January 25, 1965, by our Office of Budget, with a revised estimate made by the same Office on December 27, 1965—after the Betsy experience.

In its original projection, the Office figured that outstanding loans and commitments at the end of the fiscal year 1966 would total \$196.1 million. The revised estimate carries this figure to \$401 million, an increase of more than 100 percent. Comparable increases had to be made for the two succeeding fiscal years—from \$214.8 million to \$470.1 million, and from \$228.3 million to \$528.5 million.

Moreover, we must be prepared for the possibility that actual demand, when it arrives, may knock the revised estimates as far askew as it did the originals. Nobody can be certain that one or more disasters of even greater magnitude than Betsy are not in the offing.

If we are to be completely sure of meeting all disaster needs, we should have some source of standby funding for the disaster loan program and relief from presently applicable authorization limits—points which I will take up later in my statement. Obviously, if there are sufficient funds and authority available to meet any and all contingencies, the disaster program will create no further drain on the business loan program.

Issues presented by the bill

Hence, unless unpredictable disaster lending is superseded by other disaster assistance programs or removed from normal congressional controls, the problem of finding resources to meet emergency needs will remain. S. 2729 is not directed to this underlying problem but rather to the related matter of protecting the business loan program from disruption.

We in SBA fully appreciate the importance of this objective. The stability promised by S. 2729 would doubtless increase the effectiveness of the business loan program. We would have a clear and definite picture, at the beginning of each year, of the financial assistance which SBA is going to provide to the small business community. This should facilitate planning both by the Government and by private industry. Banks would have a better idea of the scope of SBA lending to be expected in their respective neighborhoods and of the opportunities awaiting them in our guarantee program.

Viewed solely from the standpoint of small business lending, then, the bill presents an inviting outlook. But, as you know, SBA wears two hats. In addition to its business lending functions, our agency has been entrusted by Congress with the important, vitally important, responsibility of providing adequate and speedy financial assistance to all citizens whose dwellings and other property have been destroyed or damaged by physical disaster. Clearly, it is our duty to speak up when confronted with a proposal which, however meritorious in other respects, could hinder our discharge of this duty.

The rigid insulation of the disaster loan program proposed by S. 2729 could, if we are again caught short of disaster funds, result in severe hardship to thousands of people. No matter how dire their need we could not come to rescue, as we now do, with so much as a penny taken temporarily from the business loan program.

Operating through multiple funds also creates some administrative inconvenience and expense. I understand that the Treasury Department has commented to you on this aspect of the bill and suggested that its objectives might be achieved more simply by limiting the availability of appropriations to disaster versus nondisaster activities rather than creating separate funds. This, however, is to us a secondary problem to our primary concern that we be able to meet as effectively as possible the varied responsibilities which Congress has given to our agency.

Considering all factors, our conclusion is that a single unrestricted fund is the most desirable vehicle for conducting our operations, because it affords us the greatest amount of flexibility within the framework of existing financial controls. If these controls were to be removed from disaster activities, then these transactions might appropriately be segregated from the agency's other programs. Furthermore, we wish to make clear that in expressing our opinion we recognize that others, assessing the same facts, might reach other conclusions. Therefore, we are available to work with the committee to develop the best solution possible to this problem.

An alternative approach

An alternative approach, which we believe may be promising because it both provides some protection to business loan programs and some degree of flexibility to meet emergency disaster needs when the Congress is not in session or while an appropriation request may be moving through normal channels, would be to authorize transfer from the uncommitted balance of funds budgeted for business loans to the disaster account an amount not to exceed 10 percent of the business loan budget for that year. This authorization could also provide that any amounts so transferred would be returned to the business loan activities after funds in a commensurate amount become available in the disaster account through repayments or additional appropriations.

We believe that this 10-percent device would serve to meet our most critical disaster needs without serious impairment of our other financial assistance programs.

Loan authorizations

In view of the complete unpredictability of disaster loan demand, we strongly recommend that no statutory limitation be placed upon the dollar amount which may be outstanding from the fund for disaster loan purposes at any given time. Such a ceiling, if low enough to be meaningful, could conceivably halt the program in the middle of an emergency—even though we had adequate funds available for disaster purposes.

On the other hand such a ceiling would, of course, be suitable for business and other lending programs. For your consideration we suggest a limitation of \$2,300 million. This figure is based upon the following projections of loans outstanding on June 30 1968, based on a continuation through fiscal year 1968 of the 1967 budgeted rate plus a \$122 million contingency:

Business loans.....	\$1, 371, 500, 000
Economic opportunity loans.....	110, 300, 000
State and local development company loans.....	197, 400, 000
Displaced business disaster loans.....	77, 500, 000
Investment company loans and debentures.....	418, 400, 000
Trade adjustment loans.....	2, 500, 000
Contingency.....	122, 400, 000
Total.....	2, 300, 000, 000

You will note that the projections I am using contemplate the financing of the trade adjustment loan program, which SBA is authorized to conduct pursuant to Public Law 87-550 (15 U.S.C. 1632), from our revolving fund. In contrast to all our other lending activities this program, established to assist business concerns in adjusting to changed conditions caused by increased competition from imported articles, is presently financed through the appropriations process. There is no sound reason for this disparity. We are taking this occasion to recommend an amendment to the law providing that trade adjustment loans are to be financed from SBA's revolving fund, instead of being financed through appropriations.

Assurance of adequate funds for disasters

As I have indicated several times in the course of this statement, Mr. Chairman, the delays which inevitably occur in obtaining appropriations to meet large, unpredictable disaster loan needs, underlie the problems we are considering here today. Unless and until we can somehow overcome these lags, there will be some loan applicants who will have to be asked to wait until the agency can obtain more funds.

Authorization for SBA to draw upon Treasury to meet disaster loan needs is one technique which might be considered by the Congress to overcome delays inherent to the appropriations process. This would of course involve "back-door

financing," which the Congress has heretofore permitted only on a very selective basis. We believe that disaster financing does constitute a special problem. Also, it might be possible to develop techniques, such as requiring that borrowing from the Treasury be authorized annually in the appropriation act, which would assure Congress an adequate opportunity to review the use made by SBA of this authority (and to remove it in the case there is misuse). However, as you know, there are differences of opinion within the Congress with respect to this procedure.

The problem of financing unpredictable disaster needs might also be lessened if techniques can be developed to substitute private for public credit in assisting disaster victims. One means of accomplishing this objective would be through participations sales, such as those authorized in S. 2499, a bill approved by the subcommittee late last year. This proposal would enable SBA to set aside pools of its loans and sell beneficial interests in such loans on the private investment market. It is expected that the participations would be sold under a trustee and guarantee arrangement by the Federal National Mortgage Association, in view of the Association's experience in selling similar participations based on its own and Veterans' Administration loans. Funds obtained from participations sales based on SBA loans would be credited to SBA's revolving fund or funds, and would increase their turnover and efficiency, as well as reducing agency needs for appropriations.

As a result of Hurricane Betsy loans, our disaster loan portfolio has been substantially increased during the past few months. We estimate that we may have almost \$300 million of disaster loans outstanding by June 30, 1966. Enactment of the participations legislation would enable participations sales based in part on such disaster loans, and the proceeds would be available as a reserve for future disaster loan needs. Also, such participations sales based in part on disaster loans could be utilized if necessary to meet emergency disaster requirements arising while Congress is out of session. In this manner, the participations legislation would provide a prime source of disaster loan financing.

Funding of investment division and other programs

Mr. Chairman, your bill also would separate the funding of the business loan program from that of the small business investment program. This portion of the bill is unrelated to the problem of meeting disaster needs, which we have been discussing to this point. Frankly, we in SBA see no need for separating the financing of our various nondisaster programs nor any advantages in such action. As we see it, having several funds, all to support our mission of providing small business assistance, would only serve to create problems in determining to which of several funds the expenses of new and continuing activities should be charged and to create unnecessary reporting and recordkeeping requirements and the additional expenses attending them. Accordingly, even if it is determined that disaster activities should be separately financed, we recommend that all other SBA programs (except title IV loan guarantees) be financed from a single source.

CONCLUSION

In conclusion, Mr. Chairman, we appreciate this opportunity to review with you the financing arrangements for SBA's programs. Our preparation for these hearings has been useful for us and has drawn our attention to certain anomalies, such as the appropriation financing of trade adjustment loans, which we recommend be corrected. We are especially anxious that action be taken as soon as possible to increase the authorization for business and disaster loans. And we look forward to working further with your committee to develop the best possible means for assuring the stability of our business loan activities consistent with the need to have some means for responding promptly to disasters.

Mr. DAVIS. Then what I would like to do for the purposes of this hearing, Mr. Chairman, if it is satisfactory, is hit some of the highlights, and perhaps we can brush over some things which seem less important.

As you pointed out in your opening statement, we are here to discuss two matters, and perhaps I could dispose relatively rapidly of the emergency authorization increase and then get to the heart of this hearing, which is, of course, your bill.

Senator PROXMIRE. What I would like to do, if the committee approves, is to have you finish your presentation of the authorization request, which I think is separate and distinct. Then members of the

committee might like to ask questions at that point, so it will not be confused, and then we will proceed to the separation of the funds.

Mr. DAVIS. Very good, sir. The draft we have prepared would effect two changes in section 4(c) of the Small Business Act.

First, it would increase by \$125 million the maximum amount of money which may be appropriated to the revolving fund of the Small Business Administration.

Second, it would increase by the same amount the maximum amount which may be outstanding from the fund at any one time for these three purposes:

(1) the regular business loan program conducted by SBA, together with the loan program under title IV of the Economic Opportunity Act.

(2) the various disaster loan programs.

(3) the dormant prime contract authority found under section 8(a) of the act.

At the present time the total amount outstanding for the purposes of these programs falls just short of the existing limitation of \$1,375 million. Substantially all of the available balance is required to cover disaster loan applications on hand. Thus, new approvals for business loans, economic opportunity loans, and displaced business disaster loans are almost entirely dependent upon an increase in the balance generated through loan repayments, cancellations, and sales.

It is unlikely that such resources will be adequate to carry these programs beyond February of this year. Meanwhile, there is no leeway whatsoever for new disaster loan requirements which may develop.

Including a contingency amount of \$74 million for natural disasters, a projection made by SBA indicates that, as of June 30, 1966, outstanding loans and commitments for business loans, economic opportunity loans, and disaster loans would total \$1,500 million.

To meet the needs thus projected, the bill proposes an increase of \$125 million in the existing limitation of \$1,375 million. It also proposes a commensurate change in the maximum amount which may be appropriated to the fund, raising that figure from \$1,841 million to \$1,966 million.

In view of the urgencies I have described, we are hopeful that the subcommittee would reasonably promptly approve these increases.

This, Mr. Chairman, is all I have to say on the emergency legislation.

Senator PROXMIRE. All right. As I understand it, then, you are asking for an increase of \$125 million, from \$1.375 billion to \$1.5 billion, for these three programs. This is only until June 30 of this year?

Mr. DAVIS. It is an interim measure.

Senator PROXMIRE. Right. Now can you give us an idea of how big your present backlog of regular business loans is?

Mr. DAVIS. I am not sure, Mr. Chairman, that we have the current figures. It has decreased very substantially from the \$100 million backlog we had in October.

I would like to submit that figure for the record if I may.

(The figure referred to follows:)

The backlog as of December 31, 1965, was slightly less than \$30 million. Although actual figures for January 31, 1966, are not available at this moment, it is estimated that the current backlog of regular business loan applications would approximate \$16 to \$20 million.

Senator PROXMIRE. Can you give us an estimate? You see, it is hard for us to know the adequacy of this without having some idea of what the figures are.

Mr. DAVIS. Our best judgment at the moment is that the backlog—that is, the effective backlog, the backlog that will develop into loans that we will authorize—will be somewhere between \$20 and \$30 million.

Senator PROXMIRE. Between \$20 and \$30 million. All right. Now you have repayments and cancellations which you estimate between now and June 30 will be how much?

Mr. DAVIS. Mr. Hanna.

Senator PROXMIRE. Somewhere in here you make an estimate of what your monthly repayments or annual repayments will be.

Mr. DAVIS. I will ask Mr. Hanna to go over these figures with you, Mr. Chairman.

Senator PROXMIRE. All right.

Mr. HANNA. This would be for the 6-month period, Mr. Chairman. We are estimating \$117 million.

Senator PROXMIRE. \$117 million which you will receive from that source?

Mr. HANNA. Yes. In addition, we are estimating \$25 million to come back as a result of the cancellation or forgiveness on the disaster loans made in connection with Hurricane Betsy.

Senator PROXMIRE. So that is \$142 million that you expect to be coming in, in addition to the \$125 million for use during the next 6 months. Is that correct?

Mr. HANNA. That is correct.

Senator PROXMIRE. And you have a \$20 to \$30 million backlog?

Mr. HANNA. Yes.

Senator PROXMIRE. Can you give us any idea about disaster loans? Of course, it is the hardest thing in the world to anticipate, but on the basis of past experience, if we have a usual spring as far as disasters are concerned, can you give us any impression of what that would amount to?

Mr. DAVIS. We are holding out a contingency here of about \$70 million. I would expect that this would be a lot less.

Now, extending our past experience, our disaster loan program was thought to be adequately covered by about \$20 million a year.

Senator PROXMIRE. Well, then, can you give me what you anticipate you would have available for regular business loans in view of this arithmetic if the \$125 million is provided?

Mr. DAVIS. Mr. Hanna.

Mr. HANNA. Out of the \$125 million increase, Mr. Chairman, \$51 million of that was estimated as being required to finance our business loan program for the balance of the year.

Senator PROXMIRE. \$51 million?

Mr. HANNA. Yes, sir.

Senator PROXMIRE. Only \$51 million? That would be less than \$10 million a month. Is that correct?

Mr. HANNA. Yes.

Senator PROXMIRE. Is that correct?

Mr. HANNA. Yes, but plus repayments.

Senator PROXMIRE. Well, as I add up these figures, it adds up to about \$267 million. That is \$125 million we authorize now of ad-

ditional authorizations, assuming you are right at the top now and you are crowding the limit, \$117 million of repayments or regular repayments, and \$25 million of the special repayments which you mentioned.

Now, if we subtract \$51 million you are going to need then \$216 million for other programs; \$70 million is for disasters, roughly. Where does the rest of the money go?

Mr. HANNA. The repayments, Mr. Chairman, of course, are available also for financing the loans to State and local development companies—

Senator PROXMIRE. That part of it is a small part.

Mr. HANNA (continuing). And small business investment companies. I beg your pardon?

Senator PROXMIRE. I say that is a small part. Did I understand you to say \$51 million for the regular business loan program?

Mr. HANNA. From the standpoint of the authorization. Our total projected business loan activity for the last 6 months of the year is \$95.7 million.

Senator PROXMIRE. The last 6 months of the fiscal year?

Mr. HANNA. Yes, sir. That is January through June.

Senator PROXMIRE. That would be \$95 million?

Mr. HANNA. Yes, sir.

Senator PROXMIRE. You say this gives you \$51 million?

Mr. HANNA. Yes, sir.

Mr. Chairman, again I am speaking here of the revolving fund, and the charges against the revolving fund for loan guarantees are only 10 percent of the amount of the loan guarantees. I inject this into the question—

Senator PROXMIRE. In other words, what you are saying is \$51 million would be Federal funds, and the remainder would be bank funds? Is that correct?

Mr. HANNA. No, sir. The \$95 million represents the funded cost, and this involves the charging of a loan guarantee at only 10 percent of the face value of SBA's share.

Against the authorization itself we must charge 100 percent of these loan guarantees, because that is a loan outstanding as far as SBA is concerned.

This has injected a confusing element, because I am speaking of repayments which represent money going back into the revolving fund. But when we talk of authorization we have to inject the total face value of the loan guarantees into the picture as well.

Now, the projection of \$51 million, Mr. Chairman, was the additional amount which we estimated would be required over and above the available authorization balance on December 31 plus repayments of principal into the fund which would be necessary to finance the projected budgeted level for the balance of the fiscal year. The \$51 million represents a net deficiency in authorization, and is not an estimate of volume.

Senator PROXMIRE. Let me try it a different way then. How much of it will go into 502 programs? Do you have a figure?

Mr. HANNA. \$17.1 million from the revolving fund.

Senator PROXMIRE. \$17.1 million?

Mr. HANNA. Yes.

Senator PROXMIRE. And how much will go into the poverty loans?

Mr. HANNA. \$18.8 million.

Senator PROXMIRE. What does that leave? We have got \$70 million for disaster, \$17 million for 502, and \$18.8 million for the Office of Economic Opportunity. The remainder would be regular business loans?

Mr. HANNA. We have \$56.5 for investment company activity.

Senator PROXMIRE. Oh, now, wait a minute. That is separate. SBIC's?

Mr. HANNA. Yes, sir.

Senator PROXMIRE. That is a separate category. That was not included in this \$125 million. That is in a separate authorization, is it not?

Mr. HANNA. That is correct. But when you are speaking of the \$142 million of collections, Mr. Chairman, that involves collections which we use both ways.

Senator PROXMIRE. All right. How much for the SBIC's again?

Mr. HANNA. \$56.5 million.

Senator PROXMIRE. \$56.5 for SBIC's. And then how much for regular business loans?

Mr. HANNA. \$95.7 million.

Senator PROXMIRE. All right. Now, how does this compare with your loan rate, say, a year ago on a monthly basis? In other words, does this mean you are going to have to ration once again? Does this mean you can make loans up to \$350,000 without restraint? What kind of restrictions will this authorization mean for you, if any?

Mr. DAVIS. Now, as I understand this arrangement, Mr. Chairman, the authorization amendment will free us from problems that are generated by the ceiling authorization. It will have nothing to do, however, with the program level and the availability of funds.

I am hopeful when we get beyond the ceiling problem—

Senator PROXMIRE. Which ceiling problem are you talking about? The ceiling on the size of the loans made to small business?

Mr. DAVIS. No, sir, the ceiling problem on the maximum amount of loans outstanding, the one that we are asking for emergency relief on.

Senator PROXMIRE. OK.

Mr. DAVIS. If we should get this relief, then we come back to program levels and how much money do we have?

I would hope that sometime in February we could open up the business loan program at a level of about \$15 million a month. This would be at a rate of roughly one-half of what it was when we shut it down.

Senator PROXMIRE. It was \$35 million, was it not? It means you are going to have to ration again, does it not?

Mr. DAVIS. We are going to have to find some system of rationing. That is quite true.

Senator PROXMIRE. You would not be able to make the loans that Congress has authorized in one way or the other. You are either going to have to say you will not make loans over \$100,000 or \$150,000 or set up some kind of priority.

So, many businessmen who will qualify under the rules laid down by the Congress simply are not going to get their money.

Mr. DAVIS. I think that is quite true, Mr. Chairman. We would be faced with a situation where the qualified demand would far and away exceed the availability of funds to meet that demand.

Senator PROXMIRE. Now, if there is a disaster period such as we had in 1965, once again you are going to have a suspension too, unless we pass the subsequent legislation segregating the funds?

Mr. DAVIS. I think that—

Senator PROXMIRE. Because you set up priorities for disaster loans. They come first.

Mr. DAVIS. That is correct, Mr. Chairman.

Senator PROXMIRE. Well, now, does the Budget Bureau recognize this? Has it suggested any kind of priorities? Have they indicated that they feel that this should be done on a size-loan basis, or have they indicated any—

Mr. DAVIS. The Budget Bureau has been very generous in this respect. They say, in effect, that they do not care how we do it, so long as we do it.

Senator PROXMIRE. That's generous. [Laughter.]

Well, frankly, I think this is most shocking. It is just hard for me to understand. Either you have a Small Business Administration or you don't. Either you have a small business loan program or you don't have it.

It seems to me in good conscience that the administration should come to the Congress and indicate that they favor changes in the rules. This seems to me very unfair to the small businessman. We have a program where we say, "You can borrow up to \$350,000." Some of us feel we ought to reduce that; others may not. At any rate, Congress should have some opportunity to write a law that will be respected.

There ought to be some meeting of the minds on the part of the Congress, which specifies who can borrow and the terms on which they can borrow, and the administration, which so reduces the funds that those loans have to be rationed in a discriminatory way.

Mr. DAVIS. Well, Mr. Chairman, I heartily endorse your suggestion that it would be extremely useful if we could come to some meeting of the minds on this problem. The problem is a very real one.

I happen to have, if you would permit me a moment on this, some figures which show how this program has grown in the past few years.

I think from the point of view of increases, it seems to me that we have had fairly generous budgets.

Senator DOUGLAS. Let me ask you this. Are you talking now about the increase in the business loans or the increase in the disaster loans?

Mr. DAVIS. I am talking primarily about business loans, Senator Douglas.

Just talking about program levels for a moment, in 1964 we put out \$248 million. In 1965—

Senator PROXMIRE. Now you are talking about the regular business loans exclusively here?

Mr. DAVIS. Regular business loans exclusively.

Senator PROXMIRE. All right; \$248 million in 1964.

Mr. DAVIS. In 1965 we added practically \$100 million to that. We went up to \$339 million. This year we expect to exceed that once more.

Our projections are, assuming no more money, just working with what we have, we will have a program level of \$354 million.

So that last year, where we added \$100 million, we doubled the amount of loans, our biggest year, will be exceeded by this year under a curtailed program.

Next year the contemplated budget will increase over this year by another \$70 or \$80 million.

Senator PROXMIRE. What are we talking about? Does this include the loan guarantee program and bank participation?

Mr. DAVIS. Yes; this is the sum total of the activity under 7(a).

Senator PROXMIRE. How much of this is Federal money and how much of this is private money loaned by the banks with the Federal guarantee or with the Federal participation?

Mr. DAVIS. These figures are all Federal money. This is SBA's share that we are talking about including our full commitment on loan guaranties.

This same increase can be illustrated in a number of ways.

The point I am making, Mr. Chairman, is simply this: Unless we have a program here where the program levels are influenced solely by demand, then we have to find some understanding of how this program is to operate and at what level.

The fact of the matter is the Bureau of the Budget is a "bete noire" in these, and this is perfectly satisfactory with me. The fact of the matter is that we have been having very substantial increases in our business loan program.

If you would bear with me, Mr. Chairman, I would like to give you just a couple more figures.

We were comparing the number of loan approvals made for various years, and I can submit this for the record.

Senator PROXMIRE. Without objection, it will be made part of the record.

(The figures referred to follow:)

Business loan approvals, fiscal years 1960-65 and estimated 1966 and 1967

[Dollars in millions]

	Number	Total amount	SBA share
Fiscal year:			
1960	3, 670	\$168. 4	\$144. 3
1961	4, 989	250. 4	214. 9
1962	6, 203	360. 8	296. 9
1963	6, 073	313. 9	244. 4
1964	6, 288	312. 2	248. 1
1965	13, 420	418. 0	339. 5
1966 (estimate)	12, 859	430. 2	354. 6
1967 (estimate)	17, 784	519. 4	428. 0

Mr. DAVIS. Let us compare first-half-year records for a period of time. Let us talk about 1963. In the first half-year of 1963 we made about 3,500 loans. In 1964 we went down to 2,400 loans. In 1965, our banner year, we went up to 6,800 loans.

This year, with all the curtailment, we have a figure that exceeds last year by a small amount. It is 6,900 loans.

Senator PROXMIRE. Let me interrupt at that point to say that I think that I express the sentiment of at least many Members of the

Senate, certainly not all, that the number of loans is very, very important to us. In other words, if you are making a lot of small loans, poverty loans, loans for people who you know are minority groups and others who have great difficulty getting financing, this is most encouraging.

As I understand it, you can increase the number of loans without increasing the amount if you change the mix—in other words, if the smaller loans are more aggressively offered or at least are taken on a wider basis.

Mr. DAVIS. Well, this certainly is one factor that we have to deal with, Mr. Chairman.

Senator PROXMIRE. At the same time, of course, the Congress has spoken in indicating that they think the people should be able to borrow \$350,000. And this is not the theory of some Member; this is a fact written into the law. They should be enabled to do it.

But once again I think it would be most helpful if at least this committee, which has this heavy responsibility for working closely with you, should have an opportunity to discuss and consider the possibility of priorities if we are going to be constrained, if we only have half as much available now as we had last year, at a time when the banks are limiting their credit, when I have run into small businessmen after small businessmen who has told me although he has had excellent relationships with his bank, no question of his credit, the bank is still indicating that they are not going to renew his notes.

This is not rare. This is common now because of the crackdown in credit.

Mr. DAVIS. Quite true. We do have a situation in the financial markets—

Senator PROXMIRE. So you can expect small business is going to come to you because banks are refusing to make loans to perfectly good small businessmen.

Now, we have a problem here, and I deeply apologize that I have taken so much time, but we are all concerned with this.

Senator Dirksen is objecting to any meeting of any committees after 11 o'clock. It is now 2 minutes to 11. Now, this is such an important meeting here this morning and such an important educational meeting, as far as I am concerned, that unless there are other members who feel it is futile, I think it would be helpful to have the witness continue on at least an informal basis.

More experienced Members of the Senate who are on this committee can advise me on this, however.

Senator Douglas?

Senator DOUGLAS. I think we can meet on an informal basis but with stenographic notes taken which can be published later.

So I move, Mr. Chairman, we continue on an informal basis under those conditions.

Senator PROXMIRE. Is there objection?

(No response.)

Senator PROXMIRE. All right. You proceed. Did you finish? I did not mean to interrupt you before you had finished.

Mr. DAVIS. I have finished, Mr. Chairman, on this point.

To recapitulate, I am not at this moment suggesting that there are not very serious questions about what level the agency should be operating at, particularly in view of conditions in the money market.

What I am doing, however, is taking advantage of your suggestion, if I can, that we have to face the very real issues that are raised by the fact that the demand for these loans far outweighs the ability of the Federal Government to provide funds in view of the current budgetary situation.

These questions I know, at least for me, will not go away.

And so we must work together if we can to come to some point of view as to how this problem should be dealt with.

Senator PROXMIRE. Senator Sparkman.

Senator SPARKMAN. Mr. Chairman, I am going to ask just this general question. Of course, when you give the growth of the small business operation, the business loan part of it, and show that there has been increase year after year both in the amount of money used and also in the number of loans made, you do not think there is anything abnormal about that; do you?

In other words, in a growing economy such as ours, is that not to be expected?

Mr. DAVIS. Of course, Senator Sparkman, it is to be expected.

Senator SPARKMAN. And is not the need of small business even greater if it is to keep pace with business generally in an expanding economy such as we have now?

Mr. DAVIS. The need tends to increase. In my judgment, the need tends to increase when the economy expands. It also tends to increase when the economy contracts. But certainly now, certainly now, the need is increasing.

Senator SPARKMAN. Well, I think that is an important point for us to keep in mind. Business loans from SBA are not necessary just in bad times when businesses are having a hard time, but they are equally necessary and perhaps even more so in good times if we are to continue to expand our economy.

I ask our eminent economist if that is not so.

Senator DOUGLAS. I think a very sound case can be made for it.

Senator SPARKMAN. Don't you think I made one?

Senator DOUGLAS. Yes, an extremely sound case.

Senator SPARKMAN. That is all.

Senator PROXMIRE. Senator Douglas?

Senator DOUGLAS. Mr. Davis, I have always maintained that the Federal budget should distinguish between operating costs and capital investments, and I have always thought that small business loans should not be charged to the operating budget but to the capital budget.

But this involves a question as to whether they are good investments in the traditional, not merely public policy, sense.

What proportion of the business loans have turned out to be bad financial ventures in which you have given up hope of repayment and what proportion are seriously in arrears? Can you give us that not only in percentages but in actual amounts?

Mr. DAVIS. Senator Douglas, I am not sure what figures we have available here today on this, but I can—

Senator DOUGLAS. I should think this would be the most fundamental figure that you can have. Would you not have somebody here who can answer that?

Mr. DAVIS. Let me start by answering it this way, Senator Douglas, and see whether this is a sufficient answer. We are losing about 2.5

percent of principal on our loans. That has been our record to date. This suggests to me that the far-and-away bulk of these loans are sound investments.

Senator DOUGLAS. What interest rate do you charge?

Mr. DAVIS. Well, we have had varying rates of interest, from 4 percent in surplus labor areas to 5.5 percent. At the moment we are charging 5.5 percent for all our business loans.

Senator DOUGLAS. What are your administrative costs as a percentage of the total amount in loans?

Mr. HANNA. It varies, Senator.

Senator DOUGLAS. Overall.

Mr. HANNA. Our administrative cost in connection with the making of loans, according to my recollection, is about 3 percent. For the servicing of loans outstanding it is approximately 1.5 percent.

Senator DOUGLAS. So your 2.5-percent loss, plus your 3-percent administrative cost, just about meets the 5.5 percent which you get? On the other hand, the Government has been borrowing to meet the general deficit—and I do not suppose all of this can be charged to the general deficit—but to the degree that it is, you have a debit item now of $4\frac{1}{8}$ or $4\frac{1}{2}$ percent, depending on the length of the borrowings.

Mr. HANNA. We are paying the Treasury $4\frac{1}{8}$ percent during the current year.

Senator DOUGLAS. Paying the Treasury what?

Mr. HANNA. Paying $4\frac{1}{8}$ percent during the current year on our borrowings.

Senator DOUGLAS. So you have a $4\frac{1}{8}$ -percent interest payment, 3 percent administrative costs, and a 2.5-percent loss factor. Is that right?

Mr. HANNA. Yes, sir.

Mr. DAVIS. We are not getting rich.

Senator DOUGLAS. Pardon?

Mr. DAVIS. We are not making money.

Senator DOUGLAS. Well, I would say you were losing about 4 percent a year.

Mr. DAVIS. I think that is a good judgment.

Senator DOUGLAS. Now, what percentage of your loans are seriously in arrears, have been renewed from time to time?

Mr. DAVIS. I am told around 6 percent of our loans are in some kind of trouble.

Senator DOUGLAS. Well, a lot of loans are in trouble. The question is: Is it serious trouble? How many are in arrears for over a year?

Mr. DAVIS. I will have to supply that for the record, that breakdown.

(The breakdown of the figures follows:)

The latest figures available on loans in trouble are stated as of November 25, 1965. As of that date, SBA field offices were servicing a total of 33,352 regular business loans, of which 1,700 were classified as "in liquidation," i.e., loans on which foreclosure, bankruptcy, or other forms of legal action have begun and are being contemplated. In addition, 1,098 loans were delinquent over 60 days. Combined, the number of loans in liquidation and delinquent over 60 days represented 8.4 percent of the number being serviced.

(Our records do not classify delinquent loans by "age" categories.)

Senator DOUGLAS. I hope you will see that your statistical division will prepare this information and keep it current. It is highly impor-

tant, because we want these answers and we also should know what progress is being made. We should frankly face the costs as well as the benefits.

Mr. DAVIS. There is this question that is raised, Senator Douglas, by the line of your questioning; that is, the extent to which SBA ought to be guided in its lending to the so-called best risks.

Senator DOUGLAS. I quite agree with you. I do not say that this should be the guiding principle. I merely say that this is something that we should know about so that we can consider it in conjunction with the whole series of other factors. That is all.

Mr. DAVIS. I quite agree.

Senator DOUGLAS. Don't blow out the light on the page because you think that if you have the light there the reading will be unpleasant.

Senator PROXMIRE. Thank you, Senator Douglas.

Senator McIntyre.

Senator McINTYRE. Thank you, Mr. Chairman.

Mr. Davis, your testimony here seems to suggest that in your view of your discussion with the Bureau of the Budget, Congress should give attention to whether or not this program should continue to show the same growth in the future as it has shown in the past.

In other words, as I read your testimony here, you are suggesting that there may be necessity for a leveling off in view of the overall financial situation in America today.

Mr. DAVIS. I think that is substantially correct, Senator McIntyre, or perhaps it could be stated this way: That given our present situation, our present problems, would it not be useful for us to sit down together once more and look at this program with a somewhat fresh point of view to see what we can reasonably expect this agency to accomplish?

Now, here is something that distresses me as I look forward. The prime rate now is 5 percent. We have interest rates going up all over the country.

Somebody told me coming up to this hearing that in New York City where we made a special exception to carry some small businesses through the strike period our 5.5 percent rate there should be measured against—and this was the statement but I cannot vouch for the truth of it—a normal rate of 10 percent charged by the banks in this area.

Now, this was said to me—a 10 percent simple interest rate.

The point I make is simply this: If we charge 5.5 percent for our loans, with the present money markets we can develop a great deal of business, a lot more business than we can get either money or manpower to handle. This suggests that we have to rethink this program.

Senator McINTYRE. Thank you very much.

Senator PROXMIRE. Thank you very much, Senator McIntyre.

We do have a problem here because I understand that these court reporters are very competent, skilled men and they come high. We are going to have to raise money. And there is the question of getting the transcript printed also. We are still all right now because we are not out of the morning hour, though that is a live quorum coming up so we are probably going to have to leave to meet that.

It looks as if we are going to have to ask you to come back on another day, perhaps earlier in the day, so that we can be sure to get this through, because we have yet to come to the main thing we

are here on, that we are here to talk about this morning, and that is the segregation of the funds.

Let me ask you just one question. How much would we have to provide if the committee decides that it should go ahead and provide all that is needed under the present law?

In other words, if we should decide to meet the demand, would we need to appropriate or authorize \$250 million—and recognizing as Senator Douglas has said so well, has indicated so well, that it is a capital program, that 95 percent of it or more comes back to the Federal Government anyway? It is a loan, not a grant.

Mr. DAVIS. Incidentally, Mr. Chairman, I missed a golden opportunity when Senator Douglas asked me the question regarding this as a capital investment of mentioning participation shares as a system of raising money which is somewhat analogous to the—

Senator PROXMIRE. As you know, the subcommittee passed that. We want to come to it at a later time. This subcommittee passed that. It is pending before the full committee. I think those of us here today support that. But we may not get it through, and we have to deal with realities.

What is your estimate of the amount you need to get through the year?

Mr. DAVIS. My estimate—and I have listened to some slightly more conservative estimates—is that if we opened up the regular business loan program tomorrow we would need funds to handle a program of at least \$500 million.

Senator PROXMIRE. Before July 1?

Mr. DAVIS. Yes. For the balance of this year. In terms of actual money in the revolving fund, we would need about \$300 million over what we have in the kitty, which is about \$100 million.

Senator PROXMIRE. Instead of the \$125 million you would want \$500 million for authorization and appropriation? Is that right?

Mr. DAVIS. I am just talking about what kind of program level I would expect and what kind of money we would need in the fund to run this program on a wide-open basis. The ceiling would have to be adjusted accordingly.

Senator PROXMIRE. Right.

Mr. DAVIS. Now, there are other limiting factors such as our manpower, how many loans we could process. But under ideal circumstances, assuming we could process all the loan applications that came in, this would be my judgment.

Senator PROXMIRE. Thank you very much.

Senator SPARKMAN. Mr. Chairman, may I ask one quick question? With reference to your loss which I believe you put at 2.5 percent—

Mr. DAVIS. Yes, sir, Senator Sparkman.

Senator SPARKMAN (continuing). And your cost, administrative cost, which I believe you put at 4 percent—

Mr. DAVIS. Yes.

Senator SPARKMAN (continuing). Is that true across the board or were you relating it only to the business loan program?

Mr. DAVIS. We were talking as I understand it solely about the business loan program.

Senator SPARKMAN. How would it run with disaster loans for instance? Would it be similar?

Mr. DAVIS. Well, I was going to say offhand that I thought that the disaster loan program might be a little more expensive to run from an administrative point of view, but perhaps it equalizes. The loss rate on disaster loans tends to be a little higher, around 4 percent.

Senator SPARKMAN. Thank you.

Senator PROXMIRE. Thank you very, very much.

We will try to have another meeting just as soon as we possibly can, and we want to thank you very, very much.

The subcommittee will recess subject to call.

(Whereupon, at 11:16 a.m., the subcommittee recessed subject to the call of the Chair.)

Senator SPARKMAN: How would it run with disaster loans for instance? Would it be similar?

Mr. DAVIS: Well, I was going to say all right that I thought that the disaster loan program might be a little more expensive to run from an administrative point of view, but perhaps it is not. The loss rate on disaster loans tends to be a little higher, around 4 percent.

Senator SPARKMAN: Thank you.

Senator PROXNER: Thank you very much.

We will try to have another meeting just as soon as we possibly can, and we want to thank you very, very much.

The appointment will be as follows to call.

Wednesday at 1:15 p.m., the subject is reserved subject to the call of the Chair.

ESTABLISH SEPARATE SBA REVOLVING FUNDS

WEDNESDAY, JANUARY 26, 1966

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

The subcommittee met pursuant to call, at 10:01 a.m., in room 5302, New Senate Office Building, Senator William Proxmire, chairman of the subcommittee, presiding.

Present: Senators Proxmire and Douglas.

Senator PROXMIRE. The Subcommittee on Small Business of the Senate Banking and Currency Committee will resume its hearing.

Mr. Davis and Mr. Hanna will please come forward. Is there anyone else that Mr. Davis would like to have with him?

Before you go ahead on page 3 and finish your presentation to the subcommittee on the request for additional authorization, I just want to make sure I understand what this request and authorization means, roughly.

You are asking for an additional \$125 million. You testified yesterday that if the SBA should ask for everything that they could probably use and fill all requests that were legitimate and proper in accordance with the law, you would perhaps ask for even four times as much—\$500 million.

Now, this means to me that if you are going to get \$125 million, as we said yesterday, you are going to have to have some kind of rationing system, some kind of priority system, and it means that 2 out of 3 loans would be denied. At least, 2 out of 3—I should not put it that way because, obviously, you can put a priority on the size of the loan and grant 80 percent of them, perhaps, if that is the priority you choose. You might not choose that. But, let us say that \$2 out of \$3 sought from SBA will have to be denied; is that roughly correct?

**STATEMENT OF ROSS D. DAVIS, EXECUTIVE ADMINISTRATOR,
SMALL BUSINESS ADMINISTRATION, ACCOMPANIED BY KEITH
L. HANNA, ASSISTANT ADMINISTRATOR FOR ADMINISTRATION—Resumed**

Mr. DAVIS. I would, Mr. Chairman, have to have someone figure out, in terms of ceilings and money, the significance of my statement made yesterday.

What I said, in effect, was that we could lend, in my judgment—you will recollect that this was taking a hypothetical situation which contemplated that we would have no processing lag; of course, we would, but I was not taking that into account, so I said, hypotheti-

cally, assuming no processing lag—we could lend about \$500 million worth for the balance of this year.

Now, given what I shall describe as cash flow considerations, I would have to ask Mr. Hanna to translate that statement into what would be required in terms of a ceiling, for one thing, and then, what would be required in terms of input of money into the revolving fund, which might be another thing.

Senator PROXMIRE. In view of the fact that we want to get into the main part of the presentation and that we may have to cut this off at 11 o'clock, it would be helpful if you would do this: Mr. Hanna, perhaps, could submit that to the committee just as soon as possible, in writing, and you could give us some of the alternative priorities that you might consider so that the committee could have that in mind when it decides on the authorization.

I ask this because I think it is a proper request from the committee. We might decide we would like to make a larger authorization because of the limited kinds of priorities. It may be that the committee will want to make some other decision.

At any rate, we should have some notion of your thinking along the lines of the way that these funds would be allocated and would be in a stronger position to make a sensible and intelligent decision on how much to authorize.

Mr. DAVIS. We will be very happy to supply that information.
(The information follows:)

SMALL BUSINESS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., February 7, 1966.

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

DEAR MR. CHAIRMAN: During my testimony before your subcommittee on January 25 and 26, concerning proposals to amend the Small Business Act, I stated, in substance, that if the Small Business Administration were to lift the existing curtailment on its business loan program and if it were to make loans to all qualified applicants up to the full statutory limit of \$350,000, the monthly dollar volume over the remainder of the fiscal year would reach the vicinity of \$100 million. You asked me to submit supporting figures for this estimate.

At the same time you asked me to submit an estimate, together with supporting figures, of the dollar volume that would be generated if the program were to be reinstated subject to various limitations. For the latter purpose we have selected the limitations which were imposed by regulation between May 19, 1965, and October 11, 1965 (\$100,000 for direct loans and \$100,000 on the SBA share in loans in which the bank share was less than 25 percent of the loan); and between November 9, 1964, and May 19, 1965 (\$15,000 for direct loans and \$50,000 for the SBA share of immediate participation loans).

The enclosed table provides the requested information and indicates the increases that would be required in each of the three cases in terms of funds and of authorizations.

It is hardly necessary to emphasize that these estimates are tentative. There are altogether too many imponderables involved to permit of certainty. A good illustration of that, perhaps, is the revision I have found it advisable to make in the estimate I gave you of the dollar volume which would result over the remainder of the fiscal year if the program were to be operated on a "wide open" basis. As you will note from the chart, I now believe that the monthly volume would be closer to \$148 million than to \$100 million, as indicated in my testimony.

In developing the attached estimates we explored the probabilities relating to the number of loan applications that would be received; the percentage of such applications that would be approved; and the average size of the resulting loans. These factors were evaluated, of course, in the light of past experience. In addition, however, we gave careful consideration to the play of two other important elements—the tight credit situation which currently prevails in the private market and the pent-up demand resulting from the facts that we have not accepted

applications (except for loan guarantees) since October 11, 1965, and that we have been operating below the legal limit of \$350,000 for over a year.

These figures clearly illustrate some of the reasons why, as I have testified, the SBA budget cannot and should not be established solely in the light of existing demand for SBA financing.

Sincerely,

ROSS D. DAVIS,
Executive Administrator.

Small Business Administration projection of business loan requirements, March-June 1966

	Alternate A	Alternate B	Alternate C
Loan approval size limitations-----	\$350,000 for all types (statutory limit).	\$100,000 for direct; \$100,000 for immediate participations; \$350,000 for loan guarantees.	\$15,000 for direct; \$50,000 for immediate participations; \$350,000 for loan guarantees.
Number of applications per month-----	5,650	5,200	3,000.
Number of loans approved per month-----	3,700	3,120	1,800.
Average loan size (SBA share)-----	\$40,000	\$55,000	\$22,000.
Program level per month-----	\$148,000,000	\$109,200,000	\$39,600,000.
Program level March-June 1966-----	\$592,000,000	\$436,800,000	\$158,400,000.
Statutory authorization increase required including the proposed emergency increase of \$125,000,000.	\$617,000,000	\$462,000,000	\$184,000,000.
Additional funds required-----	\$450,000,000	\$314,000,000	\$66,000,000.

MR. DAVIS. It seems to me, Senator Proxmire, as I am sure you recognize, that the ceiling that we are dealing with here is much more a control figure, from the point of view of the Congress, than it is from the point of view of the Small Business Administration. When we come in and recommend that the ceiling be raised, we have to justify a figure for the raise in light of what we anticipate our programs will be. But I see no reason why, if this is the desire of the Congress, they should not up that figure or, conversely, I suppose, also lower it.

SENATOR PROXMIRE. Except: Isn't it true that the Bureau of the Budget might just prevent you from spending it? I should say from lending it.

MR. DAVIS. That is another problem.

SENATOR PROXMIRE. Let me just ask one more quick question on that: Would you agree that, if the Congress will pass the bill for participations—in other words, for giving the SBA the authority to sell your loans in the way that you proposed it and in the way that it passed the subcommittee and is now pending before the full committee—that the disposition of the Bureau of the Budget might be more favorable to permitting you to go a little further in your lending?

Maybe we ought to have that in mind when we act on the authorization, because what could happen is that we might pass both these measures within the next month or two and both might be enacted into law. You might have a situation in which the Bureau and the President might have different views under these circumstances. They might be willing to go farther than the \$125 million additional authorization. Then you would have to come back here again and that might result in an additional delay.

MR. DAVIS. I would think that this represents a very real hazard if we are given permission to open up the program.

I quite agree with you, Senator Proxmire, that when you look at the ceiling, you ought to look at it in light of that consideration.

Now, to respond to the first part of your question: I cannot answer categorically for the administration on this. We have had many conversations about the need for the participation share legislation with the Bureau of the Budget and elsewhere, and I am sure I can do much better on behalf of the Small Business Administration if we are talking about spending money that is developed by selling participation shares than I can if I am talking about spending money that is developed by appropriations.

Senator PROXMIRE. As I understand it, Mr. Barnes informs me that the new budget submitted by the President relies on the SBA getting its funds from the sale of loans. This is what you are assuming when you come up and ask for the \$125 million.

Mr. DAVIS. Yes.

Senator PROXMIRE. Any funding of this \$125 million to make it worth anything in the appropriations assumes that we pass the participation legislation.

Mr. DAVIS. Well, we get into a lot of variables on this, such things as timing and other questions.

It was, quite frankly, my feeling in recommending a lifting of the ceiling that I would like to recommend a figure which accomplished a purpose as an emergency legislation but which did not prejudice either the agency or the administration or the Congress with respect to the discussion, which, I assume, would be a continuing one, as to the levels of operation.

I, personally, regard this ceiling figure, as we have requested it, as something other than a commitment as to ultimate levels for the program.

On the other hand, as Mr. Barnes points out, there is, obviously, some relationship, and, if we passed a ceiling of \$125 million, that would be the ceiling.

Now, we will supply figures as to how much scope we would have with that ceiling in terms of program levels.

Senator PROXMIRE. Fine. Why do you not proceed, then, on page 3?

Mr. DAVIS. Mr. Chairman, on October 22, in your characteristic, foresighted dispatch citing your concern over the disruption of disasters on our regular lending programs, the resultant hardship to small business, you introduced this proposal as S. 2729 to reorganize the methods by which SBA revolving funds are organized.

Now, as you know, we previously operated with a commingled revolving fund. That is to say, all appropriations and repayments which come into the fund may be used for any purpose.

The bill, of course, would displace this with three separate funds, each subject to separate limitations on loans outstanding.

The purpose of this legislation is, as you said so eloquently, to prevent curtailment of the business loan program which may result if substantial sums are diverted to the emergency needs arising under the disaster loan program. There have been, as you point out, a number of these diversions and these experiences do prove to provide concrete evidence that the business loan program may be disrupted as we concentrate our resources in terms of personnel as well as funds to meet extraordinary disaster demands.

In our statement we discussed briefly the problem of whether disaster lending is the best means we can devise for meeting the needs that are raised by disaster situations. We point out that, fortunately,

under legislation provided by the Congress in the last session, that a study would go forward as to whether the way we have been handling these matters in the past are suitable to the needs of the future, and we also discussed the difficulty we have had in trying to make some judgment on how much money will be needed for disasters.

Now, this difficulty stems from two things: from trying to predict how many disasters you are going to have, but, also, in any given situation, it is extremely difficult to predict the impact of the disaster.

When I went down to Louisiana right after Betsy and we flew over the disaster area, we tried, through various means, making a judgment of how much lending would be involved there. The most we had ever lent in connection with a hurricane prior to that time was \$40 million. We made a judgment that, as an interim figure, Betsy would cost about \$80 or \$85 million and, frankly, I thought that was high. We have received a total of about 27,000 applications totaling \$133 million. We will, it seems to me, go over \$100 million for that one disaster.

So we do have a tremendous problem trying to project what kind of financing will be needed for our disaster programs.

Now, turning to some of the questions raised by your legislation, Mr. Chairman, it seems to me, as I view it, that it comes down to two issues.

First, should we give disaster loans a priority, a first call on all of the revolving fund resources? In effect, this is what we have been doing in the past and this has resulted in the disruptions to our program which have made everyone so unhappy.

In my view, the second question is: What is the best way to fund the disaster operation? This is conceding the fact that it is extremely unpredictable.

Now, without getting into technical details, the thrust of your legislation seems to me to be in the direction of establishing a separate fund for disasters which will not be supplemented by other SBA resources if that fund is adequate.

Senator PROXMIRE. Please make that statement again. You say that you meet these two criteria? You say that you do or do not favor a separate fund?

Mr. DAVIS. I am not following you, Mr. Chairman.

Senator PROXMIRE. I just did not hear what you said before you finished. You said something about favoring or about the effect of a separate fund.

Mr. DAVIS. I was saying that it appeared to me that the thrust of your legislation suggested that you wanted a separate fund for the disaster activity which could not be supplemented by a draw on other resources, other SBA resources.

Senator PROXMIRE. At that point, let me say that I felt as long as Congress is in session—which seems to be about 80 or 85 percent of the time—Congress would act very promptly in the event of disaster.

Second, the fund could be made sufficiently big—\$300 million, which is three times the size of Betsy and seven times the size, or seven and a half times the size of any other disaster you ever had—so that you would be able to meet whatever kind of situation might develop.

Mr. DAVIS. Well, if we have enough funds for disasters under the disaster label, then we will not have the problem. We do not get into an issue of priorities.

I think perhaps one of the keys to the problem that faces us all is the question of whether our system of funding a disaster activity is adequate. In our statement, we were going back to the participation share as one system of finding funds for disaster legislation. Another, which, of course, is unpopular with Congress, but maybe this should be an exception, is to provide some general borrowing authority from the Treasury with some kind of prompt review, *ex post facto*, by the Congress whenever we have had to do this.

Now, if you have a separate fund for disasters, that means—

Senator PROXMIRE. In other words, after the President declared a disaster, so that it was affirmed in that official way, so that you meet the cost of loans, the agency which had responsibility for making loans, would be able to borrow from the Treasury, with an *ex post facto* review by the Congress or such other body as the Congress might establish.

Mr. DAVIS. That certainly would be one way of doing it.

I would just like to add that, of course, many of these disasters we declare unilaterally without any participation.

Senator PROXMIRE. Yes.

I think, probably, if you are going to borrow from the Treasury, you might want to make it necessary for the President to make the finding.

Mr. DAVIS. Well, in the interest of responding rapidly to these needs, I would prefer to see it left the way it is.

It seems to me—and I do not pretend to be any judge of the sentiment of the Congress—but, so far as I know, there appears to be more or less universal agreement that what we have been doing under the disaster loan authority is what the Congress would like to see us do. We have not run into any criticism under this authority that we are either declaring too many disasters or using too much money or anything of that nature.

That being the case, perhaps the Congress would be more willing, in this instance, to permit us to have some kind of funding authority.

I would like to mention briefly a few other considerations in setting up separate funds. My own personal feeling is that I would like to see a separate fund for disasters.

As far as the other funds are concerned, I think a good argument can be made for having one fund with separate ceilings as being administratively more simple. I think, also, if we could persuade the Congress as to the desirability of giving us the authority to sell participation shares, we ought to provide that the resources of these funds can be adjusted in whatever way is necessary in order to make this participation share process easily.

Now, I am not saying that we again would mix up the funds, but this is a consideration.

So far as the ceilings themselves are concerned, there is some language here in the statement—

Senator PROXMIRE. Is there not a matter of language or words? If you say you can have one fund with separate ceilings, what do you mean? Do you mean that you would not be able to exceed a specific amount for a disaster? Then you come against the human problem. When a disaster impends, everyone says, "Well, whatever it requires, go ahead."

Mr. DAVIS. I would say, with respect to the disaster fund, that the Congress ought to consider whether they want a ceiling on that.

This brings me to ceilings, generally. I regard ceilings as devices to establish congressional control over these programs. Now, we are seeking participation share selling authority. The question then comes up as to how does the Congress decide and put levels on the activity that is developed under each of the various programs if you can, in effect, generate your own resources by selling participation shares?

Senator PROXMIRE. Your agency has asked for abolition of ceilings before. Mr. Barnes reminds me that in 1962 your agency did.

Mr. DAVIS. That is right.

Senator PROXMIRE. This is one area where I think you might have more success than others. It might be more appealing to abolish the ceilings for disasters in a disaster area because there is no question that, regardless of the size of the disaster, unless it is incredible, unless it is a nuclear disaster or something, which is entirely different, but regardless of the size of a natural disaster, in all of our experience Congress would certainly be willing to move in and assist in every way possible.

Mr. DAVIS. I would like to make the record clear because I have one statement in here that disturbs me a little bit. At the bottom of page 12, we say:

Frankly, we in SBA see no need for separating the financing of our various nondisaster programs nor any advantages in such action.

Now, if this suggests to you that we also think that ceilings are not desirable, I would like to clarify it and clarify what I think about it.

I think from our point of view, SBA, we do not need ceilings, but I think that the Congress ought to look at the ceiling to decide whether they want to establish some kind of limit to the program and say, in effect, "When you start approaching this ceiling, come back and tell us about it. We want to see what you have been doing."

Now, I think, again with respect to disasters, you may come to a different conclusion, I do not know, but—

Senator PROXMIRE. That is a very helpful suggestion.

You know, my own feeling on the ceiling in the other program is that it is one of the best ways in which we can be sure that the agency will come back to the Congress for review and reconsideration. This is, as Senator Douglas established, to some extent a program which costs the taxpayers money, so we have that responsibility. I think it is desirable for us to take a regular look at it when you have to come back for an increase in the ceiling. In disasters, no such case could be made.

Mr. DAVIS. Well, then, to wrap it up: From our point of view, it seems to me that we are, of course, anxious that something be done on the emergency part of our legislative request, namely, the ceiling, and that we would welcome the opportunity, Senator Proxmire, to work with you to see whether we cannot set up an arrangement that will satisfy your needs and accomplish what you propose to accomplish with your legislation.

Senator PROXMIRE. Let me just ask you bluntly: Are you for this bill or against it? Can you say that?

Mr. DAVIS. I, personally, would recommend that we adopt this in principle. By that, I mean a separate fund for disasters.

Senator PROXMIRE. Now, on page 8 you offer an alternative approach, 10 percent of the uncommitted business loan funds are to be tapped for disaster funds if necessary. Give us more detail on that.

Mr. DAVIS. This is: Instead of cutting a baby in half, we cut him by 10 percent, it seems to me. Again, it goes to the question of whether you want to give some kind of priority to disaster loans.

The proposal here is that we permit, in effect, a draw on other resources to the agency, but a limited draw, you see. Under current procedures, we now have an absolute priority. The last program that stops for shortage of funds is the disaster loan program. This recommends a somewhat more limited approach—that we can pluck out 10 percent of other available resources and apply it to the disaster loan program, but then, if nothing has happened, either more money from Congress or whatever the problem is, then we would stop.

Senator PROXMIRE. What if "Betsy" had hit on November 1 and you had this kind of limitation that you could take 10 percent from the regular loan fund? What would have been the effect?

Mr. DAVIS. We could not have gotten off the ground.

Senator PROXMIRE. You would have been strapped in the "Betsy" situation. That means that the Congress should make sure, when it goes out of session, that the disaster fund would have sufficient funding so that you can meet any likely disaster.

Mr. DAVIS. Or a method of getting the funds, in any event.

Basically, it seems to me that you have said in your legislation that you are—what shall I say—tired of having the disaster activity impinge on the regular activities of SBA and you propose to do something about it legislatively speaking. What you do, in part, or maybe basically this is the one thing you do. You take away the priority status of the disaster program by putting those funds in a separate fund.

Senator DOUGLAS. What is wrong with that?

Mr. DAVIS. I do not think there is anything wrong with it, Senator Douglas, and I trust there was nothing about my statement that—

Senator DOUGLAS. I wanted to make it clear that this was not a heinous sin on the part of my colleague.

Mr. DAVIS. Oh, no, sir. There are some arguments on the other side that go: Well, you ought to put yourself in a position where you can use your resources flexibly and so forth and so on. That is what we have been doing and that is what has led to a result that is unsatisfactory to the Congress.

Senator PROXMIRE. If the ceiling were taken off the disasters, to what extent would this solve the problem?

Mr. DAVIS. When you get down to the nub of the problem, that is money. As long as we have money for disasters labeled "disaster money" then it does not slip into our other programs. The ceiling is an element but the money is the decisive thing.

Senator DOUGLAS. Mr. Davis, would you turn to page 13? There, you are giving the theoretical objections to separating the funds, and at the top of page 13 you say:

* * * and to create unnecessary reporting and recordkeeping requirements and the additional expenses attending them.

I see no accounting difficulty here. You can simply allocate the total overhead between investment and disaster and poverty, according to the amounts spent for them.

Now, granted there are not equal amounts of effort for each dollar of expenditure, but this is a rough figure, and I think you are just conjuring up difficulties when you bring in these alleged accounting barriers.

Mr. DAVIS. It sounds a little bureaucratic; does it not?

Senator DOUGLAS. I did not say that, but I would say it sounds excessively bureaucratic. I wanted to be polite, but since you indulge in self-impeachment I will not deny it.

Mr. DAVIS. If we wanted to pursue this, and I hope we do not, I could ask Mr. Hanna how much extra would be involved in this kind of accounting in terms of expense, but I hope we will not get into that.

Senator DOUGLAS. It is not a barrier. Take your total administrative costs and calculate them in proportion to the amounts of loans for the various purposes. Goodness, a high school graduate could do that in half an hour.

Mr. DAVIS. My silence can be interpreted as my answer.

Senator DOUGLAS. "Who is this that darkeneth counsel by words without knowledge?" You will find that in the Book of Job.

Senator PROXMIRE. Then, are you saying that the separate revolving funds—you cannot document and you cannot support the argument that this would cost more in recordkeeping?

Mr. DAVIS. I think that it is probably true that it will cause some more trouble for someone and some more work, but I do not really feel—I agree with Senator Douglas on this; this should not have been drawn into the statement as a reason for going one way or the other on this.

Senator DOUGLAS. Now I want to commend you. You are the first official—I will not say bureaucrat—whom I have ever known who said that a statement he prepared is faulty in any respect.

Mr. DAVIS. Thank you.

Senator PROXMIRE. Mr. Davis, during the 88th Congress SBA strongly recommended the passage of a bill, S. 3199, which would place the authority to administer section 501 and 502 loans in the Administrator rather than the Deputy Administrator for investments. This bill passed the Senate but was not considered by the House. In the 89th Congress, this provision was included in Housing and Urban Development Act of 1965. It is a new law and no action has been taken to implement it. Senator Sparkman and I are very interested in this. Can you tell me when this administrative action will be taken?

Mr. DAVIS. Senator Proxmire, I think that there is required a certain amount of restructuring of functions in the agency, including that. Certainly this was intended. I, as Executive Administrator and Acting Administrator, have been somewhat reluctant to move forward on basic changes during this interim period, but I am sure it will be done as soon as possible.

Senator PROXMIRE. As a matter of fact, Senator Sparkman has written to me, so that he would have it officially in here in the record, expressing his interest and suggested the possibility of a separate division and a separate revolving fund for these State and local development companies. He also said that if this was not feasible he thinks that State and local development company loans should

receive their funds from the business loan revolving fund rather than the investment company revolving fund.

You will recall that 501 and 502 programs were put in the Investment Company Act because we thought these development companies would convert to SBIC's. None did, and the provision of the act pertaining to conversion was allowed to lapse.

Are not 502 loans more like regular business loans rather than SBIC loans?

Mr. DAVIS. This is quite true. I think that I would look with favor on establishing the 502 program, 501 program, as a separate division more closely aligned with the regular business lending programs. Certainly further away from the SBIC program, as far as separate funds are concerned, and even in the short period of time that I have been in charge of the Small Business Administration I have found it quite useful to be able to make small transfers from one activity to another. It might well be that under certain circumstances we would like to increase our 502 activity by 10 percent for the balance of the fiscal year.

If everything is in a separate fund, this ability to transfer is curtailed. I would not recommend separate funds for all these activities.

Senator PROXMIRE. What about including 502 in with regular business loans, as I indicated in my previous question?

Mr. DAVIS. Are you talking—organizationally speaking?

Senator PROXMIRE. No. I am talking about the authorization, so that that fund is together and then you have a separate disaster fund, and separate SBIC, of course.

Mr. DAVIS. My personal recommendation would be to have two funds: one disaster and one all other.

Senator PROXMIRE. Including SBIC's?

Mr. DAVIS. Yes, sir. And ceilings on a program basis.

You will recollect that the Treasury Department wrote you a letter, and, as I understand their letter, what they said—

Senator PROXMIRE. SBIC is separate now, so are you proposing a change in that?

Mr. DAVIS. It has a separate ceiling, but is not a separate fund.

Senator PROXMIRE. Well, it operates satisfactorily, anyway. Separate ceilings, I guess. I see your point.

How about the 502, and the regular business loan program? You would operate those in the same fund with a separate ceiling for each?

Mr. DAVIS. I would recommend that, yes.

Senator PROXMIRE. Now, it seems to me that the provisions of this bill might go a long way toward solving the problem that we complained about; that is, shortages of funds and authorizations. It would make it easier to keep a closer administrative eye on these shortages. As you say, the disasters are just unpredictable. The size of the disaster, when you have a disaster—even when you get into it, as you said in the "Betsy" case, you cannot estimate it. You might get a much bigger disaster in the future, conceivably, so we just cannot foresee that.

On the other hand, the business loan program, while it is growing and while there are changes in it, is far more predictable, and you have a good idea when you are getting into a point there where you should come to Congress so that certainly you would be in a much stronger position to, at least, alert Congress if they did not act it

would be the fault of Congress; alert Congress that if they do not want a sharp cut in the business loan program they should act to increase the authorization or the appropriation.

Mr. DAVIS. Yes.

Senator PROXMIRE. Is that not true?

Mr. DAVIS. I quite agree.

Senator PROXMIRE. Now, this program, the loans under title IV of the Economic Opportunity Act has come under attack recently from two different sources, as you know. The Wall Street Journal and the New Republic.

Mr. DAVIS. It must be right.

Senator PROXMIRE. I see your point.

I would say whenever we can get the Farmers Union and the Farm Bureau Federation to attack any farm proposal, you know you may have something that is valid and right, and of the greatest principle.

But, seriously, we are all interested in this program. I think all Members of the Congress are deeply interested in it. It has a lot of merit.

Would you discuss the program, particularly discuss the points raised in these two articles? I was particularly concerned with the New Republic's pointing out what appeared to be a prima facie case of discrimination in Mississippi, for example, and, as I recall, in one or two towns where they made a spot check, with a large Negro population there were no Negro small business loans. That is just one of a number of criticisms.

Mr. DAVIS. Well, let me approach this question by getting a little bit into some background.

When the program was first started, it was regarded as experimental. It was one of the Economic Opportunity Act's experimental programs. I have no reason to defend that label but it was so regarded.

Accordingly, the budget allocated for this activity was quite limited. It was thought, initially, that we would start it out in about 10 or 12 different places for this year.

In the course of evolving the program, there arose a misunderstanding, and there seemed to be a feeling that the restricted experimental approach was abandoned and that the program would be rather widely available, and SBA went ahead on that basis, stimulating the hopes and aspirations of quite a number of communities with respect to this program.

After a certain period of this, we found out that there had been no basic change, that the program was still under scrutiny, and that the first concept of the limited program had not been abandoned.

So, the question then became: What can you do with the limited available budget? What we did, eventually, was allocate some more funds to the program and decide that for this year we would limit the program to 50 cities, which was substantially more than the original concept. We would also try and stretch the funds by dropping the statutory maximum of \$25,000 to \$15,000. As a further measure to stretch these funds, we aimed the program at people rather than jobs. The purpose of the program is to create entrepreneurs, and I think this—

Senator PROXMIRE. Where do you get that statement? Is that from Congress?

As I understand it, what you did was: You shifted the program to one in which loans were provided to small firms—and they were small loans to firms who would employ people who were poor, who would qualify in the poverty class—and that part of the program apparently was hard to administer and you put it very well but very concisely, when you call it an entrepreneurial emphasis and because you are interested in people rather than jobs, apparently you decided to concentrate the loans on firms the owners of which could qualify as in a poverty class.

When you get into this concept, this is really a tough one because I can see that you make loans on a character basis. But what was the net income of the proprietor who was eligible to borrow under this program? \$2,000? \$2,100?

Mr. DAVIS. That brings me to the next problem.

Senator PROXMIRE. Any business proprietor who has that kind of income in this kind of economy is—you just wonder, you know, if this is what they need—if they need capital or if they need some other kind of assistance.

Mr. DAVIS. Now this program is to help disadvantaged people. We are particularly interested in helping the Negroes. Characteristically, the Negroes have had very limited opportunity to go into business. Indeed, many who have some potential for going into business are not interested in going into business. The more typical development is into the professions.

We feel that it would be very good if we could have more Negro businessmen. This is a program designed to achieve that aim. Basically, we are looking for people who show some potential for becoming entrepreneurs.

Senator PROXMIRE. Why do you have such a very low net income qualification?

Mr. DAVIS. We have had a philosophical discussion going with OEO. We think, and we have proposed to them and they have under consideration a change in the definition of eligibility which currently is in terms of income and an effort to identify a person who falls within the category of "poor."

What I am saying, I am afraid, is that we regard this—and I am sure this will be resolved—but currently we regard this program in a significantly different light than OEO. We regard it as a program to accomplish social gains using the private enterprise system. We want to find people who can be entrepreneurs and who are susceptible of going forward with the kind of help we can give them. OEO, on the other hand, says, "We want you to help poor people."

Now here is the kind of thing that happens: We may find a man who wants to go into business. He is a "moonlighter." He has jobs with two firms. He is highly motivated. He is just the kind of person that it would be worth while for us to risk some money on and try and provide the resources so that he could realize his ambition of going into a business of his own. But, because he holds two jobs, his income level is above the arbitrary figure that we have been using to find a poor person. So this man, theoretically, and actually, is not eligible for this loan. This is wrong.

As I say, I am satisfied that OEO will realize that it is wrong and will change it. But in the meanwhile, we are having some troubles with the program along these lines.

Senator PROXMIRE. Well, it would seem to me that the best assistance you could give—and I recognize, of course, that everyone who wants to go into business, the first thing they have to get is money so they can buy equipment, buy a location, buy a building or equipment, depending on what they want to get into, but certainly the best kind of assistance would be the kind of advice and counseling and guidance and instruction, the basic notion of how to keep records, how to hire one or two people, how to buy. This is the kind of help these poverty businessmen need. And it has been a great part of this program.

The way this was sold and discussed with the Congress, there were some glowing articles in the newspapers about the "6 by 6" program, \$6,000 for 6 years, on character. This seemed to be a smashing success in Washington and New York and so forth, at least judging by the superficial accounts in the newspapers. However, it was not the fact that people were getting \$6,000 for 6 years—at what interest was it, or is it?

Mr. DAVIS. \$6,000 for 6 years at generally 5½-percent interest.

Senator PROXMIRE. That was not the unusual part. The unusual part was the fact you were getting some opportunity to give people the kind of training, the kind of skill, develop the sort of judgment and experience that enables a man to become a businessman who can survive.

Mr. DAVIS. That concept has not changed in this program.

Senator PROXMIRE. Maybe it is not changing, but can the program proceed when you cannot find eligibles at this low level?

Mr. DAVIS. No.

Senator PROXMIRE. I am glad you say you are revising that, but with an arbitrary \$2,100 or \$2,300 net income per year in this economy, in 1966, the people who will qualify are just people whose potential is pretty low. There are some exceptions, undoubtedly.

You gave a wonderful example when you talked about the "moonlighter." This, as you say, is the highly motivated fellow who will make an excellent businessman in many cases. He made a success in his job and he has earned money, and he has the energy and so forth to go into business for himself, and we should not throw him out or discourage him because he demonstrated that kind of ambition.

Obviously, with \$2,100 these days, you cannot—it is hard to support one person let alone a family. I hope you can get over that limitation as fast as possible.

Mr. DAVIS. As I said, Senator Proxmire, I am hopeful that OEO will come around to this way of viewing it. I think with your remarks perhaps we can be more confident that they will come around to this way of viewing it. You are absolutely right.

Senator PROXMIRE. Just one other question. It is just about 11 o'clock, and I think we can go a little longer than that, but I am almost through.

We have had this problem in Wisconsin and it has been a problem elsewhere I understand in talking with other Senators. We cannot get the money to establish Small Business Development Centers. Somehow, you are limited. You do not have the funds to permit us to have more than three in our State of Wisconsin, for example. We have three other cities that want very much to get the SBDC's. These are necessary, I understand, as the basis for getting the loans,

because unless you have SBDC's in the area so you can provide the expert assistance and guidance and help and advice, the loans are not made. I think that is very good. That is the way it ought to be. But it is unfortunate if this program is going to be crippled because you do not provide the funds for SBDC's.

What is the financial status of the SBDC?

Mr. DAVIS. The problem is, as I indicated, budgetary. We started out contemplating about 12 SBDC's and a budget of \$15 million for loans. We have, through this device of lowering the ceiling on loans, concentrating on individuals, been able to go into 50 cities this year. We have also raised the budget from \$15 million to \$28 million. That is how we got to 50 cities. Next year we will probably add 20 cities and the lending budget will be approximately double—\$50 million. However, with this kind of limitation on resources, it seems sensible to us not only to concentrate on the creation of entrepreneurs as an objective in this program but also to concentrate in the larger cities.

So, implicit in what I have been saying to you—

Senator PROXMIRE. I am sorry to hear that. I suppose you have to concentrate, but at the same time I think that the greatest economic problem is in our small cities. You walk down the sidewalks in cities in my State—and I am sure this is true in most of the 49 other States—where the big cities are thriving, middle cities thriving, but the small towns, the farm trading cities are still in bad shape. Store front after store front vacant. Really tough economic problems. You find a very low average of income for the businessman, and at the same time you find a great desire to somehow get the community moving again and to get it to take advantage of the fact that you have a city there with education facilities and utilities and so forth. I think that it is a shame that we cannot give more consideration to the small towns.

Mr. DAVIS. I wonder whether in the more rural communities some of the other programs are not more effective in producing what we broadly describe as economic development rather than this one program which, as I see it, is rather limited in its objectives.

Senator PROXMIRE. There are small cities in our State that are interested. The three turndowns were in small cities. Maybe that is the reason they had to turn them down.

Mr. DAVIS. Well, what you say causes me a good deal of concern and, once more, we find ourselves in the position of trying to make the best judgments we can in allocating available resources. I do not say our judgments are infallible, by any means. We, fortunately, do have significant numbers of SBDC's in more rural areas in the first go around.

Now, in a few more months, perhaps 6, we will have some basis for evaluating the effectiveness of these programs in the rural areas. Then maybe, on the basis of this evaluation, we could take another look as to whether it is sensible to limit the program the way we have it limited.

Senator PROXMIRE. All right. I started off this line of questioning by asking about the case of discrimination in Mississippi. Are you very anxious and concerned about the possibilities of discrimination in some of your field offices? This is a question that people do not like to talk about, but it is one over which we do have a responsibility to get the facts. There has been this very serious charge made by responsible publications. If you have a pattern of not providing loans to Negroes in Southern States, it is in violation of the Civil Rights Act of 1964, in the first place, and, in the second place, it is just—

Mr. DAVIS. Let me respond to you this way—

Senator PROXMIRE. Do you try to get a breakdown so you see where you have, say, 50 percent of the population Negro and a substantial portion of Negro businessmen and no loans made to Negroes and many loans made to whites, do you try to investigate that?

Mr. DAVIS. We watch this. We try to follow through on it. We are constantly aware of it. We do have problems, no question about it, and we intend to deal with these problems.

Senator PROXMIRE. What systematic method do you have of getting at this particular problem? Do you have anyone who has a responsibility for looking at—do you, personally, ask about this in areas where this could develop? Do you do anything about this complaint? I guess that was in Corinth, Miss. Did you follow up that particular—

Mr. DAVIS. This is Howard Rogerson. He is Assistant Deputy Administrator for our financial assistance programs and is familiar with the situation in Corinth.

Mr. ROGERSON. The only thing I would say is that we have had a joint investigation with OEO of the Mississippi situation. We have this particular SBDC which has been practically dormant for some time. The problem you raise is only one of the problems with that particular SBDC, and we have not completely finished the evaluation of the causes of the situation that you describe; namely, very few or, in this case, no loans to Negroes by SBDC. We are in the process of taking corrective action in that particular case. We do collect very carefully any minority group data on this particular program as well, by the way, as on all of our lending programs.

Senator PROXMIRE. That is fine. That is what I wanted to get. I am glad to hear it. You have investigated it, and you have a system of collecting minority group data; so when this kind of situation develops, you know it and are alert to it and investigate it and try to correct the situation.

Mr. ROGERSON. Yes, sir.

Senator PROXMIRE. That is fine.

Thank you very much, Mr. Davis. I am grateful to you for coming back in spite of your illness. You have done an excellent job and have certainly satisfied me with the way you responded to our questions. You were very responsive.

Mr. DAVIS. Thank you very much for your help.

Senator PROXMIRE. The subcommittee stands adjourned.

(Whereupon, at 11:10 a.m., the subcommittee adjourned.)

(The following material was subsequently received for inclusion in the record:)

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
SUBCOMMITTEE ON SMALL BUSINESS,
January 27, 1966.

Mr. ROSS DAVIS,
*Executive Administrator,
Small Business Administration,
Washington, D.C.*

DEAR MR. DAVIS: You will recall that during the hearings on S. 2729 we discussed an article in the New Republic regarding the loan program under title IV of the Economic Opportunity Act of 1964. In this article it was charged that no title IV loan had been made to a Negro through the Small Business Development Center in Corinth, Miss.

In our discussion you and Mr. Rogerson said that you were investigating the Small Business Development Center in Corinth, Miss., for possible racial discrimination in its screening of loan applicants.

I would appreciate it if you would let me know as soon as possible the results of your investigation and what action, if any, you have taken.

Sincerely yours,

WILLIAM PROXMIRE,
Chairman, Subcommittee on Small Business.

SMALL BUSINESS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., February 7, 1966.

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

DEAR MR. CHAIRMAN: This is in response to your letter of January 27, 1966, concerning the questions that have been raised regarding possible racial discrimination in the operations of the Small Business Development Center in Corinth, Miss.

As you know, the Small Business Administration and the Office of Economic Opportunity have conducted a joint investigation of the situation. OEO has not taken action in the Corinth SBDC's request for a grant for administration expenses. No loans have been made through the Corinth SBDC since September.

We will advise you just as soon as we have a finished report and a course of action is determined.

Sincerely,

ROSS D. DAVIS,
Executive Administrator.

STATEMENT OF EDMUND S. MUSKIE, U.S. SENATOR FROM THE STATE OF MAINE

Mr. Chairman, I share your concern over the adverse impact that depletion of the Small Business Administration revolving loan fund has had on small businessmen throughout the Nation.

The moratorium on the SBA direct and participating loan program has removed a useful tool which small businessmen have come to rely on. In Maine, there are presently 69 applicants considered eligible for SBA loans who cannot be extended loans because funds are not available. In addition, the lack of loan funds has restricted full implementation of the Small Business Development Center program authorized under the Economic Opportunity Act and financed through the revolving fund.

We all recognize the urgent credit needs of those businessmen suffering from natural disasters. However, to meet one need while sacrificing others makes poor economic sense.

Mr. Chairman, you have done a great service through introducing legislation to separate the fund into its component parts. The talented and able Executive Administrator of SBA, Mr. Ross Davis, acknowledges the identical need, but

proposes a different remedy. Mr. Davis recommends that 10 percent of the business loan budget for each year be set aside for disaster purposes. His principal objection to the proposed legislation is that any funds appropriated for disaster purposes might not be sufficient to meet emergency needs. He has also indicated that a study is now underway which could result in the establishment of a satisfactory substitute for the disaster loan program.

All are agreed that the SBA revolving fund method of financing must be revised. My concern is to get the regular SBA loan program back on an operating basis and to see that the fund is protected from depletion by competing loan requirements.

Until the current SBA study of the disaster loan program is completed, I would favor the establishment of three separate revolving funds as proposed in the legislation introduced by Senator Proxmire. If the disaster loan fund should become depleted in the course of an emergency, I am confident that Congress would quickly enact the necessary legislative authority required to replenish the fund. This would enable the SBA staff to put other loan programs back on a businesslike basis. Realistic estimates of loan demands in terms of the funds available could be made without outright rejection of loan applications. In addition, more Small Business Development Centers could be established to assist needy small businessmen.

I hope the subcommittee will consider the legislation favorably. As a member of the full committee, I intend to support the program as a means of helping small businessmen throughout the United States in meeting their credit needs.

STATEMENT BY JENNINGS RANDOLPH, U.S. SENATOR FROM THE STATE OF WEST VIRGINIA

Mr. Chairman, it is a distinct pleasure to be able to submit my views on S. 2729, a bill which, in effect, would divide the Small Business Administration's present revolving fund into three separate funds for business loans, disaster loans, and for SBIC and development company loans.

I know that this particular legislative proposal and the operation of the entire small business program have received your keen attention and careful study. You have my complete admiration for your efforts in this area and I extend to you my enthusiastic commendation.

The financial straits and confusion which currently face the Small Business Administration have deeply concerned me and, in most part, these problems originate from a lack of funds. The officials of the Small Business Administration have attributed this scarcity of moneys to the overwhelming demands of the disaster loan fund, which is currently consolidated with the regular loan program. As we know, and as you have cogently pointed out on many occasions, this merger of the revolving funds was accomplished in 1962 at the urging of the administration and it was the administration view rather than the Senate view.

Please know that I am happy to join you now in support of legislation which will again separate the funding of the various SBA programs. This will allow the SBA to handle disaster loans on a separate basis as it should be. This appears to be the only reasonable approach. No agency can possibly budget accurately for disaster funds—natural disasters just cannot be predicted ahead of time. In October the Executive Director of the Small Business Administration testified that \$20 million had been allocated for disaster loans for the entire year and \$48 million was committed during the first 3 months. Then came Hurricane Betsy and the unprecedented devastation in the gulf coast region. The business people in that area had to be assisted. This situation precipitated the October moratorium on the acceptance of business loan applications. Even with the supplemental appropriations at the end of the 1st session of the 89th Congress—and this was solely for disaster funding—the moneys were well below the actual requirement according to Mr. Davis. This seems to be a glaring example of the confusion which can be created by merged funds. During the hearings of the Select Committee on Small Business in December, Mr. Davis furnished a qualified agreement that we should have some type of remedial legislation along the lines of separating the current SBA revolving fund.

As we know, even under the original system of SBA funding, there was a continuing requirement for supplemental appropriations. The impact of the drain of disaster loans on the available money has complicated this problem of supplementals and, at the same time, has decreased the stability of the business loan program. And, as such situations develop, the public confidence in the entire

SBA program is undermined—this has been brought to my attention by a considerable amount of correspondence from West Virginia business and banking firms.

There are, of course, other pending legislative proposals which should alleviate many of the problems encountered by SBA. These are important measures and will no doubt receive serious consideration. But it is my sincere belief that S. 2729 is also vital to the future operation of that agency. There is a definite and demanding need for a long, hard look at the present system of consolidated funds. I am confident that this subcommittee and the full committee will formulate the most equitable legislation, based on general theory of a separation of SBA revolving funds.

HOUSE OF REPRESENTATIVES,
Washington, D.C., February 7, 1966.

Senator WILLIAM PROXMIRE,
*Chairman, Small Business Subcommittee,
Senate Banking and Currency Committee.*

DEAR MR. CHAIRMAN: At the invitation of a member of your committee staff, Reginald Barnes, I am submitting suggested language to amend your bill, S. 2729, in order to provide Congress with adequate reports as to the condition of the various Small Business Administration loan funds provided for in your legislation.

The language I proposed would provide for quarterly reports as to the status of the three revolving funds established by your bill, including a requirement that when the aggregate amount outstanding from any individual fund exceeded 75 percent of the total amount allocated to that fund, the SBA would be instructed to project future needs and make recommendations for necessary additional appropriations.

Secondly, should action by the SBA under the reallocation authority granted by your bill force the aggregate amount outstanding from any particular fund, to reach the 75-percent level, the SBA would be required to report, within 10 days, as to what reallocation action had taken place and the rationale behind it.

I believe that this language will more clearly spell out to the Small Business Administration its responsibilities with respect to keeping the appropriate committees of Congress informed. It will also provide Congress with the additional time necessary to take action in the future before a fund crisis arises, as has so often occurred in the recent past. I hope that this suggestion proves useful to your committee and I greatly appreciate the opportunity you have so generously provided me to express my views on this subject.

Best wishes,

Sincerely yours,

WILLIAM B. WIDNALL,
Member of Congress, Seventh District, New Jersey.

AMENDMENTS TO S. 2729

Page 3, strike out the quotation marks in line 19, and add after line 19, the following:

"(4) The Administration shall submit to the Committees on Appropriations and the Committees on Banking and Currency of the Senate and House of Representatives, as soon as possible after the beginning of each calendar quarter, a full and complete report on the status of each of the three revolving funds established by paragraph (1). If at the close of the preceding calendar quarter the aggregate amount outstanding from any of such funds exceeded 75 per centum of the total amount allocated to that fund under paragraph (2), the Administration's report shall include its projection of the future needs of that fund and its recommendation for such additional appropriations as it deems appropriate to permit the allocation of additional sums to that fund to meet such needs.

"(5) In addition to the quarterly reports required by paragraph (4), if at any time the aggregate amount outstanding from any of the three funds established by paragraph (1) reaches 75 per centum of the total amount allocated to that fund under paragraph (2) wholly or partly because of a reallocation of sums among the three funds under paragraph (2), the Administration shall report that fact within ten days, together with a full explanation of such reallocation and the reasons therefor, to the committees specified in paragraph (4).

