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SMALL BUSINESS AMENDMENTS OF 1967

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HEARING
BEFORE THE
SUBCOMMITTEE ON SMALL BUSINESS
OF THE
COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE
NINETIETH CONGRESS
FIRST SESSION
ON
S. 1862
A BILL TO AMEND THE AUTHORIZING LEGISLATION OF
THE SMALL BUSINESS ADMINISTRATION, AND FOR
OTHER PURPOSES

JUNE 1, 1967

Printed for the use of the Committee on Banking and Currency

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SMALL BUSINESS AMENDMENTS OF 1967

THURSDAY, JUNE 1, 1967

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

The subcommittee met, pursuant to notice, at 10:08 a.m. in room 5302, New Senate Office Building, Senator Thomas J. McIntyre (chairman of the subcommittee) presiding.

Present: Senators McIntyre, Sparkman, Proxmire, Spong, and Percy.

Senator McINTYRE. The subcommittee will come to order. This is the first meeting of the year of the Subcommittee on Small Business. It is the first meeting over which I have had the honor to preside as chairman, and at which the distinguished Senator from Illinois has sat as the ranking minority member.

I hope that I will be able to continue along the lines of imaginative, nonpartisan, constructive innovation which have been followed by my predecessor, Senator Proxmire.

Today the Small Business Subcommittee is holding hearings on S. 1862, a bill to amend the authorizing legislation of the Small Business Administration and for other purposes.

This bill represents the administration's recommendations for amendments to the Small Business Act and the Small Business Investment Act of 1958.

Title I of the bill would provide for an increase in the authorization ceiling for SBA's various loan programs and other recommended amendments to the Small Business Act.

In the last session when the Congress considered the Small Business Investment Act Amendments of 1966, Mr. Boutin, the Administrator of SBA, promised that he would send to the Congress his recommended incentive legislation for SBIC's this year. Title II of this bill contains his recommendations.

S. 1862 was introduced on May 24, 1967, by the distinguished chairman of the Senate Banking and Currency Committee, Senator Sparkman. I was glad to cosponsor the bill with him. Senators Bennett, Percy, Tower, and Brooke also joined in cosponsoring this bill. I am pleased with this bipartisanship.

I am certain that all of the members of the subcommittee understand that the extent of support for this particular bill should not be taken to mean that amendments proposed by members will not receive full consideration. I don't believe that any of us are committed to any specific language in this bill which we have introduced,

although I am certain that we are all committed to strengthening the small business of our country.

Without objection, the bill, S. 1862, together with a covering letter to the President of the Senate and a section-by-section analysis of the bill prepared by the Small Business Administration will be printed in the record following these remarks.

At the time Senator Sparkman introduced this bill he also introduced S. 1863, a bill to amend the Internal Revenue Code of 1954 with respect to the income tax treatment of small business investment companies. S. 1863 was part of the legislative package recommended by the administration to assist SBIC's. S. 1863 was referred to the Finance Committee. We will follow its progress with great interest.

The subcommittee will hear testimony from Mr. Boutin and members of his staff and from the president of the National Association of Small Business Companies, Mr. Milton Stewart.

(The material referred to above follows:)

90TH CONGRESS
1ST SESSION

S. 1862

IN THE SENATE OF THE UNITED STATES

MAY 24, 1967

MR. SPARKMAN (for himself, MR. BENNETT, MR. BROOKE, MR. MCINTYRE, MR. PERCY, and MR. TOWER) introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

A BILL

To amend the authorizing legislation of the Small Business Administration, and for other purposes.

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

3 TITLE I

4 SEC. 101. This title may be cited as the "Small Business
5 Act Amendments of 1967".

6 SEC. 102. Paragraph (4) of section 4 (c) of the Small
7 Business Act is amended—

8 (1) by striking out "\$1,400,000,000" and insert-
9 ing in lieu thereof "\$1,900,000,000";

II

1 (2) by striking out "\$400,000,000" and inserting
2 in lieu thereof "\$450,000,000";

3 (3) by striking out "\$200,000,000" and inserting
4 in lieu thereof "\$300,000,000"; and

5 (4) by striking out "\$100,000,000" and inserting
6 in lieu thereof "\$200,000,000".

7 SEC. 103. Paragraph (4) of section 7 (a) is amended
8 by striking out "except that a loan made for the purpose
9 of constructing facilities may have a maturity of ten years"
10 and inserting in lieu thereof "except that such portion of a
11 loan made for the purpose of constructing facilities may have
12 a maturity of fifteen years".

13 SEC. 104. The subsection added to section 7 of the Small
14 Business Act by the Disaster Relief Act of 1966 (Public
15 Law 89-769), and designated thereby as subsection (e), is
16 redesignated as subsection (f).

17 SEC. 105. Subparagraph (B) of paragraph (1) of sec-
18 tion 8 (b) of the Small Business Act is amended to read as
19 follows:

20 “(B) in the case of any individual or group of per-
21 sons cooperating with it in furtherance of the purposes of
22 subparagraph (A), (i) to allow such an individual or
23 group such use of the Administration's office facilities
24 and related materials and services as the Administration
25 deems appropriate; and (ii) to pay the transportation

1 expenses and a per diem allowance in accordance with
2 section 5703 of title 5, United States Code, to such an
3 individual or group of persons for travel and subsistence
4 expenses incurred at the request of the Administration
5 in providing gratuitous services to small businessmen
6 in furtherance of the purposes of subparagraph (A) or
7 in connection with attendance at meetings sponsored by
8 the Administration;”.

9 SEC. 106. Paragraph (13) of section 8 (b) of the Small
10 Business Act is amended to read as follows:

11 “(13) to establish such advisory boards and com-
12 mittees as may be necessary to achieve the purposes of
13 this Act and of the Small Business Investment Act of
14 1958; to call meetings of such boards and committees
15 from time to time; to reimburse the members of such
16 boards and committees in accordance with section 5703
17 of title 5, United States Code, for travel and other ex-
18 penses incurred in attending the meetings of such boards
19 and committees; and to rent temporarily, within the
20 District of Columbia or elsewhere, such hotel or other
21 accommodations as are needed to facilitate the conduct
22 of such meetings; and”.

23 SEC. 107. Section 8 (b) of the Small Business Act is
24 amended—

1 the company had applied for the license and in connection
2 with such application had received from the Administra-
3 tion a 'Notice To Proceed', have a combined paid-in capital
4 and paid-in surplus of \$1,000,000.

5 “(2) Each company which receives a license or a
6 'Notice To Proceed' before the effective date shall, except
7 as provided in paragraph (3), comply with each of the fol-
8 lowing minimum standards of paid-in capital and paid-in
9 surplus:

10 “(A) A company whose combined paid-in capital
11 and paid-in surplus on the effective date is less than
12 \$300,000 shall have a combined paid-in capital and
13 paid-in surplus of at least \$300,000 by February 28,
14 1969; of at least \$500,000 by February 28, 1971; and
15 of at least \$1,000,000 by February 28, 1975;

16 “(B) A company whose combined paid-in capital
17 and paid-in surplus on the effective date is at least
18 \$300,000, but less than \$500,000, shall have a com-
19 bined paid-in capital and paid-in surplus of at least
20 \$500,000 by February 28, 1971; and of at least \$1,-
21 000,000 by February 28, 1975;

22 “(C) A company whose combined paid-in capital
23 and paid-in surplus on the effective date is at least

1 \$500,000, but less than \$1,000,000, shall have a com-
2 bined paid-in capital and paid-in surplus of at least
3 \$1,000,000 by February 28, 1971.

4 “(3) The Administration may by regulation (A) ex-
5 empt any group or category of companies from the require-
6 ments of paragraph (2), and (B) extend any of the time
7 limits established in paragraph (2) for the benefit of all
8 the companies affected by the limit or any group or cate-
9 gory of such companies. The Administration shall exercise
10 its powers under this paragraph whenever it determines that
11 such exemption or extension of time (A) is necessary in
12 order to carry out the purposes of this Act with reference
13 to any geographic area or locality of the United States, or
14 (B) is appropriate for certain types of companies by reason
15 of their adequate profitability, financial soundness and assist-
16 ance provided to small business concerns.

17 “(4) Any company which fails to comply with any
18 of the minimum capital requirements of this subsection ap-
19 plicable to it shall be deemed in violation of this Act.”

20 (b) Section 309 (a) of the Small Business Investment
21 Act of 1958 is amended by striking out the period at the
22 end of paragraph (5), by inserting a semicolon in lieu
23 thereof, and by adding the following new paragraph:

24 “(6) for failure or refusal to comply with any of

1 the minimum capital standards established by section
2 302 (a) ”.

3 SEC. 203. Section 302 (b) of the Small Business In-
4 vestment Act of 1958 is amended by striking out “2 per-
5 cent” and inserting in lieu thereof “5 percent”.

6 SEC. 204. Section 303 (b) of the Small Business In-
7 vestment Act of 1958 is amended to read as follows:

8 “(b) To encourage the formation and growth of small
9 business investment companies the Administration is author-
10 ized (but only to the extent that the necessary funds are
11 not available to the company involved from private sources
12 on reasonable terms) to purchase, either directly or in co-
13 operation with banks or other lending institutions through
14 agreements to participate on an immediate basis, the deben-
15 tures of any such company. Debentures purchased by the
16 Administration under this subsection shall be subordinate to
17 any other debenture bonds, promissory notes, or other debts
18 and obligations of such companies. Such debentures may be
19 issued for a term of not to exceed fifteen years and shall bear
20 interest at a rate not less than (1) a rate determined by
21 the Secretary of the Treasury taking into consideration the
22 current average market yield on outstanding marketable
23 obligations of the United States with remaining periods to
24 maturity comparable to the average maturities on such deben-

1 tures, adjusted to the nearest one-eighth of 1 per centum,
2 plus (2) such additional charge, if any, toward covering
3 other costs of the program as the Administration may deter-
4 mine to be consistent with its purposes. The debentures shall
5 also contain such other terms as the Administration may fix,
6 and shall be subject to the following restrictions and limita-
7 tions:

8 “(1) The total amount of debentures purchased and
9 outstanding at any one time from a company which does
10 not qualify under the terms of paragraph (2) of this
11 subsection, shall not exceed 200 percent of the com-
12 bined paid-in capital and paid-in surplus of such com-
13 pany. In no event shall the debentures of any such
14 company purchased and outstanding under this para-
15 graph exceed \$7,500,000.

16 “(2) The total amount of debentures which may be
17 purchased and outstanding at any one time from a com-
18 pany which (A) has a combined paid-in capital and
19 paid-in surplus of \$2,500,000 or more and (B) has an
20 investment of 65 percent or more of its total funds avail-
21 able for investment in small business concerns invested
22 in equity capital as defined in section 304 (a) (2) of this
23 Act, shall not exceed \$5,000,000 plus 300 percent of
24 that portion of the company's paid-in capital and paid-in
25 surplus which exceeds \$2,500,000. In no event shall the

1 debentures of any such company purchased and out-
2 standing under this paragraph exceed \$10,000,000.
3 Such additional purchases which the Administration
4 makes under this paragraph shall contain conditions to
5 insure appropriate maintenance by the company receiv-
6 ing such assistance of the described ratio during the
7 period in which debentures under this paragraph are
8 outstanding.

9 “(3) Outstanding amounts of financial assistance
10 provided to a company by the Administration prior to
11 the effective date of the Small Business Investment Act
12 Amendments of 1967 shall be deducted from the maxi-
13 mum amount of debentures which the Administration
14 would otherwise be authorized to purchase under this
15 subsection.”

16 SEC. 205. Section 304 of the Small Business Invest-
17 ment Act of 1958 is amended—

18 (1) by inserting the paragraph designation “(1)”
19 after “(a)” in subsection (a) ;

20 (2) by inserting the following new paragraph (2)
21 in subsection (a) ;

22 “(2) For purposes of section 303 (b) (2) of this Act
23 the term ‘equity capital’ shall include such common stock,
24 preferred stock, or other financing with subordination or non-

1 amortization characteristics, as the Administration shall de-
2 termine to be substantially similar to equity financing.”

3 (3) by repealing subsection (c) ; and

4 (4) by redesignating subsection (d) as sub-
5 section (c).

6 SEC. 206. Section 306 of the Small Business Investment
7 Act of 1958 is amended to read as follows:

8 “SEC. 306. Without the approval of the Administration,
9 the aggregate amount of obligations and securities acquired
10 and for which commitments may be issued by any small busi-
11 ness investment company under the provisions of this Act
12 for any single enterprise shall not exceed 20 percent of the
13 combined paid-in capital and paid-in surplus of such com-
14 pany: *Provided, however,* That with respect to obligations
15 or securities acquired prior to the effective date of the Small
16 Business Investment Act Amendments of 1967, and with
17 respect to legally binding commitments issued prior to such
18 date, the provisions of this section as in effect immediately
19 prior to such effective date shall continue to apply.”

20 SEC. 207. Section 310 (b) of the Small Business Invest-
21 ment Act of 1958 is amended by adding after the first sen-
22 tence thereof the following new sentence: “Unless waived
23 by the Administration for good cause, each such company
24 shall be examined at least once each year.”

25 SEC. 208. (a) The section heading of section 302 of

1 the Small Business Investment Act of 1958 is amended to
2 read as follows: "CAPITAL REQUIREMENTS";

3 (b) The description of section 302 in the table of
4 contents of the Small Business Investment Act of 1958 is
5 amended to read as follows: "Capital Requirements".

6 SEC. 209. The effective date of this title shall be ninety
7 days after enactment.

SMALL BUSINESS ADMINISTRATION,
Washington, D.C., May 20, 1967.

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

DEAR MR. PRESIDENT: Enclosed are copies of two draft bills, together with section-by-section analyses thereof. The first of the bills would amend the Small Business Act and the Small Business Investment Act of 1958. The second bill would amend the Internal Revenue Code of 1954 with respect to the income tax treatment of small business investment companies. For the reasons stated in the analyses, I recommend the enactment of this legislation.

Title I of the first bill would effect certain increases in the limitations governing the amount of obligations and commitments which may be outstanding at any one time from the business loan and investment fund of the Small Business Administration. It would also have the effect of lengthening the maximum term permitted on business loans made by SBA for construction purposes; would increase the authority of SBA to establish advisory boards and to reimburse the members of such boards, as well as other persons cooperating in the work of the Agency, for expenses incurred by them; and would broaden the authority of the Agency to utilize the mails for the promotion of its programs.

Title II of the first bill would introduce major changes in the small business investment program established by the Small Business Investment Act of 1958 to provide small business concerns with equity capital and long-term financing. The provisions of this title are designed to remedy three basic weaknesses which have developed in the program since its inception nine years ago.

The first of these weaknesses is that the average small business investment company is much too small, much too limited in financial resources and management skills, to do the job contemplated by the Congress. The second weakness is that the leverage inducements offered to investors by existing law are not strong enough to attract private capital in the volume needed to assure the success of the program. The third weakness is that the financing provided to portfolio companies by SBICs is mostly of a debt nature, rather than the more desirable equity-type investment.

Title II stipulates that, after enactment of the bill, a license will not be issued to an applicant unless it has a private capitalization of at least \$1 million. Although this new size standard would not be immediately applicable to existing SBICs, those which are below it would be required to comply with specified time limits. These time provisions are sufficiently broad and flexible to minimize hardship.

The financial incentives offered by Title II should evoke a satisfactory response from the private market. Through the sale of debentures to SBA, an SBIC could obtain up to \$7.5 million of Government financing. Additional financing could be obtained by an SBIC which places at least 65 percent of its available funds in investments of an equity nature. In no case, however, could such Government financing exceed \$10 million.

The bill to amend the Internal Revenue Code would operate to remedy certain significant problems and deficiencies which have become apparent in the present income tax treatment of SBICs. Current tax provisions tend to discourage the higher risk equity and long-term debt financing of small concerns by SBICs which is most desirable. This tax bill would aid in encouraging such financing by allowing loss reserves and bad debt treatment for losses on all types of debt investments by SBICs, and by extending ordinary loss treatment to losses on equity investments by SBICs (subject to certain limitations). The measure would also conform the tax treatment of SBICs under the personal holding company and regulated investment company provisions of the Internal Revenue Code to accord with SBA regulations governing the companies, thus removing inappropriate requirements on SBICs under existing tax law. We believe these corrective tax amendments are vital to the success of the SBIC program.

Let me emphasize that the purpose of these bills is to provide needed reform and incentives for an industry in serious difficulty, and thereby to help achieve the objectives of the small business investment program. I am convinced that prompt adoption of these reforms and incentives will carry the program through its present crisis and, in time, establish it as a valuable source of long-term financing, especially equity-type financing, for the small business community.

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 bills to the Congress.

Sincerely yours,

BERNARD L. BOUTIN,
Administrator.

SECTION-BY-SECTION ANALYSIS OF THE BILL

TITLE I

Section 1

Section 1 of title I provides that, when the bill is enacted, this title may be cited as the "Small Business Act Amendment of 1967."

Section 2

Section 2 of title I would effect four amendments to the provisions of section 4(c)(4) of the Small Business Act governing the amount of loans, guarantees, and other obligations or commitments which may be outstanding at any one time from the business loan and investment fund of SBA. The first of these amendments would increase from \$1,400,000,000 to \$1,900,000,000 the amount which may be outstanding from the fund at any one time under sections 7(a), 7(b)(3), 7(e), and 8(a) of this Act, and title IV of the Economic Opportunity Act of 1964. The second amendment would increase from \$400,000,000 to \$450,000,000 the amount which may be outstanding at any one time under Title III of the Small Business Investment Act of 1958. The third amendment would increase from \$200,000,000 to \$300,000,000 the amount which may be outstanding at any one time under title V of the Small Business Investment Act of 1958. The fourth amendment would increase from \$100,000,000 to \$200,000,000 the amount which may be outstanding at any one time under title IV of the Economic Opportunity Act of 1964.

The Congress has indicated its intent that, at the first session of each Congress, SBA is to submit an estimate of the needs of the business loan program, authorized by section 7(a) of the Small Business Act, not merely for the coming fiscal year but for the two succeeding fiscal years as well (H. Rept. No. 1974, 87th Cong. 2nd Sess.). Accordingly, a review has been made of the probable requirements of the program through June 30, 1970, based on a straight-line projection of fiscal year 1968 budget estimates for this program. However, the amount of the limitation applicable to this particular program (\$1,400,000,000) also limits in addition the maximum outstanding amount for displaced business loans under section 7(b)(3), trade adjustment assistance loans under section 7(e), prime contracting activities under section 8(a) and business loans under title IV of the Economic Opportunity Act of 1964.

Consequently, in order to determine the increased limitation amount adequate as of June 30, 1970, to cover the probable requirements for all the activities covered by the one specific limitation, straight-line projections of the 1968 budget estimates have also been made for the other loan programs identified above (no prime contracting activities under section 8(a) have been entered into nor are any presently contemplated).

These projections indicate that a limitation of about \$1,816,000,000 is needed for the combined loan activities. In order to provide a reasonable reserve for contingencies, it is recommended that the limitation amount be increased from \$1,400,000,000 to \$1,900,000,000.

The projected amount outstanding at June 30, 1970, for business loans under title IV of the Economic Opportunity Act of 1964, as included in the figure of

\$1,816,000,000 cited above, is slightly in excess of \$176,000,000. Allowing in this instance also a reserve for contingencies, it is recommended that the present limitation of \$100,000,000 for title IV loans be increased to \$200,000,000. With further reference to this limitation, the budget estimates for 1968 indicate that this is the only one of the four under discussion which will be exceeded prior to June 30, 1968. This makes it essential that Congressional action on an increase be taken during the 1st Session of the 90th Congress, if the program is not to be curtailed.

Section 4(c)(4) establishes a separate limitation of \$400,000,000 on the amount of loans, guarantees, etc., which may be outstanding at any one time under title III of the Small Business Investment Act of 1958. Estimates have been made of transactions through June 30, 1970, also. These indicate a need for a limitation of about \$430 million without any provisions for contingencies. Allowing for a small reserve, it is recommended that the limitation of \$400,000,000 be increased to \$450,000,000.

Section 4(c)(4) establishes an additional separate limitation of \$200,000,000 on the amount of loans, guarantees, etc., which may be outstanding at any one time under title V of the Small Business Investment Act of 1958 (loans to State and local development companies). The budget estimates for 1968 indicate that for all practical purposes this limitation will have been reached by June 30 of that year. Accordingly, straight-line projections through June 30, 1970, of probable limitation requirements for these loans have been made. These projections indicate a need for a limitation of \$272 million, without any provision for contingencies. Including a small reserve, it is recommended that the present limitation of \$200,000,000 be increased to \$300,000,000.

Estimated business loan limitation requirements, fiscal years 1967-70

[Dollars in millions]

	Budget estimates		Projected	
	Fiscal year 1967	Fiscal year 1968	Fiscal year 1969	Fiscal year 1970
Outstanding loans and commitments, start of year.....	\$1,004.5	\$1,135.6	\$1,399.7	\$1,630.3
Plus new loan approvals:				
7(a) business.....	308.7	476.6	476.6	476.6
Economic Opportunity.....	50.0	60.0	60.0	60.0
Displaced business.....	30.0	35.0	35.0	35.0
Trade adjustment.....	1.2	1.2	1.2	1.2
Total, new loan approvals.....	389.9	572.8	572.8	572.8
Minus repayments and cancellations:				
7(a) business.....	247.1	285.4	308.4	342.1
Economic Opportunity.....	7.0	14.4	21.5	28.9
Displaced business.....	4.7	8.9	12.3	15.8
Trade adjustment.....				
Total, repayments and cancellations.....	258.8	308.7	342.2	386.8
Outstanding loans and commitments, end of year.....	1,135.6	1,399.7	1,630.3	1,816.3
Plus contingency reserve.....			69.7	83.7
Recommended limitation.....			1,700.0	1,900.0
Memorandum: Outstanding by program:				
	June 30, 1966			
7(a) business.....	\$947.7	1,009.3	1,200.5	1,368.7
Economic Opportunity.....	17.9	60.9	106.5	145.0
Displaced business.....	38.9	64.2	90.3	113.0
Trade adjustment.....		1.2	2.4	3.6
				4.8

Estimated investment company limitation requirements, fiscal year 1967-70

[Dollars in millions]

	Revised estimate, fiscal year 1967	Budget estimate, fiscal year 1968	Projected	
			Fiscal year 1969	Fiscal year 1970
Outstanding loans and commitments, start of year.....	\$300.9	\$315	\$350	\$390
Plus new loan approvals.....	25.0	55	55	55
Purchase of SBIC debentures (sec. 302).....	8.9			
Loans to SBIC's (sec. 303).....	16.1			
Minus repayment and cancellations.....	10.9	20	15	15
SBIC debentures (sec. 302).....	7.4			
SBIC loans (sec. 303).....	3.5			
Outstanding loans and commitments, end of year.....	315.0	350	390	430
	June 30, 1966			
SBIC debentures (sec. 302).....	\$158.9	160.4		
SBIC loans (sec. 303).....	142.0	154.6		
Plus contingency reserves.....			10	20
Recommended limitation.....			400	450

Estimated development company limitation requirements, fiscal years 1967-70

[Dollars in millions]

	Budget estimates		Projected	
	Fiscal year 1967	Fiscal year 1968	Fiscal year 1969	Fiscal year 1970
Outstanding loans and commitments, start of year.....	\$120.1	\$157.1	\$198.1	\$236.4
Plus new loan approvals.....	47.0	55.0	55.0	55.0
Minus:				
Loan repayments.....	6.6	10.2	12.9	15.6
Cancellations.....	3.4	3.8	3.8	3.8
	10.0	14.	16.7	19.4
Outstanding loans and commitments, end of year.....	157.1	198.1	236.4	272.0
Plus contingency reserve.....			13.6	28.0
Recommended limitation.....			250.0	300.0

Section 3

Section 3 of title I would extend from 10 years to 15 years the maximum term covering any portion of a business loan made, pursuant to section 7(a) of the Small Business Act, to assist a small firm in financing construction activities.

The operating experience of SBA under the business loan program contains indications that it is not uncommon for the size of the installment repayments to be so large, as a result of the existing ten-year limitation, as to create an excessive drain on the working capital of the borrower. In some instances the Agency has felt it necessary, because of the prospect of such a drain, to deny con-

struction loans to applicants who were otherwise eligible. The provisions of section 3 of title I, permitting repayments in smaller installments spread over a longer period, should serve to eliminate or at least reduce such financial strain.

While the proposed fifteen-year maximum is in conformity with recent real estate lending trends and is in keeping with the recognition given in SBA disaster and development company loan legislation to the need of long amortization periods for construction loans, the Agency would continue to be highly selective in granting loans for the maximum term. There would be no departure from its firmly established policy of relating amortization schedules to repayment ability rather than to any legislative maximum.

Sections 4 and 8

Sections 4 and 8 of title I would correct certain technical errors in the Disaster Relief Act of 1966 (Public Law 89-769) and in the Economic Opportunity Amendments of 1966 (Public Law 89-794). These sections have no substantive effect on the law.

Section 5

Section 5 of title I would authorize SBA to pay the transportation expenses and per diem in lieu of subsistence expenses, in accordance with 5 U.S.C. 5703, for travel by any individual or group of persons who, although not employed by the Agency, are cooperating with it in providing management advice and guidance to small business concerns. Such payments could be made, however, only for travel undertaken at the request of SBA in connection with such cooperation.

The principal purpose of the amendment is to facilitate the work of the Service Corps of Retired Executives (SCORE). About three thousand retired business executives have volunteered to cooperate with SBA in providing management advice and assistance to small businessmen on a person-to-person basis. Such advice and assistance is generally furnished without cost to the recipient.

Not infrequently a small firm is confronted with managerial or technical problems calling for skills or experience which can be found only in a SCORE member residing beyond commuting distance. It will be much easier to induce that member to visit the concern, if SBA can offer him reimbursement for expenses.

The requested authority will be particularly helpful in extending the benefits of SCORE to small firms in rural areas (such as Appalachia and the Upper Peninsula region of Michigan) where the program has been relatively ineffective because of distances and the lack of qualified volunteers nearby. SBA's plans for sending SCORE circuit riders into such places will be furthered by the ability to offer these volunteers reimbursement for expenses.

Another factor to be considered in connection with this amendment is that, notwithstanding their broad knowledge and experience in business matters, most or many of these volunteers are not conversant with the best counseling techniques and relatively few of them are familiar with SBA's programs and procedures. To remedy these deficiencies the Agency plans to authorize at least some of its regional directors to assemble volunteers from their respective areas, during the current year, for a two-day training meeting. The response of the volunteers to such a call will, of course, be larger if they are assured of reimbursement for the resulting expenses.

Section 6

Section 6 would also make it clear that the Administration has authority to establish such advisory boards and committees as may be necessary to achieve the purposes of the Small Business Investment Act of 1958, as well as the purposes of the Small Business Act.

Section 6 would also make it clear that the Administration has authority to (1) reimburse the members of such boards and committees in accordance with 5 USC 5703, for travel and other expenses incurred in attending the meetings of such boards and committees; and (2) rent temporarily, within the District of Columbia or elsewhere, such hotel or other accommodations as are needed to facilitate the conduct of such meetings.

The members of the Advisory Councils serve without compensation in the course of making valuable contributions to the programs of the Agency. It is believed they should be reimbursed for reasonable costs incurred in attending the meetings.

Unless specifically authorized by legislation, agencies including SBA, are prohibited from renting conference rooms and related facilities in the District of Columbia. This restriction has imposed limitations on the way in which meetings can be planned and conducted, to the detriment of desirable objectives.

Section 7

Section 7 of the bill would extend to SBA discretionary authority, identical to that possessed by the Office of Economic Opportunity, to disregard the general rule (39 U.S.C. 4154) prohibiting Government agencies from using the mails to distribute information to people who have not requested it.

The desirability of the general rule needs little discussion. Nevertheless exceptions should be made for Government agencies which, like OEO and SBA, are charged with responsibility to alert underprivileged persons to the assistance available to them from the Government. A good many of the people in this category do not request information about such assistance, because they are unaware of its existence. In such cases the responsible Government agency can fulfill its mission only by taking the initiative, only by carrying the message to the people.

An outstanding illustration of the need for the requested authority is to be found in the management training programs conducted or sponsored by SBA, in collaboration with educational institutions, for the benefit of small businessmen. When a conference or course is scheduled for a particular city or area, it is vitally important that small business concerns in that locality be given advance notice. The only satisfactory medium for providing such notice and related information is the mails.

The growing number of small business concerns being displaced by Federal, or federally aided, construction activity provides another illustration of the need for such authority. It is essential that such firms be promptly apprised of the special loan program established for their benefit by section 7(b)(3) of the Small Business Act. Under existing law, SBA can use the mails to provide such notice only where the displacement is caused by urban renewal activity. Section 7 of the bill would permit mailings by the Agency when the displacement is caused by other forms of construction, such as the Federal Highway Program.

TITLE II

Section 1

Section 1 of title II provides that this title may, when enacted, be cited as the "Small Business Investment Act Amendments of 1967."

Section 2

Section 2 of title II establishes new minimum capital requirements for small business investment companies. At present, section 302(a) of the Act establishes a minimum capital for SBICs of \$300,000, which may consist of half private capital and half subordinated debentures which the section authorizes the Administration to purchase from such companies. Any subordinated debentures are considered part of the company's capital for purposes of financial assistance and for certain other requirements under the Act.

The bill would, in effect, over a period of years, raise the minimum capital requirements for SBICs to \$1,000,000 of private capitalization. This would be accomplished by generally requiring new licensees (except those whose application for a license had been substantially completed at the time of enactment) to have a minimum private capitalization of \$1,000,000; and by allowing existing licensees an appropriate period to increase their private capitalization to at least \$1,000,000. The minimum private capitalization required would include only equity funds which the SBIC had committed to its permanent capitalization, and thus would not include debt or uncapitalized earnings of the company.

Experience for eight years in the operation of the program has shown that private capital in excess of the present \$300,000 minimum requirement is necessary to assure profitable and successful SBICs. SBA recently conducted a survey to determine the minimum size SBIC needed to meet the goals of the Act. This study indicated that a minimum of \$1 million in private invested capital is required to assure adequate income, to interest competent management, to make the company attractive to private investors, to allow diversification of investments and to enable an SBIC to have reasonable expectations of a successful long-time operation.

The study focused on the minimum size which an SBIC should achieve in order to meet criteria for profitability of operations and rate of return on invested capital. It was indicated that:

1. Profits were a function of size, up to a total private capital of \$5 million, at which point a downtrend occurred;
2. \$1 million of private capital was needed for successful operations; and
3. The most profitable operations could be expected in SBICs which placed at least 65 percent of their investable funds in investments other than straight loans, i.e., in equity or equity-type financings.

SBA data shows that SBICs with statutory capital of over \$1 million number 88, or 13 percent of the total companies. These 88 larger companies had invested about 72 percent of all the private capital in the program, but had obtained only 31 percent of the Government loan funds. Yet this group accounted for 64 percent of the earned income of the industry and had made 60 percent of the total dollar financings to small business concerns.

It has become evident that a restructured program is needed, to be made up of SBICs having greater amounts of private capital, and which would be able to concentrate in the field of equity financing.

Therefore, the bill provides for private invested capital of at least \$1 million for any new licenses.

However, the bill also recognizes that to apply a requirement of this magnitude immediately to all licensees would be inequitable to presently licensed companies having capital of less than \$1 million. Therefore, present licensees would be allowed until February 1969 to increase to at least \$300,000 private capitalization, until February 1971 to reach \$500,000, and (if they had less than \$500,000 when the bill takes effect) until February 1975 to reach \$1,000,000 private capitalization. Licensees with private capital of at least \$500,000 but less than \$1,000,000 when the bill takes effect would be allowed until February 1971 to meet the \$1,000,000 requirement. It is believed that these are reasonable periods within which to reach the \$1 million level.

It is recognized, moreover, that exceptions to the time limits may still be needed in unusual circumstances. Language in the proposed bill would allow such flexibility by providing that the Administration could by regulation as to groups of companies extend the time limits or grant an exemption in order to insure that the benefits of the program are adequately available to small concerns as intended by the Act. For instance, extension of a period of time to meet the minimum capital requirements may be necessary in communities having less than a specified population, where there is only one SBIC in a state, or as to certain types of SBICs. By authority of this provision the Administration would be able to grant exceptions across the board to all companies affected or to any group having similar characteristics, to lessen the impact of the statutory requirement if necessary or appropriate in the interests of the program.

Since the time period established to meet the various levels of private capital would be reasonable and the Administrator would have authority to grant exceptions as necessary, it is anticipated, in order to assure consistent application of the private capital criteria, that licensees not meeting these proposed standards would be phased out of the program. This phasing out would be on a voluntary basis within the life of presently existing borrowings from SBA if there are no regulatory deficiencies or credit problems; on an involuntary basis in those cases where violations or credit problems exist. Some SBICs will increase their capital by merger when this is mutually acceptable to SBA and the SBICs involved.

If an SBIC failed to increase its capitalization as required it would be deemed in violation of the Act, and its license would be subject to revocation by the Administration in accord with established procedures under the Act for revocation of SBIC licenses.

Section 3

Section 3 of title II would amend section 302(b) of the Small Business Investment Act of 1958 to increase from 2 percent to 5 percent the maximum permissible amount of their capital and surplus which banks may invest in the stock of small business investment companies.

At the present time, under this 2 percent limitation, about 200 of the largest banks in the country may wholly own an SBIC under the program. Experience has been that bank owned and affiliated SBICs with adequate resources and

qualified management are among the more successful operators. But, by raising the SBIC minimum capital requirements to \$1 million, as the bill does, the number of banks which would be able to be sole owners of an SBIC would be sharply reduced under the 2 percent limitation. However, this section by raising the allowable percentage of bank capital and surplus from 2 percent to 5 percent would permit about 150 banks to avail themselves of the opportunity to be owners of an SBIC. Other banks would be able to join as partial owners. The amendment is thus necessary to allow bank participation in the program.

Section 4

Section 4 of title II amends section 303(b) of the Act to establish a new framework for SBA financial assistance to small business investment companies. Section 4 (in conjunction with section 2) repeals present statutory provisions for SBA financial assistance to SBICs, and provides new authority for extending such assistance.

The existing authority, which would be replaced under the bill, authorizes SBA to provide funds through debenture purchases matching up to \$700,000 of the private capitalization of the SBIC, and to further lend to the company an amount equal to the lesser of \$4,000,000 or 50 percent of its total private capitalization and SBA debenture purchases. While financial assistance extended to SBICs under these authorities prior to enactment of the bill would continue outstanding, future lending to SBICs would be, of course, under the bill's new provisions; but it should be noted that the outstanding amounts of prior SBA financial assistance would count against the maximum SBA financial assistance authorized under the bill.

SBA would be empowered under amended section 303(b) of the Act to purchase subordinated debentures issued by small business investment companies. The debentures could be issued for terms of not to exceed fifteen years, would bear interest at a rate (not lower than the average yield on outstanding Treasury obligations of comparable maturities) and contain such other terms as determined by SBA. The total amount of debentures purchased and outstanding at any time, in the case of a company which cannot meet the equity test described below, may not exceed the lesser of \$7,500,000 or 200 percent of the private capitalization of the company.

In order to provide additional incentive for more equity-type investments by SBICs in small concerns, the bill provides that if the SBIC has more than \$2,500,000 of private capital and has invested at least 65 percent of its total funds available for investment in "equity capital" of small concerns, SBA may purchase an amount of debentures of the company up to an amount not to exceed \$5,000,000 plus 300 percent of that portion of the SBIC's private capitalization which exceeds \$2,500,000. In no case, however, could the total amount of purchases from an SBIC, including such additional purchases, exceed \$10,000,000.

If a company received this additional SBA financing, it would be required to maintain to the maximum appropriate extent (as determined by SBA) at least the 65 percent ratio (i.e., the percentage of equity in its portfolio to its total investments and funds available for investment) for the period during which these additional debentures remained outstanding.

Equity investments which would qualify for purposes of the 65 percent requirement would be defined by SBA rule, and would include such common stock, preferred stock, or other financing with subordination or non-amortization characteristics as SBA determines are substantially similar to equity financing.

These new provisions serve two major aims: to provide increased incentives for larger SBICs, and to encourage more equity-type investments in small concerns.

The Small Business Investment Act was passed in 1958 following Congressional review of numerous economic studies, in particular one conducted by the Federal Reserve Board, with respect to the needs of small business companies for equity capital and long-term loan funds. The Federal Reserve study found that such a gap existed, and that it could not be filled with the techniques and financial intermediaries then existing.

The basic purpose of the Small Business Investment Act as stated in Section 102 is to establish "... a program to stimulate and supplement the flow of private equity capital and long-term loan funds which small business concerns need for the sound financing of their business operations and for their growth, expansion and modernization and which are not available in adequate supply."

It is obvious that the basic intent and purpose of the Act as originally contemplated still exist, particularly in the field of equity and equity type financing.

The need still exists, but the program experience over the past 8 years indicates quite clearly that the potential envisaged for the industry has not been met.

As of March 31, 1966, private capital investment in the program amounted to about \$475 million. Some \$260 million in Federal funds had been loaned to SBICs. For the first time since inception of the program the industry as a whole showed a profit. Net earnings for 606 reporting companies totalled \$10.7 million, representing a 2.4 percent return on invested capital. It is apparent that existing profitability has not been sufficient to stimulate the needed flow of capital to the SBIC industry. The new provisions would allow greater leverage for private capital invested in the program, thus enhancing the potential for profitable and effective SBIC operation.

Another difficulty has been that under present law, SBA may purchase debentures of an SBIC to the amount of private capital but not to exceed \$700,000. In addition, it may make loans equal to 50 percent of the sum of private capital plus debentures purchased from the SBIC but not to exceed \$4 million. These provisions are discriminatory against the larger capitalized companies. It is, therefore, proposed that SBA may match private invested dollars more fully on a ratio of two to one—Government to private—up to a maximum of \$7.5 million for any one SBIC.

It is anticipated that a reasonable time limit would be established by the Administration for the acceptance of applications for SBIC financing. This financing, evidenced by a subordinated instrument, will be senior only to the private capital of the SBIC, will have a maturity of up to 15 years and bear interest at a rate which would include not only the cost of money to the Treasury but may include an additional charge to cover other program costs, as determined by the Administrator. SBA intends that the new debentures will have a moratorium on principal payments until the end of the tenth year and thereafter amortize at 20 percent per year for the remaining 5 years. An interest rate of 5½ percent is contemplated.

The new provisions would also encourage more equity-type financing. When established, the program's main thrust was to equity financing since no other weapon was available in the Government arsenal to meet the "equity gap." Despite this aim, there has been more emphasis on straight loans to small business concerns than is considered desirable. Latest figures available indicate that approximately 15 percent of funds made available to small business concerns by SBICs are in the form of stock, some 35 percent in the form of equity-type financing, and the balance of 50 percent in straight loans. An SBA study recently completed indicated that the more successful SBICs had a maximum of 35 percent in straight loans. To channel a greater portion of SBIC assistance to equity-type transactions a special incentive would be afforded to SBICs which utilize 65 percent of their funds available for investment, in such transactions. From such concerns, SBA would be authorized to purchase debentures in an amount not to exceed \$5 million plus 300 percent of that portion of the combined paid-in capital and paid-in surplus of the company which exceeds \$2.5 million. Such financing will not only encourage equity-type investments, in accordance with the intent of the original Act, but should also increase the percentage of investments going to small manufacturing concerns—a more productive use of SBIC funds.

The bill would authorize the Administrator to promulgate a realistic definition of equity investments which would qualify an SBIC for such additional financing, based on the characteristics of the instrument or obligation. For instance, in addition to common and preferred stock such financings or subordinated long-term loans, since they would encourage short-term bank financing and suppliers, would qualify as equity capital, as would unsecured loans which do not require amortization for at least five years, which is the prescribed minimum for SBIC long-term loans to small concerns.

Section 5

Section 5 of title II would amend section 304 of the Small Business Investment Act of 1958, the section relating to provision by SBICs of equity financing to small business concerns. The above described definition of "equity capital" for purposes of additional SBA assistance to SBICs under the 65 percent rule has been placed in section 304, with cross reference between sections 303 and 304 of the Act.

Section 304 also would be amended to delete subsection (c), the provision which presently gives an option to small business concerns to purchase stock of an SBIC in an amount up to 5 percent of any equity-type financing which

the SBIC provides to it. Numerous regulatory and administrative problems mainly involving "bootstrapping" (i.e., lending money, the proceeds of which are used to buy stock in the SBIC) have arisen with respect to section 304(c) of the Act relating to the option of a small business concern to purchase capital stock of an SBIC. It, therefore, has been determined to request the elimination of this option as a statutory matter.

Section 6

Section 6 of title II would amend section 306 of the Small Business Investment Act of 1958. At present, except when SBA grants approval, the provision prohibits investment or commitment by an SBIC of more than 20 percent of its capital and surplus (defined to include SBA debenture purchases) in any one small business concern. The bill would amend the provision by prohibiting, without SBA approval, investment or commitment by an SBIC of more than 20 percent of its private capitalization in any one small business concern. However, this amendment would not apply retroactively to investments or commitments made before the effective date of the legislation.

One of the most serious difficulties encountered in the regulation of the industry arises out of the amount of capitalization which may be invested in, or loaned to, a single small business concern. With the proposed new concept of capital in the Act (not including any government funds) and the establishment of new minimum capital requirements and financing, the amount of allowable loans and investment in a single concern would be restricted to 20 percent of private invested capital.

Section 7

Section 7 of title II would amend section 310(b) of the Small Business Investment Act of 1958 to require that SBA examinations of small business investment companies be made at least once each year, unless waived by the Administration for good cause.

Prior to the last half of calendar year 1966, examinations were conducted spasmodically and not sufficiently in depth. During 1966, all companies were examined at least once except in those cases where the companies were in the process of having some legal action taken by SBA or under investigation. It is essential that every SBIC should be examined at least once a year and that this should be a legislative requirement.

Section 8

Section 8 would make appropriate amendments to the table of contents and section headings of the Small Business Investment Act of 1958.

Section 9

Section 9 of title II would provide that the effective date of title II, the Small Business Investment Act Amendments of 1967, would be ninety days after enactment of the bill.

Senator McINTYRE. Before hearing from Mr. Boutin, I would like to ask if the Senator from Alabama would like to make any statement?

Senator SPARKMAN. No, Mr. Chairman, I don't have any point to make especially. I appreciate this opportunity. I am going to have to leave shortly before 10:30. There is a special meeting of the Foreign Relations Committee, and the chairman is out of the country, so I have to preside over that meeting. I am sorry I can't be here for the testimony. I do have copies of the statement. I have read them in part and I will read them in full.

I think it is a fine proposal that has been made, and I trust that favorable action will be taken.

Senator McINTYRE. The Senator from Illinois?

Senator PERCY. I would only like to say that I am honored to have an opportunity to work on this problem. I have spent my whole business life trying to get out of the category of small business into big business, and I think that is probably an objective shared by most small businessmen. They do have unusual problems and I think the

SBIC's can enable the private sector to work in cooperation with the public sector for the common good and strengthening of our economic system.

I believe this bill will take advantage of the experience we have had to date with the SBIC program.

I think we all have open minds on ways to improve and strengthen the concept.

Senator McINTYRE. The Senator from Wisconsin?

Senator PROXMIRE. I have nothing to say at this time.

Senator McINTYRE. All right.

At this time we are pleased to hear from the Administrator, a fellow townsman of mine, Mr. Bernard L. Boutin.

STATEMENT OF BERNARD L. BOUTIN, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION, ACCOMPANIED BY PHILIP ZEIDMAN, GENERAL COUNSEL; AND HOWARD GREENBERG, ASSOCIATE ADMINISTRATOR FOR INVESTMENT

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

Before I start my testimony, I would like to introduce to the chairman and members of the committee a few key members of my staff whom I have with me.

First of all, the Deputy Administrator, Robert C. Moot. I have at the table with me Howard Greenberg, who is the Associate Administrator for Investment, and Phil Zeidman, who is our General Counsel.

I also have an old friend of this committee, Irving Maness, who is the associate administrator for the procurement and management assistance program. And another old friend who has been a long time with the agency, Mr. Logan Hendricks, who is the associate administrator for our regular financial assistance programs. In addition, I have Mr. William Turpin, who is in charge of all of our broad programs of administration internal to the agency itself. They in turn have members of their staffs with them.

I don't want the committee to think, with the large entourage, that SBA is at a standstill this morning, but I thought it would be good for them to have exposure to this testimony that I think is so important.

I apologize to you, Mr. Chairman, and to the members of the committee for the length of my statement. But this is a sticky problem, and I thought it well to treat it in depth, and as comprehensively as I could. So without further ado, I would like to go into my prepared statement, and would be prepared at any time to answer questions that you or members of the committee may want to direct to me.

Senator SPARKMAN. Mr. Chairman, may I interject this thought at this point?

Just recently Mr. Boutin testified before the Select Committee on Small Business, in which he gave a general roundup of the operations of the Small Business Administration, and the small business operations throughout the country. Our committee thought so well of it that we had it printed as a document, or at least put in type in such a way that it would be available to anyone who wanted it. I would commend to each member of this subcommittee that statement, and I think

you will find you can get a copy from the Select Committee on Small Business. It was quite comprehensive.

I thought of it when he referred to the length of this statement, because it is rather lengthy, but quite comprehensive and a very fine statement.

Senator McINTYRE. I think that is a very good suggestion. I believe I have read it.

You may proceed, Mr. Boutin.

Mr. BOUTIN. Thank you, Mr. Chairman.

When I testified before this committee last summer in support of the legislation which was subsequently enacted to strengthen the regulatory controls of the Small Business Administration over small business investment companies (Public Law 89-779), I promised to return at a later date with further proposals. I committed SBA to develop proposed legislation whose purpose it would be to strengthen the small business investment program and to convert it into a more effective instrumentality for providing the equity and long-term financing so urgently needed by the small business community. I appear before you today to fulfill that commitment.

The intervening months have been full ones. We have studied the small business investment program and we have evaluated it. We have consulted with leaders of the industry. We have exchanged views with knowledgeable representatives of the financial community, as well as with other Government officials. We have maintained close contact with interested committees of the Congress.

To summarize, we have concluded that the SBIC program is full of problems—but full of promise as well. The legislation we propose today will not, of itself, solve all those problems or guarantee the fulfillment of that promise. But it is, in my judgment, a sound and significant step forward.

The bill before you, S. 1862, which was introduced by Senator Sparkman, contains two principal parts. Title I of the measure, which I shall discuss at the close of my testimony, calls for a number of amendments to the Small Business Act. Title II, taken together with S. 1863, the tax legislation which was also introduced by Senator Sparkman, proposes the most extensive revision of the small business investment program since Congress enacted the original legislation in 1958. This legislative program, which has been reviewed by the affected agencies of the executive branch of the Government, has the full support of the administration. I appear here today to urge its enactment by the Congress.

The provisions of title II and of the related tax bill take deliberate and direct aim at three basic problems which have characterized the small business investment program.

The first of these problems is that the average small business investment company is much too small, much too limited in financial resources and management skills, to do the job contemplated by the Congress.

The second problem is that the leverage and other inducements offered to investors by existing law are not strong enough to attract private capital in the volume needed to insure the success of the program.

The third problem is that the financing provided to portfolio companies by SBIC's is too frequently of a conventional debt nature, rather than the more desirable and needed equity-type investment.

Before considering the details of the remedial provisions in title II, I would like to review the history and status of the small business investment program, since background information is important to a full understanding of the issues involved here.

HISTORY AND STATUS OF THE INVESTMENT PROGRAM

The Small Business Investment Act of 1958 was the result of numerous studies made by and for the Congress on the problem of supplying equity capital and long-term loan funds to small concerns. In reporting the bill, this Committee cited research conducted as far back as 1935; and it is known that the existence of the "equity gap" for small business had been recognized many years earlier.

At the request of the Senate, the Board of Governors of the Federal Reserve System undertook a study on financing small business. Chairman William McChesney Martin, Jr., in testifying with respect to the Board's findings, reported that "there is a gap in the existing structure of financial institutions which lies in the longer term debt and equity capital areas," and that the primary need was in the small manufacturing field. He suggested "a Government program to foster the flow of private investment funds to small business."

After extensive hearings, the Small Business Investment Act became law, on August 7, 1958. Senator Sparkman, then chairman of the Select Committee on Small Business, stated that with its passage, "a serious gap in the financing facilities available to small firms was bridged * * * this legislation should greatly increase the flow of long-term debt and equity capital to many small companies which have desperately needed this form of financial assistance in order to grow and prosper."

The intent and purpose of the investment program are clearly stated in section 102 of the act:

It is declared to be the policy of the Congress and the purpose of this Act to improve and stimulate the national economy in general and the small-business segment thereof in particular by establishing a program to stimulate and supplement the flow of private equity capital and long-term loan funds which small-business concerns need for the sound financing of their business operations and for their growth, expansion, and modernization, and which are not available in adequate supply.

The vital statistics of the industry, set forth in an attachment (exhibit A) to this statement, show that substantial progress has been made toward the goals established by Congress.

At the middle of last year, 686 licensed SBIC's were in existence. From the inception of the program to March 31, 1966, SBIC's had provided more than \$1 billion in over 20,000 financings to small business concerns. Reported interest rates were not unreasonable in light of the risks involved.

Senator McINTYRE. May I interrupt you at that point?

Mr. BOUTIN. Surely.

Senator McINTYRE. I note you say that interest rates are not unreasonable in light of the risks involved. Do you have a regulation that sets any maximum interest that can be charged?

Mr. BOUTIN. Yes, we do, Mr. Chairman. We have a regulation that provides that the maximum interest rate, simple interest, including all charges, cannot exceed 15 percent.

Senator McINTYRE. What has been the average interest rate that has been charged by SBIC's?

Mr. BOUTIN. It has ranged, depending upon the type of investment, whether in terms of equity financing or straight loans. The median is a range of 7 to 8.9 percent.

Senator McINTYRE. I was struck by a question asked by a colleague in the other House during one of your appearances there, expressing some dismay that an interest rate of 8 percent had been charged by SBIC's. But my own experience has taught me that the only way I would be willing, as an investor, to go into a venture-type enterprise would be with the thought of a substantial return. So I have been quite pleased to find you have a regulation that would permit a return up to 15 percent.

Mr. BOUTIN. I think it might be noted that, for the latest fiscal year on which we have information from the SBIC's themselves, for the whole industry the rate of return on investment was about 2.4 percent. Even with this provision for a relatively high interest rate, the rate of return has not been extremely large.

Senator McINTYRE. I have been interested in attempting to get at some of the troubles you have found in the SBIC industry. Have you found that you were curbing rather than being more liberal in permitting interest rates that were in the vicinity of 10 percent?

Mr. BOUTIN. No, we have not found in any way, Mr. Chairman, that our regulations or procedures in any way inhibited the SBIC's from charging a reasonable rate within the framework of our regulations.

Senator McINTYRE. I am assuming that the SBA might have had an opportunity to say to SBIC's, you are charging too heavily, or too high a rate of interest here, thereby causing SBIC's to reduce the rate of interest.

Mr. BOUTIN. We have not done that.

Senator McINTYRE. They have complete freedom up to 15 percent, as long as it is a negotiated deal. My only thought was, perhaps, the heavy hand of SBA had prevented what I would consider a rewarding return on some of these loans.

Mr. BOUTIN. No, the only additional inhibition, Mr. Chairman, has been the State usury laws.

I think, Senator Spang, our rate in Virginia is—what, 6 percent? And many other States, of course, have similar laws. And those laws prevail.

It is the lower of the State law, or the 15 percent, in our regulation.

Senator McINTYRE. I wanted to ask a question later on about that. But thank you very much.

Senator SPARKMAN. Mr. Chairman, before I go, and I must leave, I want to ask this question. Mr. Boutin hasn't reached it yet in his paper, but I have read it all, and I wanted to ask it before I leave.

That is concerning your proposal to require companies with less than a million dollars of capital to increase their capital to at least a million dollars by 1971—I believe that was the date.

Mr. BOUTIN. By 1975, those with presently under \$300,000. In 1971, those with presently under a million dollars, but over \$500,000, Mr. Chairman.

Senator SPARKMAN. You do that on the basis of the overall survey of the small companies, which shows there is actually a loss in profits; isn't that right?

Mr. BOUTIN. We show from our studies, Senator, that the small companies, those of under \$325,000 statutory capital, actually had a loss in their most recent fiscal year of 2.3 percent on invested capital.

Senator SPARKMAN. Did all of them have a loss, or is that the average?

Mr. BOUTIN. No, that was the average.

Senator SPARKMAN. Suppose there is a small company that is operating in an area, it is doing a good job, it is operating profitably and wants to continue to operate as a community service. And perhaps it couldn't very well increase its capital to a million dollars. Would that one be killed?

Mr. BOUTIN. Actually, the bill proposes, Senator, that for those companies either unable or unwilling—and I prefer to concentrate on those who are unable rather than those who are simply unwilling, who just don't want to do it—but those who are unable, the Administrator would have, under the terms of this bill, the flexibility to exempt broad categories of companies.

Now, there is no provision for an ad hoc decision, so that each case would come to us. I think that would be impossible to administer. But it does provide that we can provide extensions of time or we can provide outright exemption.

As a very good example, in the Senator's State, as in the Chairman's State, there are SBIC's that are of minimum size. They have very little capital available, and probably would have an impossible time raising the million dollars even with the time frame we have allowed. We could, in order to preserve the availability of the SBIC program in States within this whole broad category grant an exemption or an extension. We would want to be very, very fair in our administration of this.

And also we would want to be very fair in our treatment of proposed mergers.

Senator SPARKMAN. Thank you very much.

Mr. BOUTIN. Thank you, Senator.

Senator McINTYRE. You may proceed.

Mr. BOUTIN. The average size of the financings has been held at a sufficiently low level to remove any fears that the needs of the traditional small business community are being disregarded.

Nevertheless these accomplishments, substantial though they are, fall short of expectations. The truth is that the program is in difficulty—very serious difficulty. Failure is a definite future possibility unless major reforms are promptly introduced.

PROBLEMS OF THE INVESTMENT PROGRAM

To date, nearly all of the public discussion of the problems facing the industry has focused on the need of effecting improvements in regulatory controls over SBIC's—such matters as clarifying and tightening

the regulations; clearing undesirable elements out of the program; developing information essential to an evaluation of progress under the program; and devising more efficient audit and examination procedures.

Such administrative problems must indeed be mastered if the program is to be placed on a sound basis. These problems have taken up a good deal of my time since I took office, and they will undoubtedly continue to do so. In an attachment (exhibit B) to my statement, you will find a brief review of the progress we are making toward the solution of each of them.

You will note that, for example, we have initiated more legal proceedings, both judicial and administrative, during the last year than in the entire prior history of the program. That record, together with the action of the Congress last year in providing us with additional enforcement tools, should make it crystal clear that we can and will proceed resolutely against those who flout the act and our regulations.

But even complete success in these efforts will do nothing to remedy or alleviate the three basic ailments of the program mentioned at the outset of my testimony. I want to explain them carefully at this point, so that you will have a full understanding of the reforms and incentives we are proposing to stimulate the industry.

MOST SBIC'S ARE TOO SMALL

The great bulk of the companies in the industry have the bare minimum of private capital required by the statute. The inadequacy of such resources is reflected, intangibly, in poor management skills and, tangibly, in a low return on invested capital. For the year ended March 31, 1966, SBIC's in this category (statutory capital and surplus of \$325,000 or less) actually suffered a loss of 2.3 percent on their investment.

We undertook a detailed study to determine the size of SBIC which would stand the best chance of establishing and maintaining a profitable operation. In this study, we attempted to develop a model to meet such requirements. The results of the study indicated to us that at least \$1 million of private capital would be necessary to (1) interest prospective investors and competent management; (2) pay competent, full-time management; (3) make thorough investigations of investment prospects; (4) maintain continuous service for portfolio concerns including advisory services; (5) insure a competitive return on investments; and (6) create reasonable prospects for success.

Another result of the study was a finding that profits are closely related to size, up to an investment of capital of \$5 million.

A further comparison of large versus small companies revealed that 88 of the largest SBIC's—69 with statutory capital from \$1 million to \$5 million and 19 with statutory capital over \$5 million—or 13 percent of the companies in the program, had (1) invested 72 percent of the total private capital in the program; (2) borrowed only 31 percent of the Government money; (3) made 64 percent of the net income from operations of the program; and (4) made 60 percent of all the dollar financing of the program.

Or, stated in the alternative, 87 percent of the companies had invested 28 percent of the private capital; borrowed 69 percent of the

Government money; made 36 percent of the net income from operations; and made about 40 percent of the dollar financings.

The weaknesses resulting from inadequate resources tend to tempt smaller companies, unfortunately, into violations of the regulation as a means of making ends meet. This is perhaps the principal reason why the largest number of our enforcement actions are taken against smaller companies.

These are the considerations which make it essential that the minimum size of SBIC's be raised to a higher level, a point I will develop further when I come to the provisions of title II.

Senator McINTYRE. May I ask you to give me a few examples? What type of violations have you run into with these smaller companies?

Mr. BOUTIN. They run the full gamut of violations that almost defy the imagination, Mr. Chairman, from self-dealing, loaning to officers, stockholders, or directors of the SBIC itself for furthering of their own business interests, boot-strapping.

We have instances, too, of simply failure to carry on a business in a businesslike way. We have found SBIC's, as an example, operating out of a sunporch in someone's house, or out of a basement apartment. We have found misuse of Federal funds. We have had a number of convictions, criminal convictions, secured by the Department of Justice.

It has run the full spectrum, Mr. Chairman. But these are a few examples of the things that we have found.

Senator McINTYRE. Thank you.

Mr. BOUTIN. Existing leverage is inadequate. Earlier in this statement I quoted the congressional policy governing the small business investment program. However, section 102 of the act, laying down the policy, stipulates that it is to be "carried out in such manner as to insure the maximum participation of private financing sources."

To date, the program has attracted \$475 million in private money, which is approximately \$200 million more than the Government's investment in the industry. Nevertheless this response from the private market is far below the level that must be reached to place the program on a stable basis. If that level is to be achieved, the inducements offered by the Government in the form of matching funds must be increased.

Existing law, which would be repealed by the bill, authorizes SBA to purchase the debentures of an SBIC on a matching basis up to a maximum of \$700,000. In addition to such assistance, the agency can lend to the company an amount equal to the lesser of \$4 million or 50 percent of the combined amount of (a) such debenture purchases, and (b) the company's combined capital stock and paid-in surplus.

It is obvious that, while companies with private capital of up to \$700,000 may obtain a straight 2 to 1 matching of funds, those with more than \$700,000 receive proportionately lower matching as the amount of private capital increases.

Senator McINTYRE. Mr. Boutin, from what I presume is your extensive knowledge of the history of SBIC legislation, I wanted to inquire, what was the reason for the limit of \$700,000? Was there any logic behind it?

Mr. BOUTIN. Mr. Chairman, I wish I could answer that, but I can't because I don't know from reading the legislative history, but it must

have been by agreement between the appropriate committee of Congress and the agency.

Senator McINTYRE. I thought that perhaps at the time this 1958 bill was enacted they might have had an idea they wanted to keep these SBIC's small, because after \$700,000 then your leverage starts to decrease.

Mr. BOUTIN. It would be hard to rationalize that, Mr. Chairman, because of course there is in the loan provision, section 303, a limitation of \$4 million. I would think that at the time it perhaps was thought of by the Congress and the agency that there would be limited demand for subordinated debentures, and that the concentration should be in loans instead.

I think, too, Mr. Chairman, that it perhaps was thought by the Congress and the agency that the subordinated debenture, with a limitation of \$700,000, offered a limited exposure to loss as compared to the loans by the Government to an SBIC, where security in the forms of pledged assets in the portfolio would be required.

Senator McINTYRE. I am told by Mr. Barnes here, our professional staff member, that it started out at \$150, went to \$400,000, and eventually \$700,000, which was a compromise figure. So I didn't know, but I thought perhaps originally the idea was to try to keep the SBIC's small, whereas your analysis has indicated the small SBIC's don't have a fair chance and are not making progress, and your recommendations are to bring this leverage into high play as the SBIC gets larger and larger.

So thank you very much. You may proceed.

Mr. BOUTIN. This result clearly discriminates against the companies with larger amounts of private capital—precisely those companies which we believe we must encourage and foster.

Thus a company with a private capitalization of \$3 million, for example, could obtain no more than \$2.55 million from the Government—the total amount resulting from \$700,000 in debenture money and \$1.85 million in the form of a loan.

MORE EQUITY FINANCING IS NEEDED

There has been a tendency in the industry to concentrate on loans, to the detriment of equity financing. Latest available statistics indicate that only 17 percent of the financing extended to small firms is in the form of equity. Some 33 percent may be considered equity-type financing but the balance is in straight loans.

The equity form of financing is normally more suitable to the needs of small firms than assistance having conventional debt characteristics. In contrast to straight loans, equity-type financing does not place the recipient under early repayment pressure. It does not take priority over other obligations of the borrower. It does not tie up his assets for collateral. And it does not shut off other sources of credit.

The equity-type transactions we want to encourage are by no means limited to common stock. They include preferred stock, as long as such stock does not carry unduly early redemption requirements. They also include debt obligations which are subordinated to other debts of the small concern, or which have no early amortization requirements to cramp the growth of the small concern.

The equity capital gap we are considering here is going to be met by SBIC's, in our opinion, only if they are provided with inducements to offset the high risks involved, and only if the tax treatment of resulting losses is placed on a more realistic basis than is the case under existing law. Both these aspects of the problem are dealt with in the legislation I am about to discuss.

REMEDIAL LEGISLATION PROPOSED

Clearly, this review of the SBIC industry reveals the need for changes in the program—changes that will result in larger, more efficient companies; that will result in greater inducements to attract private money into the program; that will result in the generation of more equity capital for small business. Let us turn now to title II of S. 1862 and consider, one by one, the amendments to the Small Business Investment Act of 1958 which are designed to effect such reforms.

INCREASING THE SIZE OF SBIC'S

Our study revealed that an SBIC must have at least \$1 million in private capital in order to create a reasonable prospect for success. This minimum amount is needed to assure an adequate income, to attract competent management, to attract investors, and to allow sound diversification of investments. Accordingly, section 2 of title II stipulates that, after the effective date of the act, no license shall be issued to an applicant unless it has a combined paid-in capital and paid-in surplus of at least \$1 million. The only applicant excepted from the rule is one which had received from the administration, prior to the effective date, a "notice to proceed" with formal processing of its application.

I do not believe that it would be wise to make this new standard immediately applicable to existing SBIC's. The suggested legislation therefore provides those companies whose private capitalization is below \$1 million with an opportunity to expand to that level gradually. Thus, section 2 would allow the very smallest companies until February 28, 1969, to reach the \$300,000 level. They would be given 2 additional years to reach \$500,000 and 4 years thereafter to reach the new statutory floor. Not until February 28, 1975, therefore, would the \$1 million requirement be fully effective in their case.

The deadlines for larger companies are somewhat more demanding, as should be expected, since they are likely to have less difficulty than smaller SBIC's in raising funds. An SBIC which already has at least \$500,000 would have until February 28, 1971, to increase its capitalization to \$1 million. This is a reasonable period, in my judgment.

It is recognized, nevertheless, that unforeseeable circumstances may arise to render one or more of these time limits unrealistic or otherwise undesirable. The necessary flexibility to meet such situations is to be found in the provisions of the bill authorizing the administration to grant time extensions or even total exemptions for the benefit of all companies affected by a deadline, or for the benefit of any group or category of such companies. This discretion may be applied where the agency determines that such action is (1) necessary to carry out the purposes of the Small Business Investment Act of 1958 with reference to any geographic area or locality or (2) appropriate for

certain types of companies because of their adequate profitability, financial soundness and assistance provided to small business concerns.

For example, we might have a situation in a number of smaller States where the only existing SBIC is unable, for one reason or another, to meet an impending deadline. Rather than see such States deprived of their only contact with the program, we might grant an appropriate time extension to their SBIC's. Similar action might be taken to insure the continuance of at least one SBIC in population and business centers designated as standard metropolitan statistical areas.

Again, we might find that some SBIC's are operating at an adequate profit level even though they are unable to meet our size standards. For example, our study of the industry reveals that, in contrast to the management deficiencies which characterize so many other SBIC's, bank-affiliated companies have generally demonstrated a high degree of efficiency and have conducted profitable operations. We may need to make an exception for all or some of such affiliates in the small categories.

Within the limits of these safeguards, the bill provides that an SBIC which fails to increase its capitalization as required would be deemed in violation of the act, and its license would be subject to revocation by the administration. Such companies would be required to leave the program. SBA will, however, make every effort to assist such smaller SBIC's to work out suitable mergers rather than leave the program.

The prospect is that the new standard, together with the drive we are currently conducting to clear violators out of the program, will eventually lead to a reduction in the number of companies from the present figure of 616 to approximately 200—about one company per million of population.

Senator McINTYRE. Excuse me. I want to go back quickly to that. There is nothing in the bill here about mergers, nothing in the proposed amendments about mergers?

Mr. BOUTIN. That is correct.

Senator McINTYRE. You hear quite a bit among the SBIC people about mergers and how this might be a practical way to move up to the new limits you are setting for them.

Then I also get the impression that in the past mergers have been extremely difficult to consummate.

Now, if SBIC's want to merge, must they discuss with you their merger plans and clear through your SBA office as to whether it can be accomplished or not?

Mr. BOUTIN. Yes, Mr. Chairman, merger proposals have to be cleared with us for a number of reasons.

No. 1, we would want to know what the capital structure would be from the resulting company.

Two, we would want to know who the officers are going to be, those in decisionmaking and directorship positions, because in each case we conduct a thorough check of the background of that person to make sure that (a) they are qualified and (b) that there are no actions pending against them in the courts, which obviously would be undesirable from our viewpoint.

I think SBA, in the past, has taken too stringent, too hard a line on merger proposals.

As I stated to Senator Sparkman, it would be the intention of SBA, and certainly the intention of this Administrator and of the Associate Administrator, to take a much more realistic line in helping the companies actually to effect mergers, working with SEC, and other agencies who would, of course, be interested, depending upon the particular circumstances.

Senator McINTYRE. Then you are willing to state that as a matter of policy in the future, particularly when and if these amendments become law, that you are going to adopt a much more liberal policy in effecting mergers of SBIC companies than has been the policy in the past?

Mr. BOUTIN. That is absolutely correct, Mr. Chairman.

Senator McINTYRE. Thank you.

Mr. BOUTIN. It is projected that branches of these companies will be established outside of the large urban areas to help the smaller communities.

Of course, there I am referring to branch offices of these larger SBIC's. We can see here one of the countless applications of the old adage that nothing succeeds like success. An SBIC which increases its size becomes more attractive to investors. The additional private funds thus obtained qualify the company for still more Government money, thereby increasing its leverage. At the same time such growth leads to better management, better methods of selecting investment opportunities, better financial controls, and better supervision of portfolio firms. Equally as important, larger companies should find it easier to borrow needed funds from banks and other private lending institutions, thereby reducing their reliance on Government funds.

INCREASED LEVERAGE FOR SBIC'S

The bill would increase by more than five times—from \$700,000 to \$3.75 million—the amount of private SBIC funds which the Government stands ready to match on a 2 to 1 basis. This increased assistance should stimulate SBIC's to grow to the level we believe necessary for the most effective and efficient operation. Special benefits are also offered to encourage equity investments by SBIC's, a point I shall come to later in my statement. But even those companies which cannot qualify for such special benefits will have far more Government assistance available to them than is the case under existing law.

A table attached, exhibit C-1, to my statement shows what the proposed formula offers to companies at various size levels and contrasts those amounts with the amounts available under existing law. Let us look again at the SBIC with a private capitalization of \$3 million. Instead of being limited to \$2.55 million, as under existing law, the SBA assistance available to the company could reach \$6 million—that is to say, \$2 Government for each private dollar. A somewhat larger company, with a private capitalization of \$3.5 million, could get \$7 million, as contrasted with the \$2.8 million to which it is presently limited.

Looking at it another way, exhibit C-2 shows how much private capital has to be raised, both under existing law and under the terms of the bill, in order to make a stipulated number of dollars available through the instrumentality of an SBIC for the assistance of small

business. Under existing law for example, it is necessary to raise \$5.96 million of private funds in order to reach a total of \$10 million in both private and Government money. Under the terms of the bill that figure will decline to \$3.33 million.

Another beneficial feature of the bill is that it will eliminate the use of two types of paper (debentures and loans) for the financing of SBIC's. This cumbersome system will be displaced by a simple, single form of financing which, evidenced by a subordinated debenture, will be senior only to the private capital of the company. It will have a maturity of up to 15 years and bear interest at the rate of 5½ percent. There will be a moratorium on principal payments until the end of the 10th year. For the remaining 5 years the financing will be amortized at 20 percent per year. At the end of the 15th year, a prudently manager SBIC should have little need for further Government funds. It should be on a sound financial footing.

With this simplification of financing, there is no longer any reason to retain the concept of "statutory" capital (private capital plus matching debentures). It is desirable, therefore, in my opinion, to make a corresponding adjustment in the rule that an SBIC cannot, without SBA consent, invest in any one firm an amount which exceeds 20 percent of the SBIC's combined capital and surplus. Accordingly, section 6 of title II would make this 20 percent figure applicable only to the private capitalization of the company. Thus the figure would no longer be applicable, as it is under existing law, to both the private capitalization and the amount of debentures sold by the company to SBA.

The increased leverage available to all SBIC's under the bill will undoubtedly lead to a more favorable response from the private market. I am particularly hopeful that banks will develop a stronger interest in creating and expanding SBIC affiliates. This type of company has established a very fine record for efficiency. To stimulate expansion of such institutions, section 3 of title II would increase from 2 to 5 percent the maximum amount of its capital and surplus which a bank may invest in the stock of an SBIC.

On the other hand, it must be recognized that, despite the proposed new incentives, the degree of response from the private market may be limited by a factor which, though foreign to the provisions of this bill, deserves mention here. An important aspect of the willingness of investors to invest in SBIC's is the treatment the companies receive under the tax laws.

While the Congress in 1958 enacted a number of tax provisions recognizing the unique venture capital nature of SBIC's experience under the program shows a definite need for modifications in certain areas. S. 1863, accompanying tax legislation which has been introduced simultaneously with the bill before you, will accomplish corrective improvements in the tax provisions applicable to the companies. The bill would allow loss reserves and bad debt treatment for losses on all types of debt investments by SBIC's; extend ordinary loss availability to equity investments, subject to certain limits; and allow SBIC's to take advantage of certain exemptions and benefits under the personal holding company and regulated investment company provisions of the Internal Revenue Code.

In effect, these amendments to the code would allow SBIC's to increase their profit potential by making risk investments in conformity with the purposes of the Small Business Investment Act, without the danger, presented by existing law, of their incurring tax disadvantages or penalties by reason of such operation. The bill also contains other amendments dealing with SBIC investments, with the objective of more equitable and appropriate treatment under the tax laws. It is clear that such tax legislation is a necessary part of the steps to improve the program and attract additional investor interest.

MORE EQUITY CAPITAL FOR SMALL BUSINESS

For the reasons already mentioned, the bill offers a special inducement to larger SBIC's to make equity funds available to small business concerns. A company can qualify if it (1) has a private capitalization of at least \$2.5 million and (2) has placed 65 percent or more of its investments, and of the funds available to it for investments, in "equity capital"—as that term is to be defined in regulations issued by SBA. Before issuing such regulations, I might add, we plan to hold public hearings to elicit the views of the industry and of the financial world generally.

A company which qualifies under this portion of the bill could obtain from SBA \$5 million plus an amount equal to 300 percent of that portion of its private capitalization which exceeds \$2.5 million. In effect, therefore, an SBIC which becomes equity-oriented could obtain, in addition to the 2-1 financing already available to it, a "third dollar" of Government funds to match its private capitalization in excess of \$2.5 million. The maximum amount allowable is \$10 million, in contrast to the \$7.5 million ceiling governing assistance to non-equity-oriented companies.

Let us return now to the example I cited of a company with a private capitalization of \$3 million. As we saw, such a company could in any case obtain \$6 million from SBA. If equity-oriented, however, it could get \$6.5 million. An equity-oriented company with a private capitalization of \$4 million could obtain \$9.5 million. Exhibit C-1 spells out additional examples.

Here again the provisions of our tax bill, S. 1863, complement the bill under consideration. They call for the removal of impediments which have tended to inhibit equity-type financings by SBIC's. For example, the liberalization of the bad debt reserve provisions and improved loss recognition treatment of the tax bill should encourage more financings by SBIC's through stock investments and long-term, subordinated debt with equity features. Also, the amendments of the regulated investment company provision should encourage more equity-type investments by SBIC's.

Senator McINTYRE. Mr. Boutin, I noted in Mr. Stewart's statement—Mr. Stewart is the president of the National SBIC Association—he recommends the incentive equity start dollar for dollar with private capital of \$500,000, and run up to \$3 million. The NASBIC formula would limit the amount of the incentive to \$2.5 million and retain the ceiling provided in the SBA formula.

If this amendment of Mr. Stewart's should be adopted, can you give us an estimate of the impact this would make on your budget?

Mr. BOUTIN. Well, it would be very difficult, Mr. Chairman, to give you anything, resembling a precise impact. I have difficulty, very frankly, with the proposal.

Because first of all, in our bill we are proposing we have a minimum size company, with a few exceptions, of a million dollars. The smaller companies already, by the terms of the bill, have substantial attractions offered in the way of leverage, because instead of a limited leverage, limited to \$700,000 for 302, and then the corresponding under section 303, we provide a straight 2-to-1 matching, which I think is a great incentive to the smaller companies up to \$2.5 million in size. The \$2.5 million-and-up company, because we are looking here for growth, I think deserves the additional attraction provided they made the right type of investments, at least 65 percent in equity type, of the 3-to-1 matching provision.

In any case, as I understand the NASBIC proposal, as enumerated in the statement of Mr. Stewart, in each proposal, our and theirs, that \$2.5 million would be the limitation on the third tier of matching.

But I would be glad to provide for this committee our best estimate of what that additional matching would cost. I am more troubled, very frankly, by the concept than I am because of the possible additional impact of loaned dollars.

Senator McINTYRE. I think it would be a good idea if we did have your prepared answer on the impact on the budget. I have your thought on the overall policy.

One thing I was quite taken with, as I was studying the material on your proposed amendments, when I came to this 65 percent equity capital incentive, I started to do a little arithmetic, and I didn't think that the rewards for additional financing were as great as I had anticipated, if a company were to meet this criteria.

In other words, when I put it in the formula, I first thought, these SBIC companies that have a 65-percent portfolio in equity type investments will be given a real boost in the arm. But I didn't find that so. Would you care to comment?

I realize they get more financing, but not as much as I had anticipated. I was rather surprised.

Mr. BOUTIN. I think that is a very fair statement, Mr. Chairman. It is certainly not an open door. It is certainly not a huge incentive. Perhaps it would be interesting for the chairman and the committee to know how we arrived at this 65 percent in the first place.

We did it by examining a number of the companies listed by SBA and looked at their profitability. As a result of our studies, we determined that those who had at least 65 percent in equity financing were the most successful companies.

The additional leverage isn't all that great. I would be the first one, Mr. Chairman, to concede that. However, I am very hopeful, as I intimate in my statement, that this will be leverage available to a company, not necessarily to use by borrowing from the Government, but as an attraction to private lenders—banks and other lending institutions—to make money available.

But we will provide that money figure, additional cost, for the record.

Senator McINTYRE. I will come back to that.

I thought, Mr. Boutin, that at the conclusion of your statement on the SBIC amendments, we would pause to allow for questioning by

members of the committee, and then when we have exhausted that, we can continue on the SBA amendments, if that is agreeable.

Mr. BOUTIN. That would be fine, Mr. Chairman.

Senator McINTYRE. I want to come back to that \$2.5 million figure, as to how you came up with that. So why don't you proceed now?

Mr. BOUTIN. This concludes my discussion of title II of the bill. I believe that the remedies and incentives prescribed by it are, qualitatively and quantitatively, what is needed by the program. I do not wish to be misunderstood on this point. Having lived with the extraordinary and frequently frustrating complexities of the SBIC program for a year, I know that it would be presumptuous of me to assure you that these reforms will transmute the SBIC industry into precisely the vehicle Congress envisioned. What I can assure you is that the program I propose today is the product of a year of thoughtful, informed examination by those most knowledgeable about the industry and the problems I have described. I therefore urge its adoption.

At the same time, I am aware that no laws, however wise, can have the curative effects desired unless they are administered by SBA in close cooperation with members of the industry. It is essential that we have the benefit of industry views, as we proceed with reform of the program. To facilitate the receipt of such information we plan to establish an advisory board composed of industry representatives. The authority of the agency to take such action is emphasized in the provisions of the bill.

I further would like to make it crystal clear that the proposals we have made would not mean an open door for the SBIC industry to the Federal Treasury. As a matter of policy, we do not and would not make funds available to any SBIC until their available funds are invested to the extent of at least 75 percent and unless their application for assistance is accompanied by an acceptable investment plan clearly delineating their requirements for, and planned investment of, the funds requested. Nor will SBA provide assistance if funds are otherwise available from private sources at reasonable terms.

We will continue to carefully scrutinize the operations of each company to assure compliance with the law and our regulations. I call to the attention of the committee the provisions of the bill requiring annual SBA examination of each company.

Senator McINTYRE. I would like to pause right here. I want to congratulate Mr. Boutin and his staff for this fine presentation on these amendments to the SBIC law. Especially Mr. Howard Greenberg whom I know has worked very hard on this. I believe this bill will go a long way toward filling in the deficiencies which you and we have found to be existing in the SBIC program. It represents a substantial tribute to the work of the SBA Investment Division during the past year.

Mr. BOUTIN. Thank you, Senator.

Senator McINTYRE. Now, would the Senator from Illinois like to ask some questions?

Senator PERCY. Thank you very much, Mr. Chairman.

On page 2 you indicate that S. 1862 will not of itself solve all of the problems of SBIC programs. What are some of the principal problems that you see that will remain?

Should this subcommittee look into additional problems? Are you preparing such legislation?

Mr. BOUTIN. I refer specifically there, Senator, to problems of administration, both by the agency, and I would be the first to concede that our administration of the program has left something to be desired over the years.

I refer also to attracting private investors and competent managers to the program. This is such a highly complex business—how do you make good investments? What kind of judgment factors? What kind of experience do you look for in a manager?

SBIC's, even the big ones, the real good ones, have a constant problem of recruiting the type of talent they need, the type of managers they need.

So perhaps I refer essentially to mechanical problems within the agency and within the industry itself, rather than in terms of legislation.

I could not, Senator, at this point, point out any single additional legislation that I think is presently needed. I think some time in the future it may be well for the Congress and for the executive branch to take a very hard look at the possibility for a capital bank. I think it would be premature at this point. Such a capital bank might be quasi-governmental, with both government and private participation.

I think the proposals we have made, however imperfect they may be, would at least put the industry on a sound footing, and responsive to the mandate of Congress to fill this equity gap that is so essential and so badly needed.

Senator PERCY. You are, in other words, saying that there isn't a great deal more we can do, and the burden of responsibility now for the progress of the program, should these two bills be enacted, will largely rest with you?

Mr. BOUTIN. If this doesn't work, Senator, I am at a loss as to what to propose. I must say that I have been sorely tempted, as we have gone through this year of difficulty and tribulation, to recommend to the Congress abolition of the program. But I think that would be a coward's way out on my part, and we have therefore taken a hard look at it, and these are the best proposals at this time, working with the industry, that collectively we could formulate to put this on a sound footing.

Senator PERCY. On page 2 you also say that present law does not contain inducements to investors strong enough to attract private capital in the volume needed.

At the present time it is my understanding that there is approximately \$1.70 in private funds invested for every dollar of Federal funds.

Mr. BOUTIN. That is correct.

Senator PERCY. What do you believe to be the ratio needed to—as you put it—insure the success of the program?

Mr. BOUTIN. I think, No. 1, Senator, we need a lot more both private and Government money in the program.

Right now we have approximately \$475 million of private money as against \$283 million of Government money in this program. With that the industry has made about a billion dollars' worth of financing available to small business.

Today that is in the area of \$552 million of outstanding investments. We think much more is needed than that.

We, of course, would like to see the day—and I think this bill actually could provide the vehicle for that—when there would be very little Government money and a lot more private money, not only invested capital, but bank-loan money.

And I think the subordinated debenture concept for Government money would provide the attraction for banks and insurance companies and other lending institutions to play a greater role.

We would like to see, as a matter of fact, a very minimum, Senator, of a billion dollars available from all private sources in the SBIC program for the assistance of small business.

In other words, substantially more than twice what there is now. A billion and a half, a billion and a quarter, available over the next 2 to 3 years.

Senator PERCY. Have you done much thinking about alternate programs of Government-guaranteed loans as opposed to the present program?

Mr. BOUTIN. Yes, we have done that, Senator. We, of course, in our regular business loan program have a guarantee program where we guarantee up to 90 percent with a limitation of \$350,000.

We have guaranteed some bank loans to SBIC's.

This, however, hasn't worked out well in the SBIC program, while it has worked extremely well in our regular 7—a program, our regular business program.

We also have given thought to the possibility of an investment guarantee program. And we have had assistance from some of the universities, some people in the industry, and we just simply haven't come up with anything that would be a suitable alternative to what we are proposing here.

Senator PERCY. On page 8 you state that the response from the private market is far below the level that must be reached to place the program on a stable basis. If that level is to be achieved, the inducement offered by the Government in the form of matching funds must be increased. For what reason do private investors fail to invest in SBIC's at the present time, and how will more Federal funds make this investment more attractive?

Mr. BOUTIN. There are a number of answers to that question, Senator. First of all, if we look at the profile of the industry for the last 3 years, in fact go back 5 years, in 1962 it was a glamour industry, stocks were selling at a high rate, it looked like a get-rich-quick scheme, and a lot of people invested their money. Then the day of reckoning came with the decrease in the values of the stock on the stock market, many people lost a great deal of money and I think on the part of investors, as well as on the part of leaders of the industry and the Government itself, apprehension started to set in that the program needed reformation.

Therefore, in recent years SBIC stock has been selling at very low prices—in most cases much lower than the book value. We have seen recently the very unusual occurrence of the stocks being so attractive in ratio of selling price to book value that there have been—perhaps we could characterize them as raids on these SBIC's, where people have tried to move in to get a majority of the stock, we are afraid for the purpose of liquidating. So there has been a lack of confidence in the program.

Secondly, with the limitation on the Government leverage available, there has been a reluctance on the part of managers of individual SBIC's to move forward. They have largely in the last couple of years sat still wondering if they should be in the program at all. So there has not been an aggressive posture within the industry.

Senator PERCY. In your proposals here, you point out the fact that the large SBIC's are showing a profit on their investment, while the smaller ones show an accumulated net loss. Is that right?

Mr. BOUTIN. That is correct.

Senator PERCY. And, of course, the tendency now is to move in the direction of success, move away from failure. It is certainly a sound principle. Before we do so, however, I think it would be well to know, as a matter of record, whether the loan history is similar or dissimilar with the large and small SBIC's? In other words, do they finance the same type and size of companies? Is the large SBIC fulfilling the same need as the small one?

Mr. BOUTIN. I could answer that a number of different ways. First, let's look at the average-size financing made available by different-sized SBIC's. Those with private capital or available funds from all sources of \$1 to \$5 million, the average size is about \$61,000. For companies with over \$5 million, about \$161,000. For the whole industry, about \$44,000.

So it has run the total spectrum, depending on size. But I think the most significant thing, Senator, is that these small, minimum-sized companies, having to have the wherewithal to pay the rent, pay the light bill, have not been able to make the equity-type investments that are most seriously needed. They have had to have ready income. They have had to pay SBA interest. They have had to meet payroll costs and so forth. So they have been largely small loan companies. They have made loans that required immediate amortization in many cases, certainly immediate interest payments, and therefore have not filled the gap that we have discussed.

Senator PERCY. This next point I would like to make a matter of record. I am not thinking of Illinois, certainly, but I am thinking of certain smaller States where Members of the Senate may feel that as we increase the size and capitalization it might mean squeezing out larger ones. You have an enabling clause here, where you can take a look at it, and through your own compassion and understanding of the problems, you have discretion. If Senators from smaller States would propose an amendment which would require the retention of at least one SBIC in each State, regardless of capitalization—if an SBIC presently exists in the State—you would oppose such amendment?

Mr. BOUTIN. I would oppose it for just one reason, Senator. I think it would be far better if we had the discretionary authority we are asking for in this bill and then could evaluate those companies. I can state categorically before this committee that that would be the highest priority in granting exemptions, those companies in smaller States where funds simply were not available, so that the SBIC program would be available to small business in those States. But if it became a matter of law, a matter of compulsion, then literally we would be put in handcuffs in administering the program. So I would much pre-

fer it to be available to the Administrator to make those exemptions which I commit myself to this committee to make.

Senator PERCY. Mr. Chairman, what is our time situation? I have a few other questions here, but I would yield to you—

Senator McINTYRE. You go right ahead.

Senator PERCY. Fine. A comment, if you don't mind, on your plans for mergers of existing SBIC's, whether you feel the plan you have developed is a truly practical one.

Mr. BOUTIN. I am sorry, I missed the question.

Senator PERCY. Do you feel the plan for mergers of existing SBIC's is a practical one?

Mr. BOUTIN. Yes, I do. I think the merger route is an excellent alternative to preserving many of these smaller companies, either by getting a group of them to merge together, or smaller companies to merge with larger companies. I think this is a good alternative, and one that we would encourage and we pursue the administration of the program.

Senator PERCY. In your statement you indicated that under the provisions of the new bill a prudently managed SBIC should have very little need for further Government funds after a 15-year period. Now that the SBIC program has been in existence for about 8 or 9 years, do you foresee many SBIC's soon beginning to stand on their own without Federal funds?

Mr. BOUTIN. We have a great many of the larger companies that have never borrowed any Federal funds at all. But unfortunately the program in the past, rightly or wrongly, has carried with it the impression in the industry that when a loan came due, it really didn't have to be paid, because SBA would simply renew it. I am just trying to make crystal clear in this proposal, both in the bill and in my testimony, that we would require a full payback during the last third of the loan period so that they would in fact be totally paid back to the Government by the end of the Federal financing. And we would hope by then they would have reached a sufficient degree of strength so that the banks and other lending institutions could meet their needs without dependency on the Federal Government.

Senator PERCY. Over a period of years, since this SBIC program went into effect, I have had presented to me personally a number of get-rich-quick schemes which I have never seen fit to go into. I ended up lecturing the people who made such proposals to me, and I am glad I didn't go into them. I was pleased that the bill passed last year gave you a good deal of authority to root out some of these undesirables in the industry. Do you feel you have made sufficient progress under this new legislation?

Mr. BOUTIN. I think this legislation, Senator, was a godsend to SBA and its Administrator, because it provided additional tools we needed to clean out the wrongdoers and the ne'er-do-wells in the program. We have brought more cases before the agency itself for administrative proceedings, more show-cause orders have been issued, we have brought more cases before the Justice Department in the past year than we have cumulatively in the whole previous history of the agency.

We have right now sufficient cases before the Justice Department and in our Office of General Counsel for additional proceedings to assure that by a year from now this program should be on a firm foot-

ing with people who are not only skilled, but who are free from taint, running these SBIC's. So this committee and the Congress have given us just exactly what we have asked for and for that we are very grateful.

Senator PERCY. How much money has the Federal Government lost on SBIC's since the inception of the program in 1958?

Mr. BOUTIN. First of all, we will be glad to answer any questions submitted for the record, Senator. And, second, we have a loss reserve that we have established of \$50,567,000; is that correct, Mr. Greenberg? \$50,571,607. Now, this is a loss reserve. There is no one in the agency or out of the agency that could tell this committee or anyone else what the actual losses are going to be. As an example, this fiscal year to date we have had 22 receivers appointed by the courts. Until these receivers actually have had an opportunity to evaluate all of the portfolio assets, we couldn't even tell on those companies what our losses are going to be. So, potentially, \$50 million. I hope it will be much less than that.

Senator PERCY. But you can determine what they have been since 1958, can't you?

Mr. BOUTIN. Our actual losses written off, since 1958, have been extremely small, Mr. Greenberg? About \$10,000 principal actually written off, which is a far cry from the \$50 million.

Senator PERCY. And its accounts that are in the doubtful category are in accordance with accepted common accounting practices?

Mr. BOUTIN. Yes.

Senator PERCY. Mr. Chairman, I have one other question. On page 18 I notice you propose the equity incentive only to SBIC's with more than \$2.5 million. Why is this not available to the smaller institutions?

Mr. BOUTIN. The reason we established the cutoff or the floor at \$2.5 million, Senator, is because we felt that we were providing under the provisions of the bill satisfactory incentives to the smaller companies with a straight 2 to 1 matching which this bill provides, a far better provision than existing legislation. Two, we are providing in both cases, of course, for a subordinated debenture, rather than a combination debenture and loan provision.

The \$2.5 million is just our best judgment. There is no magic to it. We examined a number of different levels. NASBIC feels that \$500,000 is the figure. I would take issue with that. I think it should be something substantially higher. Whether \$2.5 million is proper, I don't know, this is just my judgment.

Senator PERCY. Thank you very much.

Senator McINTYRE. Pursuing that a little further, it does seem to me, as a result of your judgment on this \$2.5 million, what you are actually doing is not providing the incentive for the \$1.5 million private capital SBIC, or the \$2 million SBIC, but you are giving to the \$2.8 or \$2.6 million, and I don't know any reason in the world why the smaller SBIC's shouldn't have the same incentive.

Mr. BOUTIN. There are a number of factors, one of which is of course limitation on funds available. We have tried to keep the anticipation of demands for Federal funds in the reasonable proximity of what we have budgeted for the current fiscal year. Now we have examined the payback potential for those companies that have left

and are leaving the program and we have taken a hard look at what the potential demands will be. So this has been a factor in our considerations, that we only have so many dollars available. We are estimating, as the attachment to the statement shows, a level of program of \$55 million a year. Now, that is gross and not net. That does not take into consideration payback at all. That is simply outgo. My best guess is that the additional investment between the program we are proposing and the program as it is now constituted would be somewhere in the vicinity of \$150 million, but industrywide, about \$100 million of that will be repaid over a relatively short period, so that about \$50 million would be the additional demand on Federal funds.

Senator McINTYRE. Well, I think that for the record, to take it out of any guesswork, because there might be some feeling on this subcommittee that this figure of \$2.5 million could be lowered to give the same incentive to the smaller SBIC's, for the record you ought to furnish exactly what we would be getting involved in costwise, if we get into a position of considering such an amendment in our executive sessions.

Mr. BOUTIN. I will be glad to do that. One further point I would like to make to the committee is that the smaller companies, of course, would be more apt, because of income requirements, to be dependent upon a larger volume than 35 percent for loans, which would be interest-producing and therefore would provide income.

Senator McINTYRE. It has been suggested that in providing that information for the committee that you might take those figures of \$2, \$1.5, and \$1 million and show us just what we would get involved in as to cost of the program at those arbitrary points.

Mr. BOUTIN. I would be glad to do that, Mr. Chairman.

(The material referred to follows:)

Estimated Government investment in 3 to 1 equity leverage provision

[Dollars in millions]

Size of SBIC	Basis ¹		3 to 1 equity leverage starting at—				
	Number of SBIC's	Amount of private capital	NASBIC plan, \$0.5	\$1	\$1.5	\$2	S. 1862, \$2.5
\$1	150	\$150	\$375	\$300	\$300	\$300	\$300
\$1.5	8	12	32	28	24	24	24
\$2							
\$2.5	20	50	140	130	120	110	100
\$5	10	30	85	80	75	70	65
\$5.5							
\$4	2	8	20	20	20	20	19
\$4.5							
\$5	10	50	100	100	100	100	100
Total	200	300	² 752	658	639	624	² 608

¹ This tabulation is based on a model of the industry reflecting 200 SBIC's with an average of \$1.5 in private capital and indicates the maximum amount of Government funds that may be invested.

² Comparison of the provisions of the NASBIC plan with S. 1862 reflects a difference in the potential investment of Government funds of \$144,000,000.

Senator McINTYRE. There is another policy decision that is in these amendments of yours that has puzzled me, and that is the decision to define equity financing by regulation rather than by statute. I would think that a statutory definition of equity financing would add a great

deal of stability and certainty to SBIC financing, and in the event that we should decide to try to write this definition into the bill, could you supply us with appropriate language to pin down precisely what you have in mind to treat as eligible for that 65-percent equity requirement? And, back to the original question, why do it by regulation?

Mr. BOUTIN. Flexibility, first, Mr. Chairman. We intend, if Congress approves the provisions as we have suggested, we would intend to hold some hearings to get the input, the opinions of people in the industry, and in the financial world, and if something wasn't working, then we could administratively change it. If it is a matter of law, we have to come back to Congress for a change. As an example, we define it ourselves as common stock, as preferred stock, provided that the redemption period on preferred stock is not too short—we always have to consider these things—or other financing with subordination or nonamortization. That would have to be much more precise if it were going to be a matter of statute. I might suggest to the chairman of the committee that that same question might be directed to Mr. Stewart this afternoon, because I would be interested in NASBIC's interpretation of what constitutes equity. Webster doesn't do an awful good job in defining this word, and we are constantly troubled by it. We just want to be fair and that is why we suggest that we hold hearings on it and get maximum input from others.

Senator MCINTYRE. I will be happy to ask Mr. Stewart that question for you so we will have it on the record. Now, there is another area of these amendments that bothered me, and that is the very important suggestion you are making that we increase the capital requirements. What I am thinking of is, suppose up in New Hampshire I got together with two or three fellow businessmen in my hometown, and we had managed to put together a company of about, say \$350,000 of statutory capital and we are getting along pretty good, we are not making what we thought we would make, but we feel we are being of some use to the community. Now, all of a sudden you are changing the rules that we originally came in under. I don't like this. Aren't you actually breaking a contract that you had with these original SBIC's, who were invited in and who were licensed, I know not by you, but by the program, with great rapidity, and now suddenly you say, all right, fellows, we will give you 8½ or 7½ years to get to \$1 million.

Well, in New Hampshire I am done, because I am not going to get that. And in Mississippi I am not going to get that. So I am quite concerned about the policy decision that you have made that in effect could be said to break faith with the original SBIC's that are plugging along, doing a pretty good job.

Mr. BOUTIN. It is only because the industry is in such a drastic situation that we have recommended to the Congress a step as drastic as this one is. I think it can be interpreted as the Agency breaking faith with licensees. On the other side of the coin, I would be less than candid if I didn't say from the look of the reports and the number of violations, there has been little hesitancy on the other side to break faith, too. I testified earlier we would take a very liberal view on those small companies that are doing a good job, that are in fact meeting the requirements of the law and the regulations, that are helping

small business. I think, however, at this point it would be well for us, Mr. Chairman, to take a good look at what we are trying to do.

Well, it is well and find that we are trying to devise an industry here that is going to be compensatory to the investors, that is going to be attractive to investors and to good managers. But essentially what the Congress wanted us to do, and what we have been trying to do, is to have a program that was going to be responsive to the needs of small business.

We don't think the industry has to date even scratched the surface of what they should be doing to help small business. The whole intent of this new profile is to provide the degree of additional assistance, particularly in equity-type financing, that we think American small business needs in this day and age. Now, together with our own attitude on exempting certain categories, extending time for other categories, we think that this can be very fairly administered. I think it would be well to point out to the chairman and the members of the committee too that of the number of companies we have right now licensed by SBA, from our best projection of what they are doing, are they dormant or are they active, are they in violation or not in violation, have they been referred to the Department of Justice, are they involved in administrative proceedings, that we will be doing very well if we come out, after all of this is said and done over the next year of cleansing, if you will, of sanitizing, of improving the posture of the industry, if we have 50 companies with under \$300,000 capitalization that we could characterize as doing a good job.

So therefore the breadth of our exemption is not terribly great. Now, this testimony follows exactly what I testified before Senator McClellan and his colleagues on the Senate Permanent Subcommittee on Investigations, so this is nothing new and novel. I think the larger companies, together with the smaller companies who have potential for growth, are really the companies that we must concentrate on if we are going to do the job that needs to be done. But we will definitely take a very reasonable and very liberal, if you will, approach to try to assist those small companies that have been doing a good job to stay in the program, either independently or through mergers.

Senator McINTYRE. On page 12 of your statement you indicate that time extensions, total exemptions may be granted to groups or categories of SBIC's and you also say these extensions or exemptions may be granted to SBIC's on geographical bases or types of companies or on the basis of their profitability, financial soundness. This is found in section 202 of the bill.

Now going back to that New Hampshire company, or it could be a Mississippi company, that is around \$350,000 statutory capital, what is your view on granting these extensions or exemptions on an individual company basis?

And let me add this to it at the same time: Up in New Hampshire we may decide that we want to break up this partnership. What consideration will SBA give to our small outfit up there as we try to liquidate?

Mr. BOUTIN. Let me answer the second question first. We have recently taken care of that by a new regulation which we call the "easy exist" regulation. I might add that up to a month or 2 months ago SBA's regulation was so tough, so difficult for the SBIC's that it was

much harder to get out of the program than it was to get in in the first place. We have changed that regulation to allow these companies that do not want to stay in as licensed SBIC's but who may want to stay as a State chartered company, investment company, or who may want to simply proceed with liquidation, so long as restitution is made to the Government, and so long as we are assured that the portfolio of small business companies will not be injured, we are making it very, very easy for these companies to get out.

So your example of a few people in New Hampshire getting together and wanting to liquidate, wanting to get out of the program, we have a new regulation that provides for that, and that can be done.

As far as the categories of exemption are concerned, Senator Percy brought up the category of the small States, and I said that this would be of highest priority. My statement also deals with banks, where they are small banks and they just couldn't put any more money in. That would be another category.

If we got, Mr. Chairman, however, into a situation where the Administrator as a matter of statute would take each case independently I think it would open up a Pandora's box that would be difficult for the Congress as well as for the executive branch, in that an individual SBIC would be saying he was treated differently than SBIC X or SBIC Y and it would be extremely difficult to administer.

I would be of course subservient to the will of the Congress.

Senator McINTYRE. Somewhere in your statement you say that at the present time you have 689 SBIC's and when this is all through you are going to have 200. It isn't as if you are dealing with 5,000. It looks to me as if it is not asking too much that each SBIC could be handled on an individual basis, particularly when I feel that you have shifted ground on them.

Mr. BOUTIN. We have indeed.

Senator McINTYRE. I know I was talking with a gentleman from Mississippi and he said we have been doing a good job down there, we would like to stay in, but holy smoke, if we have to go to a million dollars we have to just get out.

So I am quite concerned about the SBIC's that have gotten into this, have done a good job, have served small business, they haven't been startlingly successful, but in the proposed amendments you have they are going to be just swept under and not given the consideration I think that they are entitled to in view of their original contract.

Mr. BOUTIN. With the indulgence of the chairman of the committee, I would be very happy working with the staff of the committee to try and come up with some language that perhaps could provide that if an SBIC was free of violation and actually doing a good job assisting small business, it would be required to come in with an acceptable and feasible plan to SBA at some subsequent time with perhaps plateaus spelled out, to reach this minimum standard or some lesser standard, which the exemption clearly provides for anyway—

Senator McINTYRE. That sounds encouraging. I recognize you have had to step into what is a deteriorating situation and you had to come up with some strong suggestions. And I think you are on the right track. But I just wonder if in the process of doing what you have to do that you may not be clipping the wings of some good sound unspectacular companies that have pledged good faith with the Gov-

ernment in a partnership and will now be hurt. That is all I am worried about.

Along that same line, may an SBIC which now has received section 302 and 303 funds from SBA turn them in after the contemplated passage of S. 1862 and get loans under the new section 303 authority or must it wait until its present loans come due?

Mr. BOUTIN. It could be actually handled either way, Mr. Chairman, as I understand the provisions of this bill myself, but it could not exceed, in any event, the limitations of available funds spelled out in the bill. In other words, the limitation of \$7.5 million and \$10 million would still apply.

However, for those smaller companies we would only provide them with funds up to the plateau spelled out in the bill unless they were in an exempted category. As an example, take a company with \$185,000 of private capital. Under the terms of the bill it would have to reach \$300,000 by February of 1969. We would not loan them additional funds beyond February of 1969 or February of 1971 in the case of the next plateau, or the \$500,000 and above category. So that we wouldn't find ourselves—which would be the case otherwise—in the position of having substantial money outstanding where they have taken advantage of one provision of the statute and then proceeded to violate the other.

Senator McINTYRE. Why is the effective date—switching to another subject now—why is the effective date of this bill set for 90 days after its enactment?

Mr. BOUTIN. Well, essentially we did this for those license applicants who have actions pending, to give them an opportunity to make a decision whether they wanted to come in or wanted to stay out.

I would certainly not object to an immediate effective date although issuance of regulations would take some time.

Senator McINTYRE. How many SBIC's now have \$1 million in private capital?

Mr. BOUTIN. Actually we have—

Senator McINTYRE. Excuse me, that is actual private capital, not statutory.

Mr. BOUTIN. Actual private capital we have right now, Mr. Chairman, 45 companies with \$1 million or over.

Senator McINTYRE. Mr. Percy?

Senator PERCY. The figures in your September 30, 1966, memorandum show that SBIC's with capital and surplus of \$1 to \$5 million have a larger return on invested capital than those with over \$5 million.

If your premise that bigness means success is true, how do you explain these figures?

Mr. BOUTIN. Senator, it is impossible to explain. We have looked at these figures from every angle. The fact of the matter is from the analysis of the industry as it is presently constituted, size is a function reflected in profit up to \$5 million. We don't believe as a matter of fact that these figures are conclusive and that as the industry changes we think there is going to be a degree of profit for those over \$5 million commensurate with those under \$5 million.

The only way I can possibly rationalize is that there are substantial unrealized profits, unreported to SBA, where investments have been

made and they are just holding on to the stock and sitting back and watching it appreciate.

Senator PERCY. It is undeclared profits that you feel are in there somewhere?

Mr. BOUTIN. Yes, as well as noninvested funds.

Senator PERCY. The February 20, 1966, memorandum shows that one-third of the outstanding balance of nonmanufacturing industries is in real estate. Is this the type of small business which is envisioned under the 1958 act? Why has so much money gone into this one area?

Mr. BOUTIN. Into real estate?

Senator PERCY. Yes.

Mr. BOUTIN. I think, Senator, a lot of money has gone into real estate because it has been a very easy way. There are lots of apartment houses being built, commercial properties, lots of shopping centers. Land almost any place in the United States looks like a chance to get rich quick. The investors and the SBIC's have found out otherwise, unfortunately, that it doesn't always work that way. But again I think it goes back to the problem of skilled management. Much of management of these smaller concerns just simply wouldn't know how to evaluate potentials of a manufacturing firm, but they can see a piece of land. And it looks like pretty good security. An awful lot of them have gone into nursing homes.

Senator PERCY. Is there a preponderance of this in States of population growth such as California? Do you happen to know whether California SBIC's have invested heavily in real estate?

Mr. BOUTIN. Yes, there is a lot of it in California, particularly southern California. There is a good deal of it in New England, and an awful lot of it in New York, the New York companies.

But it really doesn't follow a precise pattern, Senator, unfortunately. It is pretty much across the country.

Senator PERCY. I really wonder whether that is what this act was really intended to do, provide money for someone to be able to make money in real estate, rather than start up small enterprises in areas where there isn't business opportunity. Where people have to leave the area if they can't establish small businesses, and whether really the whole function and purpose of the act is being thwarted by this large proportion going into real estate.

Maybe there is something behind it I don't understand.

Mr. BOUTIN. When I testified earlier I made the statement that there were deficiencies in SBA, in the operation of the program. I think perhaps the most significant deficiency was the regulation that applied to real estate investment. I find nothing in the legislative history or in the act where Congress intended that SBIC's were to be in the real estate business and real estate investment business.

I think that is what we have HUD for, to provide assistance where assistance is needed in real estate loans, and I would be very frank to say to the Senator and to this committee if I had my "druthers," if it wasn't too drastic an action to take, I would prohibit real estate loans unless they were directly associated with a small business and provide that no such investments could be made. And I think it would be a step in the right direction. But we took the next best step and reduced it to one-third as the maximum which I personally think is still too high, and I think subsequently our regulations will again be amended to a lower level.

I think the real estate investment portion of the activities of this program has led to some of the greatest deficiencies, the greatest problems, the greatest violations, speculation, using Government funds improperly, as well as invested funds, and I am just sorry it happened and we are trying to provide corrective actions now.

Senator PERCY. I would like to commend, Mr. Chairman, the candor of our witness. It is a loophole, it is not intended to be, this was not the intention of the act, and I think it encourages into this area the least desirable, or not the most desirable. Certainly real estate is a solid, sound investment. But I feel this committee should cooperate with the Administrator in trying to reassess what we are doing here. It is an easy way to show a return on investment over a period of time, but that is not what we here in Congress are attempting to achieve, it is not what you, Mr. Boutin, are giving your life up for, to make it easy for someone in a get-rich-quick operation.

I think to the extent we can plug this loophole, I think we would be wise in doing so.

Mr. BOUTIN. I couldn't agree more with the Senator, and I would welcome additional legislative history to support the hand of the Administrator in this regard. I think this has been a mistake in the past, we are trying to rectify it, and I will be glad to take another giant step forward with the support of this committee.

Senator McINTYRE. I don't know whether I should say anything on this or not. I do appreciate the real estate problem, and what you have tried to do to handle it. And I think I agree with the Senator from Illinois. But here again the horse got out of the barn.

Mr. BOUTIN. Exactly.

Senator McINTYRE. Because your suggested amendments do ask for administration flexibility in the question of exemptions or extensions for these SBIC's, I would like to just take the time to refer you again to page 12.

I am just going to relate in my own mind what you are trying to say here and you can tell me when I am wrong.

I have particularly in mind, Mr. Boutin, the individual company. It seems to me what you are saying here is that under certain conditions, No. 1, your thought that every State should have at least one SBIC. You also go on further and say it could even be a standard metropolitan area, urban area. You then say necessary to carry out the purposes of the act, that this State or other geographical area would be considered in these extensions or exemptions. Then you say "or." I don't know whether that is a conjunctive or a disjunctive "or." I assume that there is another class now—this is what leads me to this question of individual treatment—that this isn't necessarily just one SBIC in a State, or one SBIC in any standard metropolitan area, but there is an opportunity for an extension or exemption to certain types of companies because of their adequate profitability, their financial soundness, and the assistance they provide to small business. Is that what you mean?

Mr. BOUTIN. In other words, under these provisions we have recommended we could exempt or we could extend the time limitations for those companies that are (a) operating profitably; (b) that are operating free of violation; and (c) are meeting the requirements of the law and regulations in the way they are doing business, they are

being of substantial assistance to small business. In other words, it is extremely flexible.

I also go on to say in the statement, Mr. Chairman, that the SBIC industry could well be represented in a State by a branch office as well as by a separate SBIC.

Senator McINTYRE. We all dislike to deal with those city people from Boston. I made a note on the page where you talked about branch offices that I can see the handwriting on the wall that the SBIC serving New Hampshire would be operating out of Boston.

But getting back to this question then, this doesn't have to be an SBIC in a State or a large urban area, and a SBIC that shows a record of adequate profitability, financial soundness, and assistance being provided to small business; it hasn't got to be all of those things in order to come in and plead for this exemption?

Mr. BOUTIN. Exactly. But on a category basis, as the provision is now written, rather than on an individual basis.

Senator McINTYRE. You use rather loosely the words "in violation." I imagine there are all degrees of violation.

Mr. BOUTIN. They are indeed.

Senator McINTYRE. If you have that stick to hold over them, they might have failed to file an audit return on the appropriate date, does that put them in violation?

Mr. BOUTIN. I would consider that a serious violation, as a matter of fact, and there is a provision in the law passed by the Congress last fall that provides for a penalty of \$100 a day.

Now if there is a persistent violation of that, if they say we are not going to file any reports, that would be very serious. If they filed it late and paid \$100 a day, that would not be a serious violation. A serious violation I would say would be bootstrapping or cross-dealing.

Senator McINTYRE. You don't say serious violation here, you say "in violation."

Mr. BOUTIN. I could very well have said serious violation and meant the same thing.

Senator McINTYRE. You could be in technical violation as well as in serious violation.

Mr. BOUTIN. We would administer this prudently. A violation of the regulation could be failing to have dual control over assets, it could be failing to have your name on the door, it could be failing to have the license on the on the wall.

Senator McINTYRE. I would suggest that what you mean by violation is willfull violation.

Mr. BOUTIN. Exactly—willful or serious violation.

Senator McINTYRE. All I am trying to do is make sure you are not reserving the right to yourself to say, well, you were in violation, technical as it was, but nevertheless we will not consider your application for special treatment.

Mr. BOUTIN. No, we would not be that heavyhanded.

Senator McINTYRE. The Senator from Wisconsin. Do you have any questions?

Senator PROXMIRE. Yes. I just have a couple of brief questions on this.

What concerns me about this legislation, Mr. Boutin, more than anything else is what has concerned me all along with the SBIC program, and that is that I think there is always pressure on Congress to legislate for those who get the big loans, and need the big money, and operate in a big way, and to forget about the smaller business people.

I know it is very very hard to reach a compromise. I notice we have following you today, Mr. Stewart, the president of the National Association of Small Business Investment Cos. We don't have this morning a small businessman and I don't know how we can get one. That was our problem when I was chairman of the subcommittee too.

So my concern is that under your present change in the law the minimum size company changes from a capital of \$300,000 to \$1 million. I think that is right and sound and necessary.

However, with the \$300,000 minimum capital the maximum loan a small firm could make was \$120,000, as I understand it, because you have 20 percent of the \$300,000, plus the matching SBA funds.

Now under the proposed law your capital will be \$1 million and 20 percent of that is \$200,000, so these smallest firms can go from \$120,000 under the present law to \$200,000.

Now you and I know there is a tendency to make big loans for many reasons and not the smaller loans, because it is more profitable, and easier and cheaper to have one \$200,000 loan than 10 \$20,000 loans or investments.

I am wondering if you can suggest any way in which this obstacle can be overcome as far as the little firms are concerned, because there are firms that need investments that are certainly in my judgment likely to be left out.

Mr. BOUTIN. Well, I think we have to look at our own statistics. We worried a good bit over this one, Senator, in putting the provisions in the bill that we did. Of course the reasons why we limited it to 20 percent of the private capital to make sure—

Senator PROXMIRE. Yes, that was good, I think that is right. You have gone more than half way in doing that. That is good.

Mr. BOUTIN. I think we just have to take a look at the history of the program. Those companies between \$1 million and \$5 million in size have an average financing of about \$61,000, whereas for the whole industry it is in the vicinity of \$45,000.

In our business loan program in SBA it is about \$39,000 projected for fiscal 1968.

Senator PROXMIRE. These are the statistics that concern me. The larger the SBIC, the larger the loan they make.

I recall so well the biggest SBIC in the country testified, a few years ago, that they don't make any investments of less than a million dollars each, they are not interested in them. And this is why when you eliminate the smaller firms, which I see why you have to do it, it is necessary, you can't get a full-time competent man under ordinary circumstances at least to operate unless you have at least a million dollars of capital, but still I am very much concerned about the fact that these will be bigger investments being made now, not the smaller ones.

Mr. BOUTIN. We even contemplated, Senator, a sliding scale, starting at 10 percent, let's say, up to \$2 million in size, 7 percent at \$2.5

and perhaps 5 percent at \$5 million to \$10 million, something of that type. But it reduces the flexibility so drastically we were afraid it would do more harm than good. Of course in any event, any SBIC of any size is required to comply with the statutory definition of small business insofar as the type of firm that they can help, which does eliminate a good deal of those—

Senator PROXMIRE. It is a pretty flexible definition though.

Mr. BOUTIN. Not too much; in the SBIC program your definition of \$5 million in gross assets and \$2.5 million in net worth and profits in the last 2 years of \$250,000 is a lot more precise than for example under—

Senator PROXMIRE. It is precise, but you go into any town in Wisconsin and they laugh at you with statistics like that. The biggest firm in town is smaller than that.

Mr. BOUTIN. That is true in my own State, too. It is a difficult one. I worry about it, and I really don't have a good answer. If we made it more stringent, more difficult, more restrictive, I wonder if we wouldn't be defeating the very purpose. Perhaps we are going to have to act more as a catalyst and good will ambassador to get these companies to make more of the smaller loans and smaller investments than they have.

Senator PROXMIRE. Maybe it has to be done by administration. I certainly have the greatest confidence in your ability. I think you are the best administrator in the Government.

Senator McINTYRE. Yes; I agree.

Senator PROXMIRE. I recommended him, you know, for an award, as the best.

Senator McINTYRE. Yes, you told me I was going to get a chance to recommend him, too.

Mr. BOUTIN. Thank you. I appreciate that.

Senator PROXMIRE. Thank you, Mr. Chairman.

Senator McINTYRE. I want to say without objection the record on this will be closed on Friday, June 9, and I have enjoyed very much your testimony up to this point.

I suggest now you go ahead and conclude on the proposed amendments to the SBA Act, page 21 of your prepared statement.

Mr. BOUTIN. Thank you very much. The stress I have placed on the provision of title II, reforming the small business investment program, is not intended to minimize the importance of the amendments proposed in title I to the Small Business Act, the basic charter of SBA. Title I contains a number of proposals to improve the operations of the agency and to benefit small business.

Revolving fund ceilings: Section 2 of title I would effect four amendments to the provisions of section 4(c) (4) of the Small Business Act governing the amount of loans, guarantees, and other obligations or commitments which may be outstanding at any one time from the business loan and investment fund of SBA. The first of these amendments would increase from \$1.4 billion to \$1.9 billion the amount which may be outstanding from the fund at any one time under sections 7(a), 7(b) (3), 7(e), and 8(a) of this act, and title IV of the Economic Opportunity Act of 1964. The second amendment would increase from \$400 million to \$450 million the amount which may be outstanding at any one time under title III of the Small Business In-

vestment Act of 1958. The third amendment would increase from \$200 million to \$300 million the amount which may be outstanding at any one time under title V of the Small Business Investment Act of 1958. The fourth amendment would increase from \$100 million to \$200 million the amount which may be outstanding at any one time under title IV of the Economic Opportunity Act of 1964.

The basis for these proposed increases is to be found in tables (exhibit D) attached to my statement. I would like to highlight the more important considerations here.

The Congress has indicated its intent that, at the first session of each Congress, SBA is to submit an estimate of the needs of the business loan program, authorized by section 7(a) of the Small Business Act, not merely for the coming fiscal year but for the two succeeding fiscal years as well (H. Rept. 1974, 87th Cong., 2d sess.). Accordingly, a review has been made of the probable requirements of the program through June 30, 1970, based on a straight-line projection of fiscal year 1968 budget estimates for this program. However, the amount of the limitation applicable to this particular program (\$1.4 billion) also limits in addition the maximum outstanding amount for displaced business loans under section 7(b)(3), trade adjustment assistance loans under section 7(e), prime contracting activities under section 8(a), and business loans under title IV of the Economic Opportunity Act of 1964.

Consequently, in order to determine the increased limitation amount adequate as of June 30, 1970, to cover the probable requirements for all the activities covered by the one specific limitation, straight-line projections of the 1968 budget estimates have also been made for the other loan programs identified above (no prime contracting activities under section 8(a) have been entered into nor are any presently contemplated).

These projections indicate that a limitation of about \$1.816 billion is needed for the combined loan activities. In order to provide a reasonable reserve for contingencies, it is recommended that the limitation amount be increased from \$1.4 billion to \$1.9 billion.

The projected amount outstanding at June 30, 1970, for business loans under title IV of the Economic Opportunity Act of 1964, as included in the figure of \$1.816 billion cited above, is slightly in excess of \$176 million. Also allowing in this instance a reserve for contingencies, it is recommended that the present limitation of \$100 million for title IV loans be increased to \$200 million. With further reference to this limitation, the budget estimates for 1968 indicate that this is the only one of the four under discussion which will be exceeded prior to June 30, 1968. This makes it essential that congressional action on an increase be taken during the first session of the 90th Congress, if the program is not to be curtailed.

Section 4(c)(4) establishes a separate limitation of \$400 million on the amount of loans, guarantees, etc., which may be outstanding at any one time under title III of the Small Business Investment Act of 1958. Estimates have been made of transaction through June 30, 1970, also. These indicate a need for a limitation of about \$430 million without any provisions for contingencies. Allowing for a small reserve, it is recommended that the limitation of \$400 million be increased to \$450 million.

Section 4(c) (4) establishes an additional separate limitation of \$200 million on the amount of loans, guarantees, etc., which may be outstanding at any one time under title V of the Small Business Investment Act of 1958 (loans to State and local development companies). The budget estimates for 1968 indicate that for all practical purposes this limitation will have been reached by June 30 of that year. Accordingly, straight-line projections through June 30, 1970, of probable limitation requirements for these loans have been made. These projections indicate a need for a limitation of \$272 million, without any provision for contingencies. Including a small reserve, it is recommended that the present limitation of \$200 million be increased to \$300 million.

SCORE travel: Section 5 of title I would authorize SBA to pay the transportation expenses and per diem in lieu of subsistence expenses for travel by any individual or group of persons who, although not employed by the agency, are cooperating with it in providing management advice and guidance to small business concerns. Such payments could be made, however, only for travel undertaken at the request of SBA in connection with such cooperation.

The principal purpose of the amendment is to facilitate the work of the Service Corps of Retired Executives (SCORE). About 3,000 retired business executives have volunteered to cooperate with SBA in providing management advice and assistance to small businessmen on a person-to-person basis. Such advice and assistance is generally furnished without cost to the recipient.

Not infrequently a small firm is confronted with managerial or technical problems calling for skills or experience which can be found only in a SCORE member residing beyond commuting distance. It will be much easier to induce that member to visit the concern if SBA can offer him reimbursement for expenses.

The requested authority will be particularly helpful in extending the benefits of SCORE to small firms in rural areas (such as Appalachia and the Upper Peninsula region of Michigan) where the program has been relatively ineffective because of distances and the lack of qualified volunteers nearby. SBA's plans for sending SCORE members into such places will be furthered by the ability to offer these volunteers reimbursement for expenses.

Another factor to be considered in connection with this amendment is that, notwithstanding their broad knowledge and experience in business matters, many of these volunteers are not conversant with the best counseling techniques and relatively few of them are totally familiar with SBA's programs and procedures. To remedy these deficiencies, the agency plans to authorize its regional offices—in fact, it plans to direct these regional offices, with SCORE chapters, to assemble volunteers during the current year for a 2-day training meeting. The response of the volunteers to such a call will, of course, be greater if they are assured of reimbursement for the resulting personal expenses.

Advisory boards: Section 6 of title I would make it clear that the Administration has authority to establish such advisory boards and committees as may be necessary to achieve the purposes of the Small Business Investment Act of 1958, as well as the purposes of the Small Business Act.

Section 6 would also make it clear that the Administration has authority to (1) reimburse the members of such boards and committees for travel and other expenses incurred in attending the meetings of such boards and committees; and (2) rent temporarily, within the District of Columbia or elsewhere, such hotel or other accommodations as are needed to facilitate the conduct of such meetings. I refer, of course, to meeting rooms.

Senator McINTYRE. Let me ask you this, can you furnish a little more justification for this? I am sure from your vast knowledge of the setup herein Washington, I can see some Senator raising a question here as to whether or not this is a departure from the regular rules. Your justification here is very simple and very quick. Can't you give us some more? For instance, what does the Commerce Department have on this? What do they do?

Mr. BOUTIN. Well, there is a provision in the statute right now, Mr. Chairman, that agencies cannot hire meeting rooms, hotel meeting rooms in the District of Columbia. I understood that the Administration may very well later this year or in the next session recommend to the Congress a repeal of this provision.

It is particularly difficult for SBA. We just had a meeting of our National Advisory Council, as the chairman knows, and the only way we could provide for renting of a meeting room for this meeting in Washington was to assess all of our top staff in the agency \$25 apiece. This wasn't a very pleasant thing for the Administrator to have to do.

It seems like a very poor procedure for the Government to have to assess its employees to carry on its own business.

Senator McINTYRE. Are there other agencies that have the same difficulties?

Mr. BOUTIN. I think there are some agencies that have exemption, but I am not sure. But SBA never has. I can cite another case where if it wasn't for our employees' association, we would still be owing a substantial bill in the District of Columbia to a hotel, where GAO told us we just couldn't pay the bill. So the employees' association that time came to our rescue.

Now, we are not talking about a lot of money. The total cost for meeting rooms such as were used at this last meeting of the National Advisory Council would approximate \$350. Other meetings like the advisory council that I am requesting authority for for the SBIC program would probably at most be a five-man organization, and they would meet right at SBA itself.

But our National Advisory Council, we bring people in from all over the country, we have 76 members of that Council, and we have no facilities to provide for such meetings. Therefore, we are asking for authority to pay the minimum bills that would be incurred.

Senator McINTYRE. Thank you.

Mr. BOUTIN. The members of the advisory councils serve without compensation in the course of making valuable contributions to the programs of the agency. It is believed they should be reimbursed for reasonable costs incurred in attending the meetings.

Unless specifically authorized by legislation, agencies, including SBA, are prohibited from renting conference rooms and related facilities in the District of Columbia. This restriction has imposed limita-

tion on the way in which meetings can be planned and conducted, to the detriment of desirable objectives.

Use of mails by SBA: Section 7 of the bill would extend to SBA discretionary authority, identical to that possessed by the Office of Economic Opportunity, to disregard the general rule—39 U.S.C. 4154—prohibiting Government agencies from using the mails to distribute information to people who have not requested it.

The desirability of the general rule needs little discussion. Nevertheless, exceptions should be made for Government agencies which, like OEO and SBA, are charged with responsibility to alert underprivileged persons to the assistance available to them from the Government. A good many of the people in this category do not request information about such assistance, because they are unaware of its existence. In such cases the responsible Government agency can fulfill its mission only by taking the initiative, only by carrying the message to the people.

An outstanding illustration of the need for the requested authority is to be found in the management training programs conducted or sponsored by SBA, in collaboration or cooperation with educational institutions, for the benefit of small businessmen. When a conference or course is scheduled for a particular city or area, it is vitally important that small business concerns in that locality be given advance notice. The only satisfactory medium for providing such notice and related information is the mails.

The growing number of small business concerns being displaced by Federal, or federally aided, construction activity provides another illustration of the need for such authority. It is essential that such firms be promptly apprised of the special loan program established for their benefit by section 7(b) (3) of the Small Business Act. Under existing law, SBA can use the mails to provide such notice only where the displacement of the small businessman is caused by urban renewal activity. Section 7 of the bill would permit mailings by the agency when the displacement is caused by other forms of federally assisted construction, such as the Federal highway program.

Senator McINTYRE. We are going to get into a controversial area, are we not, unless the information you are sending out is information limited in some specific way. I know the Senator from Utah has quite frequently objected to trying to drum up a lot of loans, as he sometimes puts it. What is your attitude on this? Is this going to run the whole gamut on advertising SBA, or are you going to restrict it to certain areas?

Mr. BOUTIN. It will be restricted, Mr. Chairman. I think one of the key areas is the last one I mentioned—displaced business loans. We receive information from local public authorities and from the Department of Housing and Urban Development that they are going forward with an urban renewal plan. Or we get information from General Services Administration that they are going forward with a Federal construction program. Or from the Department of Transportation and Bureau of Public Roads on a federally assisted highway program.

We need to reach these people to tell them what their Government has, in fact, provided for them. In our own city of Laconia, for example, we had to send people up there to visit each one of these displaced

businessmen to tell them what the program was all about, and the utilization they could make of it.

So that could be one area. The second major area where we would want to use this authority would be in our seminars, workshops, and conferences. As an example, we put on a great many conferences all over the country, working with other agencies of Government, with big business, with local chambers of commerce, with the cooperation of Governors, and with educational institutions, where we want to invite the small businessmen to attend. They attend at their own expense, but I think it will be helpful to them. Without the mails, it is impossible to reach them. The cost of telephoning would, of course, be prohibitive. Personal visits would be impossible. But to notify them that a meeting is going to be held would seem to me to be a very prudent use of the mails for the purpose of advancing the programs of the agency.

Loans for construction purposes: Section 3 of title I would extend from 10 to 15 years the maximum term covering any portion of a business loan made, pursuant to section 7(a) of the Small Business Act, to assist a small firm in financing construction activities.

The operating experience of SBA under the business loan program contains indications that it is not uncommon in the case of construction loans for the size of the installment repayments to be so large, as a result of the existing 10-year limitation, as to create an excessive drain on the working capital of the borrower. In some instances the agency has felt it necessary, because of the prospect of such a drain, to deny construction loans to applicants who were otherwise eligible. The provisions of section 3 of title I, permitting repayments in small installments spread over a longer period, should serve to eliminate or at least reduce such financial strain.

While the proposed 15-year maximum is in conformity with recent real estate lending trends and is in keeping with the recognition given in SBA disaster and development company loan legislation to the need of long amortization periods for construction loans, the agency would continue to be highly selective in granting loans for the maximum term. There would be no departure from its firmly established policy of relating amortization schedules to repayment ability rather than to any legislative maximum.

Conclusion: Let me thank you and your colleagues, Mr. Chairman, for permitting me to appear here and present the case for this legislation. For the reasons I have stated, I am hopeful that you will take early and favorable action on it.

I can assure the chairman of this committee and the members of the full committee that we will do everything we can to cooperate in providing additional information, to discuss with you, perhaps even alternatives as you arrive at final decision on our proposal.

(The prepared exhibits follow:)

EXHIBIT A

PROGRAM EVALUATION ¹ FOR SBIC FISCAL YEAR ENDED MARCH 31, 1966

Data compiled from program evaluation reports submitted by the SBICs as of March 31, 1966, showed the impact of SBIC financings on small business con-

¹ Preliminary and incomplete data. The numbers of "old" and "new" concerns reflect only those for which prefinancing and postfinancing data were reported in each category. In the above data, the term "old" represents concerns in business at the time SBIC financing was made.

cerns. The data listed below was obtained from a review of some 540 such reports covering about 6,000 small business concerns.

Employment of Portfolio Companies

1,735 "old" concerns obtained \$241 million from SBICs and increased employment 39 percent, from 59,409 before financing to 82,434 after financing.

1,165 "new" concerns obtained \$152 million and established 22,664 jobs.

Gross Revenues of Portfolio Companies

1,684 "old" concerns obtained \$250 million from SBICs and increased annual gross revenues 54 percent, from \$1,295 million before financing to \$1,990 million after financing.

1,118 "new" concerns obtained \$145 million and grossed \$421 million—\$2.90 for each \$1.00 of SBIC financing.

Profits

1,678 "old" concerns obtained \$250 million from SBICs and raised their net profits 265 percent, from \$8.5 million to \$31 million.

1,129 "new" concerns obtained \$148 million and had net losses during their latest fiscal year totalling \$2.8 million.

Assets

1,918 "old" concerns obtained \$268 million from SBICs and increased their total assets 57 percent, from \$1,116 million to \$1,750 million—\$2.36 added for each \$1.00 of SBIC financing.

1,205 "new" concerns obtained \$156 million. Following this financing their assets totalled \$553 million, or \$3.55 in assets for each \$1.00 of SBIC financing.

Net Worth

1,907 "old" concerns obtained \$267 million from SBICs and increased their net worth 23 percent, from \$369 million to \$453 million.

1,205 "new" concerns obtained \$156 million and had net worth of \$121 million.

Short-Term Borrowings

1,707 "old" concerns obtained \$248 million from SBICs and increased their short-term borrowings from other sources by 67 percent, from \$169 million to \$283 million.

1,036 "new" concerns obtained \$141 million and reported \$75 million short-term borrowings, or 53 cents additional credit for every \$1.00 supplied by SBICs.

[Memorandum No. 67-4]

SMALL BUSINESS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., September 30, 1966.

To All Licensed Small Investment Companies:

Attached are Condensed Statements of Financial Condition as of March 31, 1966, and Condensed Statements of Income and Expense for the year ended March 31, 1966, for all reporting SBICs. Condensed statements are also included for four groups of companies according to their statutory capital and surplus as follows:

1. Small companies—not more than \$325,000;
2. Medium companies—\$325,000 to \$1,000,000;
3. Large companies—\$1,000,000 to \$5,000,000;
4. Largest companies—more than \$5,000,000.

Separate amounts and percentages are shown with respect to each financial statement for all reporting companies within the above size groups, as of March 31, 1966, with an indication of the number of licenses in force. Separate data are also shown for all reporting companies within each size group which had been licensed for three years or more as of March 31, 1966.

In addition, data are furnished showing condensed financial statements for selected companies, as of March 31, 1966, arranged in the above four size groups. These data reflect the financial condition and results of operations of selected companies which were in the top quarter of the group as to total return on invested capital for the year ended March 31, 1966, and which had not reported losses for the previous year ended March 31, 1965. In reviewing the progress

and plans of your company it should be particularly helpful to you to compare the percentages in the statements presented for the selected group of companies, as well as those companies which have been licensed for three years or more as of March 31, 1966, with the corresponding percentages for your company.

There are also attached condensed statements of financial condition for all reporting companies as of March 31, 1964; March 31, 1965; and March 31, 1966, and statements of income and expense for the years then ended. Each of these statements indicates the number of licenses in force on those dates.

All financial statements included in the attached summaries reflect data submitted to SBA by reporting SBICs on Financial Reports, SBA Form 468, as required by regulation. SBA is currently engaged in an accelerated program of examining all licensed SBICs with the view of providing assurance that SBA has current and accurate information on each Licensee. Also, SBA is reviewing its own financial records to make certain that the information supplied by such records is accurate and up-to-date.

The presentation of the material reflected in the attached financial statements has been expanded for the purpose of providing Licensees with the greatest practicable amount of information to assist in the review and evaluation of the progress of the companies' operations.

HOWARD GREENBERG,
Deputy Administrator for Investment.

Licensed small business investment companies—Condensed financial statements

CONDENSED STATEMENT OF FINANCIAL CONDITION

	649 reporting of 710 licensed companies as of Mar. 31, 1964	645 reporting of 713 licensed companies as of Mar. 31, 1965	606 reporting of 700 licensed companies as of Mar. 31, 1966
	Millions	Millions	Millions
ASSETS			
Cash and U.S. Government obligations	\$166.5	\$171.4	\$145.6
Loans to small businesses (sec. 305)	209.1	258.4	279.3
Equity securities of SBC's (sec. 304):			
Debt securities of SBC's	223.0	203.1	179.6
SBC capital stocks and stock rights for which separate costs have been determined	58.4	75.0	93.5
Gross loans and investments	490.5	536.5	552.4
Less allowances for losses	39.4	54.0	47.6
Net loans and investments	451.1	482.5	504.8
All other assets	39.6	45.8	59.8
Total assets	657.2	699.7	710.2
LIABILITIES, CAPITAL STOCK, AND SURPLUS			
Borrowings:			
Subordinated debentures issued to SBA (sec. 302)	108.9	126.9	137.8
Funds borrowed from SBA (sec. 303)	54.5	84.1	94.2
Funds borrowed from other than SBA	53.6	58.9	61.0
All other liabilities	12.1	17.5	19.6
Total liabilities	229.1	287.4	312.6
Capital stock and paid-in surplus	463.7	459.9	433.8
Retained earnings (deficit)	(35.6)	(47.6)	(36.2)
Total capital stock and surplus	428.1	412.3	397.6
Total liabilities, capital stock, and surplus	657.2	699.7	710.2
Unrealized appreciation of investments	(1)	39.8	77.4

Licensed small business investment companies—Condensed financial statements—Continued

CONDENSED STATEMENT OF INCOME AND EXPENSE

	Year ended Mar. 31, 1964	Year ended Mar. 31, 1965	Year ended Mar. 31, 1966
INCOME			
	<i>Thousands</i>	<i>Thousands</i>	<i>Thousands</i>
Income from loans and investments.....	\$32,719	\$39,046	\$40,699
Other income.....	7,071	5,799	6,068
Total gross income.....	39,790	44,845	46,767
EXPENSE			
Interest and other financial expenses.....	9,134	11,607	13,864
Operating expenses.....	17,557	17,695	17,830
Total expenses.....	26,691	29,302	31,694
Net income from operations before provision for losses and income taxes.....	13,099	15,543	15,073
Provision for losses on loans and investments.....	23,477	31,440	16,201
Provision for income taxes.....	438	440	807
Total.....	23,915	31,880	17,008
Net income (loss) from operations.....	(10,816)	(16,337)	(1,935)
Realized gain (loss) on investments.....	(7,792)	835	14,551
Less: provision for income taxes.....	201	459	1,880
Net realized gain (loss).....	(7,591)	376	12,671
Combined net income (loss) from operations and realized gain (loss).....	(18,407)	(15,961)	10,736

¹ Not known.

Small business investment companies having statutory capital and surplus of not more than \$325,000—Condensed financial statements as of Mar. 31, 1966

CONDENSED STATEMENT OF FINANCIAL CONDITION

	275 reporting of 349 licensed companies		229 companies licensed for 3 years or more as of Mar. 31, 1966	
	Amount	Percent	Amount	Percent
ASSETS				
Cash and U.S. Government obligations.....	\$23,438,827	23.8	\$20,590,490	25.6
Loans to small businesses (sec. 305).....	52,633,863	53.6	40,968,516	50.9
Equity securities of SBC's (sec. 304):				
Debt securities of SBC's.....	10,821,827	11.0	8,656,768	10.7
SBC capital stocks and stock rights for which separate costs have been determined.....	6,604,332	6.7	6,132,548	7.6
Gross loans and investments.....	70,060,022	71.3	55,757,832	69.2
Less: allowances for losses.....	6,656,214	6.8	5,391,516	6.7
Net loans and investments.....	63,403,808	64.5	50,366,316	62.5
All other assets.....	11,475,396	11.7	9,611,424	11.9
Total assets.....	98,318,031	100.0	80,568,230	100.0
LIABILITIES, CAPITAL STOCK, AND SURPLUS				
Borrowings:				
Subordinated debentures issued to SBA (sec. 302).....	38,123,887	38.8	31,299,887	38.9
Funds borrowed from SBA (sec. 303).....	18,843,588	19.1	15,243,588	18.9
Funds borrowed from other than SBA.....	3,583,202	3.6	3,026,463	3.8
All other liabilities.....	3,593,098	3.7	3,088,911	3.8
Total liabilities.....	64,143,775	65.2	52,658,849	65.4
Capital stock and paid-in surplus.....	41,045,986	41.8	33,834,134	42.0
Retained earnings (deficit).....	(6,871,730)	(7.0)	(5,924,753)	(7.4)
Total capital stock and surplus.....	34,174,256	34.8	27,909,381	34.6
Total liabilities, capital stock, and surplus.....	98,318,031	100.0	80,568,230	100.0
Unrealized appreciation of investments.....	2,181,760	-----	2,119,703	-----

CONDENSED STATEMENT OF INCOME AND EXPENSE FOR THE YEAR ENDED MAR. 31, 1966

INCOME				
Income from loans and investments.....	\$6,289,777	87.6	\$5,062,891	86.7
Other income.....	890,119	12.4	779,671	13.3
Total gross income.....	7,179,896	100.0	5,842,562	100.0
EXPENSE				
Interest and other financial expenses.....	3,028,395	42.2	2,524,985	43.2
Operating expenses.....	2,641,221	36.8	2,076,383	35.5
Total expenses.....	5,669,616	79.0	4,601,368	78.7
Net income from operations before provision for losses and income taxes.....	1,510,280	21.0	1,241,194	21.3
Provision for losses on loans and investments.....	3,075,880	43.0	2,440,550	41.8
Provision for income taxes.....	178,628	2.3	157,612	2.7
Total.....	3,254,508	45.3	2,598,162	44.5
Net income (loss) from operations.....	(1,744,228)	(24.3)	(1,356,968)	(23.2)
Realized gain (loss) on investments.....	834,993	-----	786,328	-----
Less: provision for income taxes.....	29,062	-----	25,082	-----
Net realized gain (loss).....	805,931	-----	761,246	-----
Combined net income (loss) from operations and realized gain (loss).....	(938,297)	-----	(595,722)	-----
Net return on invested capital.....	-----	(2.3)	-----	(1.8)

Small business investment companies having statutory capital and surplus of \$325,000 to \$1,000,000—Condensed financial statements as of Mar. 31, 1966

CONDENSED STATEMENT OF FINANCIAL CONDITION

	243 reporting of 260 licensed companies		210 companies licensed for 3 years or more as of Mar. 31, 1966	
	Amount	Percent	Amount	Percent
ASSETS				
Cash and U.S. Government obligations.....	\$33,848,170	17.6	\$29,714,950	17.7
Loans to small businesses (sec. 305).....	91,375,293	47.4	80,558,893	48.0
Equity securities of SBC's (sec. 304):				
Debt securities of SBC's.....	46,312,984	24.0	38,643,449	23.0
SBC capital stocks and stock rights for which separate costs have been determined.....	13,042,244	6.8	11,412,199	6.8
Gross loans and investments.....	150,730,521	78.2	130,614,541	77.8
Less: Allowances for losses.....	10,795,611	5.6	9,884,212	5.9
Net loans and investments.....	139,934,910	72.6	120,730,329	71.9
All other assets.....	18,939,306	9.8	17,386,546	10.4
Total assets.....	192,722,386	100.0	167,831,825	100.0
LIABILITIES, CAPITAL STOCK, AND SURPLUS				
Borrowings:				
Subordinated debentures issued to SBA (sec. 302).....	63,863,120	33.1	54,569,620	32.5
Funds borrowed from SBA (sec. 303).....	39,584,498	20.5	35,737,998	21.3
Funds borrowed from other than SBA.....	11,568,820	6.0	10,555,083	6.3
All other liabilities.....	6,858,228	3.6	5,930,163	3.5
Total liabilities.....	121,874,666	63.2	106,792,864	63.6
Capital stock and paid-in surplus.....	80,253,666	41.6	69,549,010	41.5
Retained earnings (deficit).....	(9,405,946)	(4.8)	(8,510,049)	(5.1)
Total capital stock and surplus.....	70,847,720	36.8	61,038,961	36.4
Total liabilities capital stock and surplus.....	192,722,386	100.0	167,831,825	100.0
Unrealized appreciation of investments.....	12,001,113	.....	11,578,262	.....

CONDENSED STATEMENT OF INCOME AND EXPENSE FOR THE YEAR ENDED
MAR. 31, 1966

INCOME				
Income from loans and investments.....	\$13,200,476	90.5	\$11,633,650	90.6
Other income.....	1,383,363	9.5	1,200,806	9.4
Total gross income.....	14,583,839	100.0	12,834,456	100.0
EXPENSE				
Interest and other financial expenses.....	5,492,434	37.7	4,874,325	38.0
Operating expenses.....	5,209,281	35.7	4,535,951	35.3
Total expenses.....	10,701,715	73.4	9,410,276	73.3
Net income from operations before provision for losses and income taxes.....	3,882,124	26.6	3,424,180	26.7
Provision for losses on loans and investments.....	5,179,971	35.5	4,583,073	35.7
Provision for income taxes.....	358,320	2.5	350,246	2.7
Total.....	5,538,291	38.0	4,933,319	38.4
Net income (loss) from operations.....	(1,656,167)	(11.4)	(1,509,139)	(11.7)
Realized gain (loss) on investments.....	2,209,251	.....	2,191,916	.....
Less: Provision for income taxes.....	278,288	.....	302,582	.....
Net realized gain (loss).....	1,930,963	.....	1,889,334	.....
Combined net income (loss) from operations and realized gain (loss).....	274,796	.....	380,195	.....
Net return on invested capital.....	.....	.3	.....	.5

Small business investment companies having statutory capital and surplus of \$1,000-000 to \$5,000,000—Condensed financial statements as of Mar. 31, 1966

CONDENSED STATEMENT OF FINANCIAL CONDITION

	69 reporting of 71 licensed companies		60 companies licensed for 3 years or more as of Mar. 31, 1966	
	Amount	Percent	Amount	Percent
ASSETS				
Cash and U.S. Government obligations.....	\$28,187,278	15.7	\$25,838,732	15.6
Loans to small businesses (sec. 305).....	67,455,684	37.6	58,448,946	35.3
Equity securities of SBC's (sec. 304):				
Debt securities of SBC's.....	55,771,500	31.1	54,357,842	32.8
SBC capital stocks and stock rights for which separate costs have been determined.....	22,178,152	12.4	21,278,429	12.8
Gross loans and investments	145,405,336	81.1	134,085,217	80.9
Less: allowances for losses.....	12,618,110	7.0	11,884,511	7.2
Net loans and investments	132,787,226	74.1	122,200,706	73.7
All other assets.....	18,289,861	10.2	17,694,652	10.7
Total assets	179,264,365	100.0	165,734,090	100.0
LIABILITIES, CAPITAL STOCK, AND SURPLUS				
Borrowings:				
Subordinated debentures issued to SBA (sec. 302).....	33,485,500	18.7	29,644,500	17.9
Funds borrowed from SBA (sec. 303).....	29,101,596	16.2	26,176,596	15.8
Funds borrowed from other than SBA.....	18,982,562	10.6	18,277,562	11.0
All other liabilities.....	5,393,637	3.0	5,129,759	3.1
Total liabilities	86,963,295	48.5	79,228,417	47.8
Capital stock and paid-in surplus.....	103,297,009	57.6	97,213,195	58.7
Retained earnings (deficit).....	(10,995,939)	(6.1)	(10,707,522)	(6.5)
Total capital stock and surplus	92,301,070	51.5	86,505,673	52.2
Total liabilities, capital stock, and surplus	179,264,365	100.0	165,734,090	100.0
Unrealized appreciation of investments.....	15,888,595	-----	15,428,803	-----

CONDENSED STATEMENT OF INCOME AND EXPENSE FOR THE YEAR ENDED
MAR. 31, 1966

INCOME				
Income from loans and investments.....	\$11,021,808	89.5	\$10,261,359	89.1
Other income.....	1,298,891	10.5	1,250,967	10.9
Total gross income	12,320,699	100.0	11,512,326	100.0
EXPENSE				
Interest and other financial expenses.....	3,848,171	31.3	3,549,929	30.8
Operating expenses.....	4,267,230	34.6	4,114,719	35.8
Total expenses	8,115,401	65.9	7,664,648	66.6
Net income from operations before provision for losses and income taxes	4,205,298	34.1	3,847,678	33.4
Provision for losses on loans and investments.....	4,196,288	34.0	3,708,908	32.1
Provision for income taxes.....	43,727	.4	29,082	.3
Total	4,240,015	34.4	3,737,990	32.4
Net income (loss) from operations	(34,717)	(.3)	109,688	1.0
Realized gain (loss) on investments.....	5,198,249	-----	5,131,945	-----
Less provision for income taxes.....	578,862	-----	559,513	-----
Net realized gain (loss)	4,619,387	-----	4,572,432	-----
Combined net income (loss) from operations and realized gain (loss)	4,584,670	-----	4,682,120	-----
Net return on invested capital.....	-----	4.4	-----	4.8

Small business investment companies having statutory capital and surplus of \$5,000,000 or more—condensed financial statements as of Mar. 31, 1966

CONDENSED STATEMENT OF FINANCIAL CONDITION

	19 reporting of 20 licensed companies		19 companies licensed for 3 years or more as of Mar. 31, 1966	
	Amount	Percent	Amount	Percent
ASSETS				
Cash and U.S. Government obligations.....	\$60,103,743	25.1	\$60,103,743	25.1
Loans to small businesses (sec. 305).....	67,787,518	28.3	67,787,518	28.3
Equity securities of SBC's (sec. 304):				
Debt securities of SBC's.....	66,664,899	27.8	66,664,899	27.8
SBC capital stocks and stock rights for which separate costs have been determined.....	51,645,626	21.5	51,645,626	21.5
Gross loans and investments.....	186,098,043	77.6	186,098,043	77.6
Less: Allowances for losses.....	17,501,107	7.3	17,501,107	7.3
Net loans and investments.....	168,596,936	70.3	168,596,936	70.3
All other assets.....	11,095,661	4.6	11,095,661	4.6
Total assets.....	239,796,340	100.0	239,796,340	100.0
LIABILITIES, CAPITAL STOCK, AND SURPLUS				
Borrowings:				
Subordinated debentures issued to SBA (sec. 302).....	2,300,000	1.0	2,300,000	1.0
Funds borrowed from SBA (sec. 303).....	6,650,000	2.8	6,650,000	2.8
Funds borrowed from other than SBA.....	26,821,423	11.3	26,821,423	11.3
All other liabilities.....	3,793,074	1.4	3,793,074	1.4
Total liabilities.....	39,564,497	16.5	39,564,497	16.5
Capital stock and paid-in surplus.....	209,186,716	87.2	209,186,716	87.2
Retained earnings (deficit).....	(8,954,873)	(3.7)	(8,954,873)	(3.7)
Total capital stock and surplus.....	200,231,843	83.5	200,231,843	83.5
Total liabilities, capital stock, and surplus.....	239,796,340	100.0	239,796,340	100.0
Unrealized appreciation of investments.....	47,372,493	-----	47,372,493	-----

CONDENSED STATEMENT OF INCOME AND EXPENSE FOR THE YEAR ENDED
MAR. 31, 1966

INCOME				
Income from loans and investments.....	\$10,187,031	80.3	\$10,187,031	80.3
Other income.....	2,495,701	19.7	2,495,701	19.7
Total gross income.....	12,682,732	100.0	12,682,732	100.0
EXPENSE				
Interest and other financial expenses.....	1,495,022	11.8	1,495,022	11.8
Operating expenses.....	5,712,447	45.0	5,712,447	45.0
Total expenses.....	7,207,469	56.8	7,207,469	56.8
Net income from operations before provision for losses and income taxes.....	5,475,263	43.2	5,475,263	43.2
Provision for losses on loans and investments.....	3,749,255	29.6	3,749,255	29.6
Provision for income taxes.....	226,692	1.8	226,692	1.8
Total.....	3,975,947	31.4	3,975,947	31.4
Net income (loss) from operations.....	1,499,316	11.8	1,499,316	11.8
Realized gain (loss) on investments.....	6,308,966	-----	6,308,966	-----
Less: Provision for income taxes.....	993,817	-----	993,817	-----
Net realized gain (loss).....	5,315,149	-----	5,315,149	-----
Combined net income (loss) from operations and realized gain (loss).....	6,814,465	-----	6,814,465	-----
Net return on invested capital.....	-----	3.3	-----	3.3

*Selected small business investment companies¹ licensed for 3 years or more—
Condensed financial statements as of Mar. 31, 1966*

CONDENSED STATEMENT OF FINANCIAL CONDITION

	57 selected companies having statutory capital and surplus of not more than \$325,000		54 selected companies having statutory capital and surplus of \$325,000 to \$1,000,000	
	Amount	Percent	Amount	Percent
ASSETS				
Cash and U.S. Government obligations.....	\$6,084,586	25.9	\$6,722,217	13.9
Loans to small businesses (sec. 305).....	13,533,670	57.5	27,657,295	57.4
Equity securities of SBC's (sec. 304):				
Debt securities of SBC's.....	2,158,572	9.2	7,825,609	16.2
SBC capital stocks and stock rights for which separate costs have been determined.....	948,929	4.0	1,864,264	3.9
Gross loans and investments.....	16,641,171	70.7	37,347,168	77.5
Less: Allowances for losses.....	1,422,021	6.0	2,050,674	4.2
Net loans and investments.....	15,219,150	64.7	35,296,494	73.3
All other assets.....	2,228,370	9.4	6,187,707	12.8
Total assets.....	23,532,106	100.0	48,206,418	100.0
LIABILITIES, CAPITAL STOCK, AND SURPLUS				
Borrowings:				
Subordinated debentures issued to SBA (sec. 302).....	8,081,850	34.3	14,176,193	29.4
Funds borrowed from SBA (sec. 303).....	3,600,000	15.3	9,044,437	18.8
Funds borrowed from other than SBA.....	1,233,727	5.3	3,871,712	8.0
All other liabilities.....	1,092,529	4.6	2,796,614	5.8
Total liabilities.....	14,008,106	59.5	29,888,956	62.0
Capital stock and paid-in surplus.....	9,027,996	38.4	17,562,594	36.4
Retained earnings (deficit).....	496,004	2.1	754,868	1.6
Total capital stock and surplus.....	9,524,000	40.5	18,317,462	38.0
Total liabilities, capital stock, and surplus.....	23,532,106	100.0	48,206,418	100.0
Unrealized appreciation of investments.....	1,085,152	-----	1,004,426	-----

CONDENSED STATEMENT OF INCOME AND EXPENSE FOR THE YEAR ENDED
MAR. 31, 1966

INCOME				
Income from loans and investments.....	\$1,771,822	89.2	\$4,040,618	94.0
Other income.....	213,570	10.8	256,633	6.0
Total gross income.....	1,985,392	100.0	4,297,251	100.0
EXPENSE				
Interest and other financial expenses.....	661,904	33.4	1,403,111	32.6
Operating expenses.....	491,044	24.7	1,060,182	24.7
Total expenses.....	1,152,948	58.1	2,463,293	57.3
Net income from operations before provision for losses and income taxes.....	832,444	41.9	1,833,958	42.7
Provision for losses on loans and investments.....	236,361	11.9	545,594	12.7
Provision for income taxes.....	120,524	6.0	268,254	6.3
Total.....	356,885	17.9	813,848	19.0
Net income (loss) from operations.....	475,559	24.0	1,020,110	23.7
Realized gain (loss) on investments.....	287,734	-----	670,531	-----
Less: Provision for income taxes.....	14,574	-----	113,993	-----
Net realized gain (loss).....	273,160	-----	556,538	-----
Combined net income (loss) from operations and realized gain (loss).....	748,719	-----	1,576,648	-----
Net return on invested capital.....	-----	8.3	-----	9.0

See footnote at end of table, p. 67.

Selected small business investment companies¹ licensed for 3 years or more—
Condensed financial statements as of Mar. 31, 1966—Continued

CONDENSED STATEMENT OF FINANCIAL CONDITION

	16 selected companies having statutory capital and surplus of \$1,000,000 to \$5,000,000		5 selected companies having statutory capital and surplus of \$5,000,000 or more	
	Amount	Per- cent	Amount	Per- cent
ASSETS				
Cash and U.S. Government obligations	\$6, 273, 402	13. 7	\$18, 620, 555	25. 5
Loans to small businesses (sec. 305)	21, 967, 646	47. 9	25, 739, 817	35. 2
Equity securities of SBC's (sec. 304):				
Debt securities of SBC's	11, 386, 273	24. 8	22, 086, 661	30. 2
SBC capital stocks and stock rights for which separate costs have been determined	4, 870, 476	10. 6	6, 485, 878	8. 9
Gross loans and investments	38, 224, 395	83. 3	54, 312, 356	74. 3
Less: Allowances for losses	2, 529, 236	5. 5	2, 812, 599	3. 8
Net loans and investments	35, 695, 159	77. 8	51, 499, 757	70. 5
All other assets	3, 868, 465	8. 5	2, 935, 242	4. 0
Total assets	45, 837, 026	100. 0	73, 055, 554	100. 0
LIABILITIES, CAPITAL STOCK, AND SURPLUS				
Borrowings:				
Subordinated debentures issued to SBA (sec. 302)	8, 885, 500	19. 4	1, 500, 000	2. 1
Funds borrowed from SBA (sec. 303)	7, 322, 596	16. 0	4, 000, 000	5. 5
Funds borrowed from other than SBA	7, 488, 600	16. 3	16, 931, 044	23. 2
All other liabilities	1, 155, 881	2. 6	1, 370, 855	1. 8
Total liabilities	24, 852, 577	54. 3	23, 807, 899	32. 6
Capital stock and paid-in surplus	19, 041, 610	41. 5	46, 222, 043	63. 3
Retained earnings (deficit)	1, 942, 839	4. 2	3, 025, 612	4. 1
Total capital stock and surplus	20, 984, 449	45. 7	49, 247, 655	67. 4
Total liabilities, capital stock, and surplus	45, 837, 026	100. 0	73, 055, 554	100. 0
Unrealized appreciation of investments	2, 272, 517		3, 322, 196	

CONDENSED STATEMENT OF INCOME AND EXPENSE FOR THE YEAR ENDED
MAR. 31, 1966

INCOME				
Income from loans and investments	\$3, 479, 570	95. 6	\$3, 971, 479	90. 7
Other income	160, 217	4. 4	410, 761	9. 3
Total gross income	3, 639, 787	100. 0	4, 382, 240	100. 0
EXPENSE				
Interest and other financial expenses	1, 089, 453	30. 0	535, 396	12. 2
Operating expenses	1, 119, 144	30. 7	1, 402, 283	32. 0
Total expenses	2, 208, 597	60. 7	1, 937, 679	44. 2
Net income from operations before provision for losses and income taxes	1, 431, 190	39. 3	2, 444, 561	55. 8
Provision for losses on loans and investments	709, 942	19. 5	885, 411	20. 2
Provision for income taxes	40, 037	1. 1	33, 171	. 8
Total	749, 979	20. 6	918, 582	21. 0
Net income (loss) from operations	681, 211	18. 7	1, 525, 979	34. 8
Realized gain (loss) on investments	2, 429, 485		3, 654, 451	
Less: Provision for income taxes	372, 385		935, 252	
Net realized gain (loss)	2, 057, 100		2, 719, 199	
Combined net income (loss) from operations and realized gain (loss)	2, 738, 311		4, 245, 178	
Net return on invested capital		14. 4		9. 2

¹ Companies in the top quarter as to total return on invested capital for the year ended Mar. 31, 1966, and which did not report losses for the year ended Mar. 31, 1965.

[Memorandum No. 67-14]

SMALL BUSINESS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., February 20, 1967.

To All Licensed Small Business Investment Companies:

ACTIVITIES DATA REPORT FOR THE YEAR ENDED MARCH 31, 1966

Attached are statistical tabulations of activity data extracted from various schedules included in the Financial Report, SBA Form 468, submitted by Licensees as of March 31, 1966, and for the year ended that date.

The attached tables show information supplied by 606 reporting small business investment companies concerning loan and equity financing of small business concerns outstanding as of March 31, 1966, by (1) state, (2) nonmanufacturing industry, (3) manufacturing industry, (4) stated rate of interest, and (5) actual or potential ownership of voting stock of financed small business concerns.

In addition, the attached tables show loan and equity financing disbursements to small business concerns by the 606 reporting companies, for the year ended March 31, 1966, by (1) state, (2) non-manufacturing industry, (3) manufacturing industry, (4) stated rate of interest, and (5) size of disbursement by size of small business investment company.

The attached tabulations should assist you in keeping abreast of trends in SBIC financings and may be helpful in comparing your financing operations with those of the entire group of 606 reporting companies.

HOWARD GREENBERG,
Associate Administrator for Investment.

LICENSED SMALL BUSINESS INVESTMENT COMPANIES—606 REPORTING OF 700
LICENSED COMPANIES

Loan and equity financing outstanding balances as of Mar. 31 1966

BY STATE

	Loans		Debt securities		Capital stock ¹		Total financings ¹	
	Number	Amount ²	Number	Amount ²	Number	Amount ²	Number	Amount ²
Alabama.....	33	\$1,327,104		\$872,763	13	\$248,935	55	\$2,448,802
Alaska.....	24	494,466	3	231,000	7	148,500	34	873,966
Arizona.....	35	1,693,350	29	3,704,101	11	712,253	75	6,109,704
Arkansas.....	5	181,542	2	280,000	6	29,356	13	490,898
California.....	1,125	50,545,070	273	27,602,611	386	15,320,684	1,784	93,468,365
Colorado.....	66	7,115,792	45	3,245,186	43	1,812,379	154	12,173,357
Connecticut.....	528	12,485,341	34	1,894,791	45	4,161,375	607	18,541,507
Delaware.....	21	1,323,373	5	47,094	2	29,542	28	1,400,009
District of Columbia.....	54	2,131,405	10	607,500	18	578,396	82	3,317,301
Florida.....	308	9,724,546	80	5,672,048	94	5,695,049	482	21,091,643
Georgia.....	124	7,992,729	57	4,458,364	76	3,048,019	257	15,499,112
Hawaii.....	8	250,999	2	506,710	2	100,000	20	857,709
Idaho.....	15	426,183	14	744,000	6	97,740	35	1,267,923
Illinois.....	85	5,086,492	93	9,791,617	55	2,057,330	233	16,935,439
Indiana.....	34	1,068,142	30	4,167,958	42	1,348,152	106	6,584,252
Iowa.....	49	1,640,449	23	866,678	22	238,811	94	2,745,938
Kansas.....	50	1,953,325	30	1,255,870	23	273,080	103	3,482,275
Kentucky.....	5	553,503	8	1,710,653	3	211,000	16	2,475,156
Louisiana.....	168	5,084,930	13	1,261,895	29	642,142	210	6,988,967
Maine.....	7	127,095	4	960,000	2	146,500	13	1,101,745
Maryland.....	57	1,707,738	29	2,270,564	32	1,315,149	118	5,293,451
Massachusetts.....	492	13,218,640	64	5,622,937	107	6,466,096	663	25,307,673
Michigan.....	29	1,622,236	25	2,021,854	18	745,989	72	4,390,079
Minnesota.....	68	2,248,097	51	6,437,311	39	1,717,038	158	10,402,446
Mississippi.....	72	2,193,978	7	138,000	8	49,008	87	2,380,986
Missouri.....	67	3,452,221	27	2,529,980	34	569,363	128	6,551,564
Montana.....	26	767,887	4	147,762			30	915,649
Nebraska.....	13	223,362	34	2,268,325	13	141,030	60	2,632,717
Nevada.....	16	638,686	3	80,000	4	42,501	23	761,187
New Hampshire.....	6	207,963	8	549,939	12	385,643	26	1,142,699
New Jersey.....	228	11,711,055	93	10,265,489	82	3,678,800	403	25,655,344
New Mexico.....	19	726,652	33	2,334,692	9	64,886	61	3,126,230
New York.....	892	39,814,209	318	24,183,268	317	12,938,474	1,527	76,935,951
North Carolina.....	191	5,813,202	33	1,960,416	41	1,148,779	265	8,922,397
North Dakota.....	3	73,864	4	332,800	1	37,500	8	444,164
Ohio.....	50	8,204,340	64	7,052,927	66	7,123,346	180	22,380,613

See footnote at end of table, p. 70.

LICENSED SMALL BUSINESS INVESTMENT COMPANIES—606 REPORTING OF 700 LICENSED COMPANIES—Continued

Loan and equity financing outstanding balances as of Mar. 31, 1966—Continued

BY STATE

	Loans		Debt securities		Capital stock ¹		Total financing ¹	
	Number	Amount ²	Number	Amount ²	Number	Amount ²	Number	Amount ²
Oklahoma.....	230	\$5,981,939	83	\$3,133,971	64	\$1,534,350	377	\$10,650,260
Oregon.....	51	1,651,733	31	1,702,037	29	618,346	111	3,972,116
Pennsylvania.....	258	8,834,729	84	5,879,348	63	4,417,513	405	19,131,590
Rhode Island.....	50	4,856,071	4	650,495	12	2,207,156	66	7,713,722
South Carolina.....	154	3,578,480	6	869,050	13	209,190	173	4,656,720
South Dakota.....	3	50,454	1	350,000			4	400,454
Tennessee.....	43	2,764,293	10	598,812	9	289,380	62	3,652,485
Texas.....	851	26,533,879	165	17,484,930	149	7,052,575	1,165	51,071,384
Utah.....	26	599,968	11	543,599	8	130,370	45	1,273,937
Vermont.....	1	30,000	5	470,950	1	5,000	7	505,950
Virginia.....	259	12,669,830	63	3,212,996	81	1,905,582	403	17,788,408
Washington.....	72	3,192,653	30	1,425,958	17	143,805	119	4,762,416
West Virginia.....	2	68,000	4	62,442	2	22,110	8	152,552
Wisconsin.....	50	1,897,912	44	3,676,859	39	1,492,631	133	7,067,402
Wyoming.....	5	20,500	1	170,833	2	20,001	8	211,334
Guam.....	17	314,585					17	314,585
Puerto Rico.....	26	667,780	20	1,262,673	18	95,900	64	2,026,353
Virgin Islands.....	7	1,709,586			5	135,450	12	1,845,036
Total.....	7,078	279,252,368	2,131	179,571,210	2,180	93,470,354	11,389	552,293,922

BY INDUSTRY

NONMANUFACTURING INDUSTRIES								
Agricultural services.....	16	\$318,328	5	\$258,445	3	\$47,728	24	\$624,500
Forestry.....	1	10,725	1	75,336			2	86,061
Fisheries.....	10	221,258					10	221,258
Metal mining.....			3	178,800	1	4,000	4	182,800
Anthracite mining.....	2	85,000			1	20,000	3	105,000
Bituminous coal and lignite mining.....	1	59,593					1	59,593
Petroleum and natural gas (extracting, etc.).....	127	5,907,795	36	2,152,431	28	247,461	191	8,307,687
Mining and quarrying, non-metallic minerals.....	15	2,675,231	3	541,599	8	501,106	26	3,717,936
Building construction—General contractors.....	537	16,461,364	63	4,358,006	63	3,116,296	663	23,935,666
Other construction—General contractors.....	80	2,880,902	9	271,240	10	365,745	99	3,517,887
Construction—Special trade contractors.....	128	3,020,739	24	1,533,617	13	197,505	165	4,751,861
Railroad transportation.....	7	2,659,235	4	170,161	5	230,593	16	3,059,989
Local and suburban passenger transportation.....	40	1,119,542	10	310,703	17	14,100	67	1,444,345
Motor freight transportation and warehousing.....	51	1,903,849	17	976,513	8	392,188	76	3,272,550
Water transportation.....	28	733,842	7	136,114	3	10,080	38	880,036
Air transportation.....	16	737,986	13	1,464,820	17	123,614	46	2,326,420
Pipeline transportation.....	7	1,532,817	2	54,404	4	7,650	13	1,594,871
Transportation services.....	14	501,609	6	93,753	5	117,011	25	712,373
Communications.....	103	12,859,024	47	6,007,268	58	3,201,690	208	22,067,982
Electric, gas, and sanitary services.....	51	1,790,079	6	782,804	23	3,301,353	80	5,874,236
Retail trade:								
Building materials, hardware, and farm equipment.....	150	3,397,105	24	2,266,584	19	311,871	193	5,975,560
General merchandise.....	146	2,931,410	34	3,441,567	15	1,677,920	195	8,050,897
Food.....	572	9,869,459	19	1,099,811	18	362,687	609	11,031,957
Automotive dealers and filling stations.....	120	3,357,130	15	758,503	24	456,710	159	4,572,343
Apparel and accessories.....	49	1,326,935	10	1,272,414	9	82,667	68	2,682,016
Furniture, home furnishings, and equipment.....	60	1,339,130	18	969,855	9	160,685	87	2,469,670
Eating and drinking places.....	214	7,083,295	44	2,925,549	24	764,482	282	10,773,271
Miscellaneous retail stores.....	159	3,204,549	24	851,960	31	970,543	214	5,027,052
Total, retail trade.....	1,470	32,209,013	188	13,586,188	149	4,787,565	1,807	50,582,766

See footnote at end of table, p. 70.

LICENSED SMALL BUSINESS INVESTMENT COMPANIES—606 REPORTING OF 700
LICENSED COMPANIES—Continued

Loan and equity financing outstanding balances as of Mar. 31, 1966—Continued

BY INDUSTRY

	Loans		Debt securities		Capital stock ¹		Total financing ¹	
	Number	Amount ²	Number	Amount ²	Number	Amount ²	Number	Amount ²
Wholesale trade.....	263	\$9,158,839	106	\$9,187,070	81	\$3,160,579	450	\$21,506,488
Security and commodity brokers, dealers, etc.....	4	157,475	1	60,000	-----	-----	5	217,475
Insurance carriers.....	5	140,601	2	54,157	21	2,158,600	28	2,353,358
Insurance agents, brokers, and services.....	55	1,045,648	6	366,537	13	1,939,408	74	3,351,593
Real estate.....	1,934	87,445,817	334	26,276,450	536	8,086,437	2,804	121,808,704
Combinations—real estate, insurance, law offices.....	32	1,966,108	1	60,000	1	450,000	34	2,476,108
Hotels, motels, camps and other lodging places.....	290	10,596,148	74	5,245,334	42	896,948	376	16,738,430
Personal services.....	115	1,886,200	6	179,736	7	168,399	128	2,234,335
Miscellaneous business services.....	145	6,141,735	107	7,722,123	94	2,836,165	346	16,700,023
Automobile repair, rental, and storage.....	84	2,312,035	28	1,148,232	16	492,196	128	3,952,463
Miscellaneous repair services.....	13	283,007	9	472,350	4	169,801	26	925,158
Motion pictures.....	28	587,169	18	1,268,293	11	221,255	57	2,076,717
Amusement and recreation services.....	186	6,886,632	53	4,954,012	36	1,202,485	275	13,043,129
Medical and other health services.....	232	10,085,994	78	4,938,155	79	1,919,902	389	16,944,051
Legal services.....	6	82,857	-----	-----	-----	-----	6	82,857
Educational services.....	19	734,036	4	65,000	7	72,766	30	871,802
Museums, art galleries, botanical and zoological gardens.....	4	97,950	1	24,950	3	130,000	8	252,900
Miscellaneous services.....	91	2,111,211	43	3,212,915	22	651,660	156	5,975,786
Unclassified.....	38	1,491,868	18	2,562,989	22	1,474,489	78	5,529,346
Total nonmanufacturing.....	6,218	230,899,261	1,333	100,750,505	1,411	42,716,775	8,962	374,366,541
MANUFACTURING INDUSTRIES								
Ordnance and accessories.....	3	63,676	3	207,000	1	29,589	7	300,265
Food and kindred products.....	74	3,020,454	58	5,730,946	53	1,753,848	185	10,505,248
Textile mill products.....	17	547,552	8	500,773	7	502,500	32	1,550,825
Apparel and other finished products made from fabrics and similar materials.....	22	419,402	11	1,228,494	4	38,751	37	1,686,647
Lumber and wood products, except furniture.....	28	995,208	11	1,836,495	14	190,181	53	3,021,884
Furniture and fixtures.....	30	755,009	21	1,290,297	15	494,082	66	2,539,388
Paper and allied products.....	24	2,087,079	7	436,056	11	535,401	42	3,058,536
Printing, publishing, and allied industries.....	60	2,009,042	60	3,652,379	33	1,183,134	153	6,844,555
Chemicals and allied products.....	53	2,280,355	47	3,860,781	41	971,637	141	7,112,773
Petroleum refining and related industries.....	13	635,156	1	39,000	7	169,696	21	843,852
Rubber and miscellaneous plastic products.....	24	2,645,564	42	2,272,960	28	3,866,207	94	8,784,731
Leather and leather products.....	27	1,671,246	17	1,422,555	4	43,356	48	3,137,157
Stone, clay, and glass products.....	22	712,264	14	1,008,456	17	907,341	53	2,628,061
Primary metal industries.....	21	832,285	11	1,890,587	12	1,218,009	44	3,940,881
Fabricated metal products, except machinery.....	92	7,707,397	78	10,160,765	67	4,834,785	237	22,702,947
Machinery, except electrical.....	71	3,024,835	91	12,676,571	96	6,056,922	258	21,758,328
Electrical machinery, equipment and supplies.....	137	11,047,245	148	14,650,454	182	15,390,693	467	41,088,392
Transportation equipment.....	31	1,961,025	35	2,680,788	27	841,270	93	5,483,083
Professional, scientific, etc., equipment.....	46	2,472,947	68	7,083,567	97	9,359,179	211	18,915,693
Miscellaneous manufacturing industries.....	65	3,465,356	67	6,191,781	53	2,366,998	185	12,024,135
Total manufacturing.....	860	48,353,097	798	78,820,705	769	50,753,579	2,427	177,927,381
Total, all industries.....	7,078	279,252,358	2,131	179,571,210	2,180	93,470,354	11,389	552,293,922

¹ Includes warrants, options, and other stock rights or which separate costs have been determined.

² Loan and debt security amounts reflect outstanding unpaid balances of net funds advanced; capital stock amounts reflect cost.

Loan and debt security financing, outstanding balances as of Mar. 31, 1966, by stated rate of interest

Stated rate of interest	Loans		Debt securities		Total loans and debt securities	
	Number	Amount ¹	Number	Amount ¹	Number	Amount ¹
Under 6 percent.....	276	\$10,268,993	56	\$4,088,007	332	\$14,357,000
6.0 to 6.9 percent.....	1,051	45,575,025	422	53,128,565	1,473	98,703,590
7.0 to 7.9 percent.....	797	39,698,334	493	52,054,856	1,290	91,753,190
8.0 to 8.9 percent.....	1,351	65,555,317	633	42,260,012	1,984	107,815,329
9.0 to 9.9 percent.....	175	7,939,849	72	4,940,423	247	12,880,272
10.0 to 10.9 percent.....	1,386	50,231,754	269	15,367,975	1,655	65,599,729
11.0 to 11.9 percent.....	70	3,320,365	17	1,057,535	87	4,377,900
12.0 to 12.9 percent.....	1,289	36,581,833	96	3,791,650	1,385	40,373,483
13.0 to 13.9 percent.....	121	4,471,272	12	516,667	133	4,987,939
14.0 to 14.9 percent.....	77	2,102,717	1	48,000	78	2,150,717
15.0 percent.....	485	13,506,899	60	2,317,520	545	15,824,419
Total.....	7,078	279,252,358	2,131	179,571,210	9,209	458,823,568
Stated rate of interest of median amount ¹ (percent).....		8.0-8.9		7.0-7.9		8.0-8.9

¹ Loan and debt security amounts reflect outstanding unpaid balance of net funds advanced.

Number of debt security and capital stock financing outstanding balances as of Mar-31, 1966, by actual or potential ownership of voting stock of financed small business concerns

Percent of related ownership of voting stock	Number of financing transactions			Percent actual or potential ownership of voting stock to total ¹
	Potential ownership from debt securities held	Actual or potential ownership from capital stock held ¹	Total actual or potential ownership of voting stock ¹	
Under 10 percent.....	832	1,173	2,005	46.5
10 to 19.9 percent.....	278	181	459	10.7
20 to 29.9 percent.....	357	179	536	12.4
30 to 39.9 percent.....	203	115	318	7.4
40 to 49.9 percent.....	191	190	381	8.8
Exactly 50 percent.....	171	208	379	8.8
50.1 to 59.9 percent.....	19	18	37	.9
60 to 69.9 percent.....	16	24	40	.9
70 to 79.9 percent.....	16	18	34	.8
80 percent and over.....	48	74	122	2.8
Total.....	2,131	2,180	4,311	100.0

¹ Includes warrants, options, and other stock rights for which separate costs have been determined.

Loan and equity financing disbursements for the year ended Mar. 31, 1966

BY STATE ¹

	Loans		Debt securities		Capital stock ¹		Total financing ²	
	Number	Amount ²	Number	Amount ²	Number	Amount ²	Number	Amount ²
Alabama	14	\$558,289	3	\$384,333	6	\$62,687	23	\$1,005,309
Alaska	1	60,000			3	64,500	4	124,500
Arizona	12	494,373	10	986,592	7	114,180	29	1,595,145
Arkansas	3	76,000	1	250,000	2	8,500	6	334,500
California	558	19,962,037	104	9,509,235	155	9,448,689	814	38,919,961
Colorado	39	4,950,674	15	1,099,250	23	1,237,500	77	7,287,424
Connecticut	267	7,978,982	8	380,599	22	1,002,982	297	9,362,563
Delaware	13	649,661					13	649,661
District of Columbia	27	1,144,300	4	310,000			31	1,454,300
Florida	154	4,388,642	25	3,181,919	8	171,400	39	1,625,700
Georgia	93	4,159,204	18	1,696,412	37	3,782,335	216	11,352,896
Hawaii	3	92,500	3	42,710	41	408,936	152	6,264,552
Idaho	4	46,374	7	400,000			6	135,210
Illinois	53	2,870,064	21	2,112,010	32	743,062	106	5,725,136
Indiana	13	290,910	11	941,000	16	606,609	40	1,838,519
Iowa	26	1,170,680	4	321,440	13	93,093	43	1,585,213
Kansas	26	500,026	5	227,688	4	106,000	35	833,714
Kentucky	2	435,900	4	347,203	1	1,000	7	784,103
Louisiana	55	2,358,942	7	533,085	12	265,482	74	3,157,509
Maine	2	40,000	4	960,000			6	1,000,000
Maryland	37	903,952	12	430,000	3	160,250	52	1,494,202
Massachusetts	237	7,567,056	14	1,089,943	32	2,263,495	283	10,920,494
Michigan	19	397,290	5	61,700	6	133,447	30	592,437
Minnesota	36	1,264,302	20	1,906,229	15	626,588	71	3,797,119
Mississippi	25	916,927			3	31,800	28	948,727
Missouri	34	996,411	2	246,600	8	113,674	44	1,356,685
Montana	25	867,423	1	25,000			26	892,423
Nebraska	6	161,896	5	175,300	1	10	12	337,206
Nevada	4	98,250	1	20,000	1	1	6	118,251
New Hampshire	2	82,000	1	10,830	4	56,429	7	149,259
New Jersey	121	4,694,256	23	1,711,389	28	846,100	163	7,251,745
New Mexico	13	675,949	21	1,248,934	7	67,885	41	1,992,768
New York	447	17,876,239	131	6,802,232	114	6,856,845	692	31,535,316
North Carolina	81	2,619,128	11	578,868	13	587,462	105	3,785,458
North Dakota	2	54,400	4	332,800			6	387,200
Ohio	31	5,300,853	18	1,077,062	31	1,890,909	80	8,268,824
Oklahoma	67	1,465,641	35	1,312,620	24	875,561	126	3,653,822
Oregon	19	788,750	14	273,940	23	745,884	56	1,808,574
Pennsylvania	112	4,613,444	44	2,744,553	26	471,686	182	7,829,683
Rhode Island	33	1,360,525	2	225,000	3	82,850	38	1,668,375
South Carolina	65	1,857,508	1	3,579	6	31,830	72	1,892,917
South Dakota	1	20,000					1	20,000
Tennessee	18	1,103,958	3	209,909	7	227,321	28	1,541,188
Texas	311	9,773,781	51	3,951,587	65	3,697,762	427	17,423,130
Utah	15	257,060	8	85,398	2	501	25	342,959
Vermont			2	115,000			2	115,000
Virginia	168	8,102,249	24	1,475,585	53	871,706	245	10,449,540
Washington	15	771,115	5	152,506	3	25,250	23	948,871
West Virginia			1	7,442			1	7,442
Wisconsin	18	510,584	17	1,599,779	16	385,069	51	2,495,432
Wyoming	2	19,000					2	19,000
Guam	9	184,500					9	184,500
Puerto Rico	3	133,300	16	996,400	2	54,000	21	1,183,700
Virgin Islands	5	1,689,000			1	6,875	6	1,695,875
Total	3,334	129,354,305	746	52,553,661	880	39,228,146	4,9602	21,136,112

¹ Loan and debt security amounts reflect the principal amount of related financing instruments, including any discount, fees, or other charges; capital stock amounts reflect cost.

² Includes warrants, options, and other stock rights for which separate costs have been determined.

³ Represents disbursements for the 6 months ended Sept. 30, 1965, for 637 reporting of 708 licensed companies combined with disbursements for the 6 months ended Mar. 31, 1966, for 606 reporting of 700 licensed companies.

SMALL BUSINESS AMENDMENTS OF 1967

Licensed small business investment companies loan and equity financing disbursements for the year ended Mar. 31, 1966—By industry,³ 606 reporting of 700 licensed companies

	Loans		Debt securities		Capital stock ²		Total financings ²	
	Number	Amount ¹	Number	Amount ¹	Number	Amount ¹	Number	Amount ¹
NONMANUFACTURING INDUSTRIES								
Agricultural services.....								
Forestry.....	7	\$107,990	1	\$56,703	1	\$1,000	9	\$165,693
Fisheries.....	1	11,000	2	24,644	1	450	4	36,094
Metals.....	3	53,814					3	53,814
Metal mining.....	1	30,000					1	30,000
Antimony mining.....		40,000					2	60,000
Bituminous coal and lignite mining.....			16	357,188		7,500	2	7,500
Petroleum and natural gas (extracting, etc.).....	61	3,039,258	4	563,869	4	212,500	81	3,608,946
Mining and quarrying, nonmetallic minerals.....	12	619,000	4	1,001,902	4	145,001	21	1,327,879
Building construction, general contractors.....	369	11,069,502	30	2,095,150	28	315,449	367	12,476,853
Other construction, general contractors.....	38	1,193,816	5	285,150	45	108,520	45	1,567,486
Construction, special trade contractors.....	3	1,592,730	7	290,000	1	119,613	65	2,011,296
Railroad transportation.....	3	47,300	1	1,900	1	119,613	5	168,813
Local and suburban passenger transportation.....	8	293,500	4	146,000			12	439,500
Motor freight transportation and warehousing.....	19	642,896	10	719,426	6	118,888	35	1,481,150
Water transportation.....	13	436,144	3	238,708	3	287,000	18	961,852
Air transportation.....	6	177,300	7	950,000	3	41,656	16	1,108,956
Pipeline transportation.....	3	139,333					3	139,333
Transportation services.....	10	780,286	2	265,000	2	12,100	14	1,057
Communications.....	61	6,731,093	29	4,123,536	32	1,022,311	122	11,876,940
Electric, gas, and sanitary services.....	11	385,156	1	1,955,000	14	3,294,803	26	5,634,959
Retail trade:								
Building materials, hardware and farm equipment.....	40	897,954	10	700,000	7	56,460	57	1,654,414
General merchandise.....	55	1,108,651	5	640,000	4	80,610	64	1,829,261
Food.....	236	5,133,845	9	342,801	12	42,126	257	5,518,772
Automotive dealers and filling stations.....	49	1,255,197	4	221,250	7	55,210	60	1,531,657
Apparel and accessories.....	46	900,689	2	3,000	2	3,000	48	903,689
Furniture, home furnishings and equipment.....	32	795,055	2	142,373	1	1,125	36	938,553
Furniture and drinking places.....	100	2,712,791	10	603,668	16	436,761	126	3,753,220
Miscellaneous retail stores.....	65	1,592,365	7	103,180			79	1,857,613
Wholesale trade:								
Wholesale trade.....	623	14,396,557	47	2,813,272	57	777,360	727	17,987,189
Security and commodity brokers, dealers, etc.....	110	4,321,840	39	2,702,029	30	882,462	179	7,906,331
Insurance agents, brokers, and services.....	7	288,921					7	288,921
Insurance carriers, brokers, and services.....	5	107,194	1	1,000	16	1,562,409	22	1,670,603
Real estate.....	27	422,022	15	604,600	15	373,184	47	1,399,806
Combinations, real estate, insurance, law offices.....	872	33,918,312	119	6,643,344	180	2,985,263	1,171	43,496,919
Hotels, motels, camps and other lodging places.....	15	318,120	4	49,157			19	367,277
Personal services.....	126	4,308,663	42	2,688,944	21	296,348	189	7,293,955
Miscellaneous business services.....	54	1,149,441	4	85,000	4	10,687	62	1,245,128
Automobile, repair, rental, and storage.....	89	2,149,244	19	937,409	44	487,615	152	3,574,268
	41	1,341,932	9	434,005			59	1,961,932

See footnotes at end of table, p. 74.

Licensed small business investment companies loan and equity financing disbursements for the year ended Mar. 31, 1966—By industry,¹ 606 reporting of 700 licensed companies—Continued

	Loans		Debt securities		Capital stock ²		Total financings ²	
	Number	Amount ¹	Number	Amount ¹	Number	Amount ¹	Number	Amount ¹
NONMANUFACTURING INDUSTRIES—continued								
Miscellaneous repair services.....	7	\$166,403					7	\$166,403
Motion pictures.....	10	221,474	5	\$345,000	5	\$69,762	20	636,236
Amusement and recreation services.....	81	5,311,164	14	973,200	17	1,425,995	112	7,710,359
Medical and other health services.....	103	5,440,265	29	1,633,926	34	813,281	166	7,896,472
Legal services.....	2	92,000					2	92,000
Educational services.....	12	451,743	2	10,000	8	721,521	22	1,183,264
Museums, art galleries, botanical and zoological gardens.....								
Miscellaneous services.....	91	3,355,005	32	874,393	20	1,221,013	143	5,450,411
Unclassified.....	21	928,588	4	585,710	4	1,613,288	29	1,613,288
Total nonmanufacturing.....	2,916	106,087,946	496	32,430,015	574	17,696,982	3,986	156,214,943
MANUFACTURING INDUSTRIES								
Ordnance and accessories.....			3	45,000			3	45,000
Food and kindred products.....	20	1,828,315	12	1,088,779	17	776,568	49	3,694,692
Textile mill products.....	6	115,000	1	100,000	2	130,000	9	345,000
Apparel and other finished products made from fabrics and similar materials.....								
Lumber and wood products, except furniture.....	12	561,639	3	64,500	4	38,251	19	664,390
Furniture and fixtures.....	12	528,103	5	135,693	7	91,500	24	750,296
Paper and allied products.....	9	209,750	7	557,040	3	15,730	19	782,520
Printing, publishing and allied industries.....	17	1,291,305	3	298,900	5	237,601	25	1,827,806
Chemicals and allied products.....	23	1,071,232	21	1,547,234	10	309,550	54	2,928,016
Petroleum refining and related industries.....	18	604,166	10	504,182	2	373,781	38	1,482,129
Rubber and miscellaneous plastic products.....	7	654,526	12	703,864	20	689,635	9	725,614
Leather and leather products.....	11	275,434	6	220,000	13	657,000	43	1,668,933
Stone, clay, and glass products.....	7	437,000	6	245,420	3	287,823	14	771,485
Primary metal industries.....	5	147,281	4	250,007	2	250,007	7	397,288
Fabricated metal products, except machinery.....	67	4,877,131	31	3,118,420	29	873,429	127	8,868,980
Machinery, except electrical.....	21	827,611	24	3,219,686	24	1,555,249	69	5,602,546
Electrical machinery, equipment and supplies.....	76	2,806,236	52	4,529,754	63	3,373,784	191	10,712,774
Transportation equipment.....	13	1,504,036	7	642,350	11	324,541	31	2,470,927
Professional, scientific, etc., equipment.....	41	2,802,646	21	1,085,064	3	10,922,108	125	15,409,818
Miscellaneous manufacturing industries.....	46	2,457,706	28	1,417,760	31	1,240,489	105	5,115,955
Total manufacturing.....	418	25,266,359	250	20,123,646	306	21,531,164	974	64,921,169
Total all industries.....	3,334	129,354,305	746	52,553,661	880	39,228,146	4,900	221,136,112

¹ Represents disbursements for the 6 months ended Sept. 30, 1965, for 637 reporting of 708 licensed companies combined with disbursements for the 6 months ended Mar. 31, 1966, for 606 reporting of 700 licensed companies.

² Loan and debt security amounts reflect the principal amount of related financing instruments, including any discount, fees, or other charges; capital stock amounts reflect cost.

³ Includes warrants, options, and other stock rights for which separate costs have been determined.

SMALL BUSINESS AMENDMENTS OF 1967

Loan financing disbursements for the year ended Mar. 31, 1966, by stated rate of interest¹

Stated rate of interest	Size of the principal amount of individual loan disbursements										Total disbursements	
	\$5,000 and under	\$5,001 to \$10,000	\$10,001 to \$25,000	\$25,001 to \$50,000	\$50,001 to \$100,000	\$100,001 to \$150,000	\$150,001 to \$250,000	\$250,001 to \$500,000	\$50,001 to \$500,000	\$500,001 and over		
Under 6 percent:												
Number	30	20	35	18	19	11					2	135
Amount ²	\$82,119	\$140,915	\$610,663	\$666,751	\$1,473,155	\$1,405,816					\$863,333	\$5,242,733
6 to 6.9 percent:												
Number	90	65	131	88	62	11					5	473
Amount ²	\$255,023	\$511,255	\$3,347,777	\$3,347,777	\$4,380,076	\$1,398,731					\$2,030,000	\$21,734,369
7 to 7.9 percent:												
Number	92	70	127	93	55	13					5	468
Amount ²	\$523,981	\$578,165	\$2,277,189	\$3,525,337	\$4,137,369	\$1,709,123					\$2,040,340	\$19,135,705
8 to 8.9 percent:												
Number	115	99	143	95	83	14					2	576
Amount ²	\$290,958	\$776,452	\$2,533,711	\$3,598,388	\$6,203,991	\$1,843,540					\$2,689,259	\$25,482,906
9 to 9.9 percent:												
Number	14	9	22	13	13	7					3	81
Amount ²	\$45,167	\$65,450	\$392,047	\$485,497	\$1,012,500	\$821,754					\$512,250	\$3,434,665
10 to 10.9 percent:												
Number	114	110	154	124	86	9					4	622
Amount ²	\$342,759	\$915,697	\$2,731,892	\$4,583,222	\$5,892,280	\$2,350,365					\$256,724	\$22,208,114
11 to 11.9 percent:												
Number	3		8	8	3	1					1	24
Amount ²	\$14,117		\$166,200	\$308,900	\$196,906	\$112,500					\$210,000	\$1,008,623
12 to 12.9 percent:												
Number	74	92	185	128	95	29					8	612
Amount ²	\$230,427	\$736,566	\$3,255,959	\$4,675,810	\$6,757,531	\$3,525,611					\$400,000	\$21,047,660
13 to 13.9 percent:												
Number	6	17	25	12	7	1					1	70
Amount ²	\$11,872	\$116,636	\$458,272	\$504,000	\$494,625	\$125,000					\$300,000	\$2,180,405
14 to 14.9 percent:												
Number	5	8	13	5	2	1						34
Amount ²	\$22,018	\$70,100	\$235,550	\$187,500	\$121,000	\$150,000						\$786,168
15 percent:												
Number	48	31	82	40	24	10					3	230
Amount ²	\$259,381	\$255,439	\$1,396,014	\$1,455,198	\$1,549,033	\$1,277,802					\$317,750	\$7,032,937
Total number	591	521	925	624	449	117					9	3,334
Total amount	\$2,097,822	\$4,166,645	\$16,344,693	\$23,338,440	\$52,218,467	\$14,820,242					\$11,240,432	\$129,394,305
Stated rate of interest of median amount (percent) ²	8-8.9	10-10.9	10-10.9	10-10.9	8-8.9	10-10.9	8-8.9	8-8.9	8-8.9	8-8.9	8-8.9	7-7.9

¹ Represents disbursements for 6 months ended Sept. 30, 1965, for 637 reporting of 708 licensed companies combined with disbursements for the 6 months ended Mar. 31, 1966, for 666 reporting of 700 licensed companies.

² Loan amounts reflect principal amount of related financing instruments, including any discount, fees, or other charges.

Debt security financing disbursements for the year ended Mar. 31, 1968, by stated rate of interest ¹

Stated rate of interest	Size of the principal amount of individual debt security disbursements											Total disbursements	
	\$5,000 and under	\$5,001 to \$10,000	\$10,001 to \$25,000	\$25,001 to \$50,000	\$50,001 to \$100,000	\$100,001 to \$150,000	\$150,001 to \$250,000	\$250,001 to \$350,000	\$350,001 to \$500,000	\$500,001 and over			
Under 6 percent:													
Number ²	3	1	14	7	7	7	2						34
Amount ²	\$7,207	\$10,000	\$219,898	\$314,648	\$463,788		\$355,000						\$1,370,541
6 to 6.9 percent:													
Number ²	11	6	23	18	21	15	9	7	4				116
Amount ²	\$26,991	\$50,312	\$365,691	\$734,458	\$1,564,046	\$1,998,373	\$1,921,306	\$2,099,612	\$1,718,000	\$2,555,000			\$13,053,789
7 to 7.9 percent:													
Number ²	16	14	28	17	34	19	25	3	1	4			161
Amount ²	\$49,568	\$116,007	\$592,205	\$715,576	\$2,558,555	\$2,464,155	\$5,287,000	\$944,000	\$450,000	\$3,180,000			\$16,357,066
8 to 8.9 percent:													
Number ²	36	25	40	62	31	9	15	3	1	1			222
Amount ²	\$233,143	\$216,104	\$732,563	\$2,254,985	\$2,272,959	\$1,194,008	\$2,954,187	\$950,000	\$850,000	\$850,000			\$11,657,999
9 to 9.9 percent:													
Number ²	2	1	8	4	7	1	2	1					26
Amount ²	\$4,975	\$9,400	\$130,220	\$150,091	\$495,863	\$120,000	\$386,000	\$290,500					\$1,587,049
10 to 10.9 percent:													
Number ²	18	19	30	23	16	7	5	2		1			121
Amount ²	\$57,066	\$150,932	\$572,042	\$834,405	\$1,323,500	\$905,000	\$1,075,000	\$555,000		\$903,832			\$6,082,777
11 to 11.9 percent:													
Number ²													4
Amount ²													\$240,067
12 to 12.9 percent:													
Number ²	3	3	3	4	5	2	2						20
Amount ²	\$10,500	\$22,116	\$45,850	\$151,469	\$284,770	\$245,000							\$759,705
13 to 13.9 percent:													
Number ²													12
Amount ²													\$370,000
14 to 14.9 percent:													
Number ²													
Amount ²													
15 percent:													
Number ²	4	4	6	12	3	1							30
Amount ²	\$93,972	\$26,550	\$107,746	\$517,000	\$203,500	\$125,900							\$1,074,668
Total number	93	73	157	155	127	54	58	16	5	8			746
Total amount ²	\$483,422	\$601,421	\$2,896,215	\$5,957,709	\$9,388,021	\$7,062,436	\$11,973,493	\$4,889,112	\$2,168,000	\$7,188,832			\$52,553,661
Stated rate of interest of median amount ²	8-8.9	8-8.9	8-8.9	8-8.9	8-8.9	7-7.9	7-7.9	7-7.9	6-6.9	7-7.9			7-7.9

¹ Represents disbursements for the 6 months ended Sept. 30, 1965, for 637 reporting of 708 licensed companies combined with disbursements for the 6 months ended Mar. 31, 1966, for 606 reporting of 700 licensed companies.

² Debt security amounts reflect principal amount of related financing instruments, including any discount, fees, or other charges.

Loan and equity financing disbursements for the year ended Mar. 31, 1966, by size of disbursement¹

Size of principal amount of individual disbursements	Disbursements						Total ²	
	Loans		Debt securities		Capital stock ²		Number	Amount ³
	Number	Amount ³	Number	Amount ³	Number	Amount ³		
Disbursements by 275 licensees with statutory capital and sur- plus of not more than \$25,000:								
\$5,000 and under.....	207	\$624,776	19	\$61,250	113	\$184,832	339	\$870,858
\$5,001 to \$10,000.....	184	1,476,945	18	143,697	32	253,473	234	1,875,915
\$10,001 to \$25,000.....	296	5,085,226	37	692,567	32	563,477	365	6,331,270
\$25,001 to \$50,000.....	161	5,870,525	23	815,276	25	836,104	209	7,541,905
\$50,001 to \$100,000.....	98	6,113,031	16	942,802	15	891,978	129	7,887,811
\$100,001 to \$150,000.....	-----	-----	-----	-----	-----	-----	-----	-----
\$150,001 to \$250,000.....	-----	-----	-----	-----	-----	-----	-----	-----
\$250,001 to \$500,000.....	-----	-----	-----	-----	-----	-----	-----	-----
\$500,001 to \$500,000.....	-----	-----	-----	-----	-----	-----	-----	-----
\$500,001 and over.....	-----	-----	-----	-----	-----	-----	-----	-----
Total.....	946	19,170,203	113	2,655,592	217	2,681,964	1,276	24,507,759
Arithmetic average size.....	-----	20,264	-----	23,501	-----	12,359	-----	19,207
Disbursements by 243 licensees with statutory capital and sur- plus of \$25,000 to \$1,000,000:								
\$25,000 and under.....	314	1,190,234	56	151,184	149	241,377	519	1,612,765
\$25,001 to \$50,000.....	269	2,125,503	45	373,374	44	343,452	358	2,842,329
\$50,001 to \$100,000.....	425	7,571,532	80	1,402,555	62	1,065,078	567	10,038,965
\$100,001 to \$250,000.....	301	11,107,040	95	3,648,250	41	1,553,107	437	16,308,367
\$250,001 to \$500,000.....	204	14,712,986	68	4,368,232	25	1,644,107	297	21,345,325
\$500,001 to \$1,000,000.....	48	5,900,901	23	2,406,008	5	554,660	76	9,362,169
\$1,000,001 to \$250,000.....	19	3,298,335	9	1,574,300	5	894,556	33	5,767,391
\$250,001 to \$500,000.....	-----	-----	-----	-----	-----	-----	-----	-----
\$500,001 to \$500,000.....	-----	-----	-----	-----	-----	-----	-----	-----
\$500,001 and over.....	-----	-----	-----	-----	-----	-----	-----	-----
Total.....	1,580	45,906,531	376	15,074,473	331	6,296,337	2,287	67,277,341
Arithmetic average size.....	-----	29,055	-----	40,092	-----	19,022	-----	29,417

See footnotes at end of table, p. 79.

Loan and equity financing disbursements for the year ended Mar. 31, 1966, by size of disbursement 1.—Continued

Size of principal amount of individual disbursements	Disbursements								Total 2	
	Loans		Debt securities		Capital stock 3		Total 2		Number	Amount 3
	Number	Amount 3	Number	Amount 3	Number	Amount 3	Number	Amount 3		
Disbursements by 69 licensees with statutory capital and surplus of \$1,000,000 to \$5,000,000:										
\$5,000 and under.....	57	\$233,423	12	\$34,938	73	\$148,407	142	\$416,768		
\$5,001 to \$10,000.....	60	491,248	6	50,600	27	223,849	93	715,697		
\$10,001 to \$25,000.....	156	2,727,039	25	478,605	29	528,674	210	3,734,318		
\$25,001 to \$50,000.....	126	4,702,193	24	939,055	24	895,525	174	6,536,713		
\$50,001 to \$100,000.....	107	8,083,620	30	2,447,377	25	2,027,822	162	12,558,719		
\$100,001 to \$150,000.....	58	7,423,150	20	2,671,873	11	1,377,738	89	11,472,761		
\$150,001 to \$250,000.....	23	4,326,194	26	5,391,933	8	1,377,738	57	11,236,491		
\$250,001 to \$500,000.....	4	1,166,234	1	3,311,500	3	797,104	18	5,274,838		
\$500,001 to \$500,000.....	1	4,574,059	2	380,000	1	375,000	13	5,329,059		
\$500,001 and over.....	1	518,192	2	1,203,832	1	375,000	3	1,722,024		
Total.....	603	34,305,352	157	16,909,713	201	7,892,971	961	59,108,036		
Arithmetic average size.....		56,891		107,705		39,269		61,507		
Disbursements by 19 licensees with statutory capital and surplus of \$5,000,000 or more:										
\$5,000 and under.....	13	49,389	4	6,050	29	132,565	46	188,004		
\$5,001 to \$10,000.....	8	73,249	4	33,750	5	39,694	17	146,693		

\$10,001 to \$25,000.....	48	960,896	15	322,688	17	286,709	80	1,570,293
\$25,001 to \$50,000.....	36	1,598,682	13	555,158	16	648,622	65	2,802,462
\$50,001 to \$100,000.....	41	3,458,830	14	1,089,610	17	1,257,076	72	5,805,516
\$100,001 to \$150,000.....	10	1,346,191	12	1,593,955	12	1,476,775	34	4,416,921
\$150,001 to \$250,000.....	22	4,550,278	23	5,012,060	16	3,467,352	61	13,029,600
\$250,001 to \$350,000.....	5	1,504,152	5	1,527,612	6	1,676,266	16	4,708,030
\$350,001 to \$500,000.....	8	3,448,873	4	1,788,000	4	1,714,250	16	6,931,123
\$500,001 and over.....	14	12,981,679	6	5,985,000	9	11,657,565	20	30,624,244
Total.....	205	29,972,219	100	17,913,883	131	22,356,874	436	70,242,976
Arithmetic average size.....		146,206		179,139		170,663		161,108
All reporting companies:								
\$5,000 and under.....	591	2,097,822	91	288,422	364	707,181	1,046	3,088,425
\$5,001 to \$10,000.....	521	4,166,645	73	601,421	108	862,538	70	5,630,634
\$10,001 to \$25,000.....	925	16,344,693	157	2,896,215	140	2,433,368	1,222	21,674,846
\$25,001 to \$50,000.....	624	23,338,440	155	5,957,709	106	3,953,558	685	53,249,507
\$50,001 to \$100,000.....	450	32,368,467	128	9,468,021	82	5,700,983	690	47,597,471
\$100,000 to \$150,000.....	116	14,670,242	55	7,172,436	28	3,409,173	109	25,251,851
\$150,001 to \$250,000.....	64	12,174,807	58	11,978,463	29	5,880,760	151	30,034,000
\$250,001 to \$350,000.....	9	2,670,386	5	4,839,112	9	2,473,370	34	9,982,868
\$350,001 to \$500,000.....	19	8,022,932	5	2,168,000	5	2,089,250	29	12,280,182
\$500,001 and over.....	15	13,499,871	8	7,188,832	9	11,657,565	32	32,346,268
Total.....	3,394	129,354,305	746	52,553,661	880	39,228,146	4,960	221,136,112
Arithmetic average size.....		38,799		70,447		44,577		44,584

¹ Represents disbursements for the 6 months ended Sept. 30, 1965, for 637 reporting of 708 licensed companies combined with disbursements for the 6 months ended Mar. 31, 1966, for 666 reporting of 700 licensed companies

² Includes warrants, options, and other stock rights for which separate costs have been determined.

³ Loan and debt security amounts reflect the principal amount of related financing instruments, including any discount, fees, or other charges; capital stock amounts reflect cost.

EXHIBIT B

ADMINISTRATIVE AND REGULATORY ACTIONS

The following important improvements have been made by SBA in the last year in the SBIC program.

Examinations and Audits

There had been an information gap with respect to the current status of a large number of companies. SBA had insufficient information upon which to base appropriate actions. To correct this deficiency:

(1) The audit and examination responsibility was transferred from the Investment Division to the Assistant Administrator for Administration, who reports directly to the Administrator.

(2) A comprehensive, in-depth examination program was undertaken to examine all 434 companies which had not been recently examined. This was completed within 120 days.

(3) A study was undertaken to establish a uniform and consistent method to estimate probable losses to the Government on its loans to SBICs. The study was completed and appropriate loss reserves have been established on a realistic basis, taking into account Government funds in jeopardy and assets available from the SBICs. Reserves on December 31, 1966 totaled \$50,571,607.

Actions Against Violations

Based upon the examinations, SBA has instituted regulatory action against companies which are in violation of SBA regulations. Within the last ten months, through April 30, 1967:

(1) 62 investigations have been ordered,

(2) 135 requests for legal action were instituted within SBA,

(3) 38 orders to show cause have been filed, commencing administrative proceedings against SBICs, and

(4) 63 cases referred to the Department of Justice.

This compares to a total of 63 legal actions commenced during the first eight years of the program, of which 35 were judicial and 28 were administrative.

These enforcement actions are designed to remove undesirable elements from the program wherever it appears that the SBIC is not willing or able to correct its regulatory deficiencies. It should be noted that most of the court actions also involve suits to recover funds loaned to the company by SBA; and 31 SBICs now in receivership SBA has been appointed receiver in 15 cases. SBA is enlisting the services of retired bankers to act for it in such receivership cases.

GUIDELINES AND REGULATIONS

(1) SBA has issued guidelines to the SBICs to aid them in making a thorough analysis of loan and investment applications to them from small concerns. This action accords with a recommendation made by the General Accounting Office.

(2) Guides have also been issued for SBICs applying for new SBA financing, or extensions and renewals of maturing loans; and the SBIC is required to submit an "Investment plan" to SBA when it applies for SBA loans of \$250,000 or more.

(3) A policy and procedural release was issued covering SBIC accounting for gains, and use of such gains in obtaining funds from SBA.

(4) Numerous improvements and clarifications in SBA regulations governing SBICs have been made, including changes in such areas as SBIC license surrender and voluntary capital decreases, commitments by the SBIC to small concerns, false filings, and non-performance under financing agreements. Regulations were also issued to implement the statutory changes which were made by the Small Business Investment Act Amendments of 1966 to strengthen SBA regulatory powers; and SBA is currently developing additional improvements in its regulations.

LICENSING AND CHANGE OF CONTROL PROCEDURES

(1) License applications are given close scrutiny as to the proposal and the individuals involved. An examination is required either within six months of licensing or whenever Government funds are to be disbursed to the new company. All applicants for a new license must have a personal meeting with the Associate Administrator for Investment in Washington, for a comprehensive discussion of the duties and obligations of an SBIC.

(2) SBA has also tightened its procedures on changes of company control. They are given the same review as new licenses. Prior approval by SBA is required. Change of control without such approval may result in liability upon the transferor for any loss suffered by SBA as a result of the transfer. This has been made a contractual requirement in certain cases in connection with SBA loans to SBICs.

OTHER ADMINISTRATIVE ACTIVITIES

(1) SBA is currently in the process of modernization and streamlining of its accounting, statistical and reporting functions. A complete review of record keeping, accounting and reporting actions has been undertaken and the streamlining of the system will be completed by June 30, 1967.

(2) The Investment Division has been reorganized on a team concept to assure more prompt and efficient servicing of the SBIC program. This provides for a clear distinction between operating and staff functions.

(3) SBA commitments to purchase subordinated debentures of SBIC's have been eliminated. Commitments previously ran for a year, and even before disbursement were considered part of the statutory capital of a licensee.

(4) A requirement has been instituted that SBIC's invest at least 75 percent of their own funds in small concerns before they draw any SBA funds.

(5) Amortization requirements have been simplified on subordinated debentures. These previously were on a complicated fractional payment basis, starting in the 11th year, but leaving a 50-percent balloon payment due at maturity. Payments now are required at a rate of 10 percent a year, starting on the 11th anniversary of disbursement. This will result in orderly payment scheduling, with only 10 percent due at final maturity.

(6) The interest rate on section 302 subordinated debentures has been raised to 5½ percent, matching the 5½-percent rate for section 303 borrowings.

(7) A single application form has been adopted for 302 and 303 loans.

(8) SBA has eliminated a restriction which had required certain larger SBIC's to obtain 303 loans before applying for the purchase of debentures under section 302.

(9) To level the workload of examination and the review and analysis of financial reports, we are planning to stagger the fiscal year end reporting requirements. Examinations will be planned to take place approximately 6 months from the date of the SBIC's audited financial report. Also, special examinations will continue to be made as needed.

(10) SBA has developed for the benefit of the industry a digest of SBA activity, including a record of administrative proceedings and court actions taken.

THE SMALL BUSINESS INVESTMENT ACT AMENDMENTS OF 1967

EXHIBIT C-1

Selected comparisons of existing and proposed legislation

[Dollar amounts in millions]

Private funds	Government funds available					
	Existing law		Proposed legislation			
	Amount	Percent of private funds	Without equity features		With equity features	
			Amount	Percent of private funds	Amount	Percent of private funds
\$1.....	\$1.55	155	\$2.0	200	\$2.0	200
\$2.....	2.05	103	4.0	200	4.0	217
\$3.....	2.55	85	6.0	200	6.5	238
\$4.....	3.05	76	7.5	188	9.5	200
\$5.....	3.55	71	7.5	150	10.0	167
\$6.....	4.05	68	7.5	125	10.0	142
\$7.....	4.55	65	7.5	107	10.0	125
\$8.....	4.70	59	7.5	94	10.0	111
\$9.....	4.70	52	7.5	83	10.0	100
\$10.....	4.70	47	7.5	75	10.0	67
\$15.....	4.70	31	7.5	50	10.0	50
\$20.....	4.70	4	7.5	38	10.0	50
\$25.....	4.70	19	7.5	30	10.0	40

EXHIBIT C-2

Private funds needed to obtain total of Government and private funds for investment in small businesses

[Dollars in millions]

Total Government and private funds to invest in small businesses	Existing law, private funds needed	Proposed legislation	
		Without equity features, private funds needed	With equity features, private funds needed
\$2.....	0.667	0.667	0.667
\$3.....	1.300	1.000	1.000
\$4.....	1.967	1.333	1.333
\$5.....	2.633	1.667	1.667
\$6.....	3.300	2.000	2.000
\$7.....	3.967	2.333	2.333
\$8.....	4.633	2.667	2.625
\$9.....	5.300	3.000	2.875
\$10.....	5.967	3.333	3.125
\$15.....	10.300	7.500	5.000
\$20.....	15.300	12.500	10.000
\$25.....	20.300	17.500	15.000

EXHIBIT D

Estimated business loan limitation requirements, fiscal years 1967-70

[Dollars in millions]

	June 30, 1966	Budget estimates		Projected	
		Fiscal year 1967	Fiscal year 1968	Fiscal year 1969	Fiscal year 1970
Outstanding loans and commitments, start of year.....		\$1,004.5	\$1,135.6	\$1,399.7	\$1,630.3
Plus new loan approvals:					
7(a) business.....		308.7	476.6	476.6	476.6
Economic Opportunity.....		50.0	60.0	60.0	60.0
Displaced business.....		30.0	35.0	35.0	35.0
Trade adjustment.....		1.2	1.2	1.2	1.2
Total, new loan approvals.....		389.9	572.8	572.8	572.8
Minus repayments and cancellations:					
7(a) business.....		247.1	285.4	308.4	342.1
Economic Opportunity.....		7.0	14.4	21.5	28.9
Displaced business.....		4.7	8.9	12.3	15.8
Trade adjustment.....					
Total, repayments and cancellations.....		258.8	308.7	342.2	386.8
Outstanding loans and commitments, end of year.....		1,135.6	1,399.7	1,630.3	1,816.3
Plus contingency reserve.....				69.7	83.7
Recommended limitation.....				1,700.0	1,900.0
Memorandum: Outstanding by program:					
7(a) business.....	\$947.7	1,009.3	1,200.5	1,368.7	1,503.2
Economic Opportunity.....	17.9	60.9	106.5	145.0	176.1
Displaced business.....	38.9	64.2	90.3	113.0	132.2
Trade adjustment.....		1.2	2.4	3.6	4.8

EXHIBIT D—Continued

Estimated investment company limitation requirements, fiscal years 1967-70

[Dollars in millions]

	June 30 1966	Revised estimate, fiscal year 1967	Budget estimate, fiscal year 1968	Projected	
				Fiscal year 1969	Fiscal year 1970
Outstanding loans and commitments, start of year.....		\$300.9	\$315	\$350	\$390
Plus new loan approvals.....		25.0	55	55	55
Purchase of SBIC debentures (sec. 302).....		8.9			
Loans to SBIC's (sec. 303).....		16.1			
Minus repayment and cancellations.....		10.9	20	15	15
SBIC debentures (sec. 302).....		7.4			
SBIC loans (sec. 303).....		3.5			
Outstanding loans and commit- ments, end of year.....		315.0	350	390	430
SBIC debenture (sec. 302).....	\$158.9	160.4			
SBIC loans (sec. 303).....	142.0	154.6			
Plus contingency reserves.....				10	20
Recommended limitation.....				400	450

Estimated development company limitation requirements, fiscal years 1967-70

[Dollars in millions]

	Budget estimates		Projected	
	Fiscal year 1967	Fiscal year 1968	Fiscal year 1969	Fiscal year 1970
Outstanding loans and commitments, start of year.....	\$120.1	\$157.1	\$198.1	\$236.4
Plus new loan approvals.....	47.0	55.0	55.0	55.0
Minus:				
Loan repayments.....	6.6	10.2	12.9	15.6
Cancellations.....	3.4	3.8	3.8	3.8
Total, loan repayments and cancellations.....	10.0	14.0	16.7	19.4
Outstanding loans and commitments, end of year.....	157.1	198.1	236.4	272.0
Plus contingency reserve.....			13.6	28.0
Recommended limitation.....			250.0	300.0

Estimated Economic Opportunity loan limitation requirements, fiscal years 1967-70

[Dollars in millions]

	Budget estimates		Projected	
	Fiscal year 1967	Fiscal year 1968	Fiscal year 1969	Fiscal year 1970
Outstanding loans and commitments, start of year.....	\$17.9	\$60.9	\$106.5	\$145.0
Plus new loan approvals.....	50.0	60.0	60.0	60.0
Subtotal.....	67.9	120.9	166.5	205.0
Minus repayments and cancellations.....	7.0	14.4	21.5	28.9
Outstanding loans and commitments end of year.....	60.9	106.5	145.0	176.1
Plus contingency reserve.....				23.9
Recommended limitation.....				200.0

Senator McINTYRE. The Senator from Illinois?

Senator PERCY. I have no questions.

Senator McINTYRE. I have a few questions I will submit for the record for your answer relating to the second part of your testimony. I want to thank you, Mr. Boutin, for your excellent statement, as usual, being very comprehensive, well drawn, and also because it indicates the hard work that not only you but all of your associate directors and staff members have put into this vexing problem. And I promise you that the subcommittee and the full committee will give it close attention.

We will recess at this time until 2:30 this afternoon.

(Whereupon, at 12:30 p.m., the subcommittee was recessed, to reconvene at 2:30 p.m. the same day, Thursday, June 1, 1967.)

(The following material was received by the committee:)

MR. BOUTIN'S ANSWERS TO SENATOR McINTYRE'S QUESTIONS

Questions: Mr. Boutin, I think it would be helpful to have for the record the following information about your regular business loan program:

1. Your present administrative limit on direct loans;
2. The limit on immediate participation loans;
3. The limit on guaranteed loans.

I would also like your list of priorities which you use in making these loans.

When do you think you will be able to return to your statutory limit of \$350,000 for direct loans?

Also will you please give us the budgeted program levels for fiscal year 1968 for your various lending programs. How do these programs levels compare with FY 1967? With FY 1966?

Answers:

- | | |
|---|-----------|
| 1. Direct loans..... | \$100,000 |
| 2. Immediate participation loans (SBA share)..... | 150,000 |
| 3. Guaranteed loans (same as statute)..... | 350,000 |

List of priorities (national or local objectives) contained in attached pamphlet.

Suggested for reply to returning to \$350,000:

In limiting direct loans, and SBA's share of immediate participation loans to the amounts indicated above, we have found that we can fulfill the needs of 95% of our applicants. Therefore, we will continue to carefully monitor the business loan program, and return to the \$350,000 statutory limitation whenever it appears that we can do so without endangering the needs of the majority of our applicants in favor of the few who need loans in excess of the present limits.

Program levels (fiscal year 1966 is actual; 1967 and 1968 are estimates)

[In thousands]

	Fiscal year 1966	Fiscal year 1967	Fiscal year 1968
Business loans.....	\$286,214	\$308,700	\$476,600
Economic Opportunity loans.....	19,248	50,000	60,000
Displaced business loans.....	17,959	30,000	35,000
Trade adjustment loans.....	-----	1,200	1,200
Development company loans.....	50,318	47,000	55,000
Disaster loans.....	197,423	100,000	100,000
Investment company loans.....	61,318	45,000	55,000

LIST OF PRIORITIES REPRINTED FROM SBA PAMPHLET

The purpose of the Small Business Administration lending program is to make sound loans with high economic returns that meet certain national or local objectives.

To achieve this, SBA provides direct or immediate participation loans to eligible:

Businesses in designated unemployment areas; or
Firms which help reduce the balance of payments deficit through export sales; or

Businesses that help achieve precise national goals, such as firms necessary to government procurement activities, or those that help reduce air or water pollution, or contribute to the development of Federally-owned recreational lands; or

Firms whose operations are in the public interest based on local needs, and which clearly help to strengthen the local economy by providing a needed service, product, facility or significant new business or employment opportunities.

These limitations do not apply to any loan guaranteed by SBA.

AFTERNOON SESSION

Senator McINTYRE. The subcommittee will come to order.

The next witness is Mr. Milton Stewart, president of the National Association of Small Business Investment Companies.

You may have anybody attend with you. Will you introduce your associates?

STATEMENT OF MILTON D. STEWART, PRESIDENT, NATIONAL ASSOCIATION OF SMALL BUSINESS INVESTMENT COMPANIES; ACCOMPANIED BY WALTER B. STULTS, EXECUTIVE DIRECTOR, AND CHARLES M. NOONE, GENERAL COUNSEL

Mr. STEWART. Mr. Chairman, this is Walter Stults, our executive director; Mr. Charles Noone, our general counsel.

Senator McINTYRE. It is nice to see you gentlemen here.

Go right ahead in any fashion you wish.

Mr. STEWART. I should say at the outset, Mr. Chairman, I cannot hope to duplicate or parallel the detailed and excellent performance of the Administrator this morning with respect to this legislation. What I hope to be able to do is to persuade this subcommittee of the necessity for swift consideration and action of this legislation from the standpoint of the industry, the stockholders, and the managers of the companies, whom for too many years have been looking to the Congress and the executive branch to make the amendments in this bill as submitted by the Administrator.

I am honored and genuinely gratified, Mr. Chairman, in being able to appear before you today to support this landmark legislation to buttress the small business investment company program.

It was just 10 years ago that this very subcommittee held hearings on a pioneering legislative proposal introduced by Senator John Sparkman, who was then chairman of the Select Committee on Small Business. One year later, accepting the recommendations of the Banking and Currency Committee, Congress passed the Small Business Investment Act of 1958.

The 1958 act was almost exclusively a creation of the Congress. In the intervening 9 years, Congress has enacted several significant

amendments to the Small Business Investment Act, but until last year, all of these actions were initiated and pressed to final enactment by Congress. As you know, the 1966 amendments were initiated by the Small Business Administration, but I am sure it is safe to say that those changes in the 1958 act did not constitute incentive legislation.

I should interpolate here, Mr. Chairman, that this association supported that legislation in spite of the fact that it could not have been called incentive legislation.

S. 1862 does constitute incentive legislation, and the industry is extremely pleased that it comes before you with the imprimatur of the executive branch of the Government.

Along with its companion measure, S. 1863, which deals with tax aspects of the SBIC program, S. 1862 represents the first time the executive branch has made a clear and unmistakable commitment to the long term future of the SBIC industry. It is now apparent that it is not only the Small Business Administration which is determined to strengthen and improve this program. We know now that the Treasury Department and the Bureau of the Budget have also determined that SBIC's shall have the opportunity to carry out national goals by means of this unique partnership between private enterprise and the Federal Establishment.

Speaking for the National Association of Small Business Investment Companies, I shall say first that these bills have our support. We are most grateful to the members of this subcommittee for their willingness to expedite these hearings on S. 1862, and we pledge our full cooperation in hastening the proposal through the legislative process.

We are also indebted to SBA Administrator Bernard Boutin and to Associate Administrator Howard Greenberg and their associates at SBA for the effort and imagination they devoted to drafting and winning executive branch approval for this bill.

We believe that S. 1862, taken together with S. 1863, will give new life to the SBIC program whose very existence has hung in the balance during the past year or two. In spite of the fact that the majority of active and well-managed licensees have proven that they can operate profitably in this riskiest of financial businesses, few of them have generated sufficient income to make the challenge attractive. In spite of the fact that we have proven that there is a large and effective demand for our type of financing, questions about the future course of the industry have all but paralyzed most SBIC's. In spite of the fact that our portfolio companies have fared from four to 10 times better than the average business during the past 6 years, we have not been certain whether or not our Federal partner had his heart in the program.

Now to the bill itself:

First: We approve the new ceilings on SBA funds for SBIC's. They will eliminate some of the discrimination which has existed against the larger SBIC's. Ever since 1958, the formula for SBA loans has constituted an incentive for SBIC's to remain small, even though the realities of our business affirm that smaller SBIC's find it difficult

to operate profitably. If we had our way, we would remove the limitation in S. 1862 which discriminates against SBIC's with more than \$3.75 million in private capital, but we recognize certain facts of Government life and applaud this increase from the present \$700,000 limitation to the new and substantially higher figure.

Second: We wholeheartedly endorse the plan to abolish the distinction between section 302(a) subordinated debentures and section 303(b) operating loans. We feel strongly that the new financing instruments to be utilized by SBA will allow SBIC's to borrow substantially greater sums from private lenders. We also know that we shall be better able to plan our long-range future when we are certain of the terms of SBA's loans to us. The promise of subordination to other borrowers, the 15-year term, and the 5½-percent interest rate are all realistic and helpful, as is, I may say, the amortization.

Third: We support the idea of giving additional leverage to those SBIC's which specialize in equity-type financings. We agree that smaller and younger businesses often have the most pressing need for this type of assistance and the added leverage will induce SBIC's to take the added risks which this type of investment entails.

But we do seriously question the merit of restricting this "equity incentive" to SBIC's with more than \$2.5 million in private capital. We do not believe such a limitation is logical, realistic, or fair. For a number of reasons, we strongly urge this subcommittee to amend paragraph (2) of section 303(b) on pages 8 and 9 of the bill to provide that the added equity leverage be made available to SBIC's with more than 65 percent of their portfolios in equity situations and whose private capital is \$500,000 or more. We suggest this figure because we believe it will furnish a strong incentive for the smaller SBIC's to raise additional private capital to get to the \$500,000 level and above. And this is a realistic figure for the great majority of licensees who now have private capital of less than that amount. On the other hand, \$2.5 million is so far above the present capitalization of the bulk of the industry that it appears out of reach to the smaller SBIC's. We propose therefore that the equity incentive, third-dollar financing start dollar for dollar with private capital of \$500,000 and run up to \$3 million. Actually, of course, we would like to eliminate the top figure completely, but again we understand that some cutoff point will have to be imposed this year. Therefore, we ask that the \$2.5 million in equity leverage be given according to our formula, rather than by the equation contained in S. 1862.

Senator McINTYRE. Have we been given your formula?

Mr. STEWART. You have, but I would like to elaborate on what we have said here, Senator, by offering for the record a table which I believe we have given the committee staff, which explains for various sizes of SBIC private capitalization, what the consequences would be under the SBA bill, and under our proposal.

Senator McINTYRE. You are offering that for the record?

Mr. STEWART. Yes, sir.

Senator McINTYRE. Without objection, it will be received.
(The table follows:)

Private capital	S. 1862, maximum loans from SBA		NASBIC plan, maximum loans from SBA		Incentive for equity	
	Regular SBIC	Equity SBIC	Regular SBIC	Equity SBIC	S. 1862	NASBIC
\$500,000-----	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	-----	-----
\$750,000-----	1,500,000	1,500,000	1,500,000	1,750,000	-----	-----
\$1,000,000-----	2,000,000	2,000,000	2,000,000	2,500,000	-----	\$250,000
\$1,500,000-----	3,000,000	3,000,000	3,000,000	4,000,000	-----	500,000
\$2,000,000-----	4,000,000	4,000,000	4,000,000	5,500,000	-----	1,000,000
\$2,500,000-----	5,000,000	5,000,000	5,000,000	7,000,000	-----	1,500,000
\$3,000,000-----	6,000,000	6,500,000	6,000,000	8,500,000	-----	2,000,000
\$3,500,000-----	7,000,000	8,000,000	7,000,000	9,500,000	\$500,000	2,500,000
\$3,750,000-----	7,500,000	8,750,000	7,500,000	10,000,000	1,000,000	2,500,000
\$4,000,000-----	7,500,000	9,500,000	7,500,000	10,000,000	1,250,000	2,500,000
\$4,167,000-----	7,500,000	10,000,000	7,500,000	10,000,000	2,000,000	2,500,000
Over \$4,200,000-----	7,500,000	10,000,000	7,500,000	10,000,000	2,500,000	2,500,000

Mr. STEWART. Thank you, Mr. Chairman.

Perhaps I should say parenthetically at this point that it is of great importance, it seems to me and to us, not just because of our concern for the status of SBIC's, but because this is the part of the small business spectrum which has the greatest difficulty in finding equity capital. If it is not available within a man's family, from among his close associates, the money market as a whole simply will not provide it. We agree wholeheartedly with the Agency's imperative to try to encourage people to go into equity capital via the incentive route. We think the incentive is most called for at the level we have proposed.

Senator McINTYRE. I got the impression this morning that if they start lowering that level to \$1 million, \$1½ million, we can get into a great deal more money.

Mr. STEWART. Mr. Chairman, I would hate to speculate as to how much money we would actually require. I think the Agency can come up with firmer figures than we can. We will be glad to try, if you like.

Senator McINTYRE. We asked the Administrator this morning to try and give us some firm idea, not just a guess, at those different levels—\$1 million, \$1½ million, and \$2 million.

Mr. STEWART. We will be much interested in his reply, but this much we can tell you—dollar for dollar, it constitutes a very good investment for the Federal dollar.

Four: We heartily endorse the provision which will allow national banks to invest up to 5 percent of their capital funds in stock of SBIC's. This will allow more banks to take a more active part in the program. It will also permit smaller banks to make meaningful contributions to the private capital of the smaller SBIC's which will be trying hard during the next few years to increase their capital. We would further recommend that the subcommittee authorize banks to lend funds to their affiliated SBIC's. Section 23a of the Federal Reserve Act contains rather severe restrictions with reference to banks making loans to affiliates. It is our view that banks should be permitted to lend funds to SBIC's in which they have common stock investments.

Five: We support the bill's repeal of subsection 304(c), page 10 of the bill, of the present act, since no useful purpose has been served by allowing small business concerns to purchase SBIC stock with a portion of the equity funds made available to them by that SBIC. This authority has also raised some regulatory questions, so we hope the Congress will eliminate this subsection.

Six: We have no objection whatever to section 207 of the bill, on page 10, which provides that SBA should ordinarily examine all SBIC's at least once a year. We believe this is prudent.

Seven: We do question the fairness of section 206 of S. 1862, on page 10, since it will substantially change the ground rules for all those SBIC's which, through the sale of subordinated debentures, have "statutory" capital well above their own private capital. As I shall state later, I believe that SBA's efforts to encourage SBIC's to grow and raise their private capital is sound. On the other hand, I feel that eliminating "statutory" capital so abruptly will seriously hamper smaller SBIC's from operating profitably and will, therefore, impede their efforts to grow.

For most of such SBIC's, their legal loan limit will be cut in half if section 206 of the bill is passed. This will mean that the small SBIC's will have to put twice as many loans and investments on their books as before. This will mean twice as many investigations of potential client companies and twice as much expense in policing and counselling portfolio companies. I just don't think that is sound policy.

For these reasons, NASBIC strongly urges this subcommittee to amend section 206 of the bill to provide that an SBIC's present legal lending limit will continue in effect despite the elimination of the provision in the present section 302(a) of the act permitting a licensee to include subordinated debenture funds in computing its legal lending limit. The adoption of our proposal would permit present licensees to continue their present lending policies, thus enabling them better to achieve large size which the Agency seeks more rapidly. At the same time, of course, their legal lending limit could not increase until they do add substantially to the capital invested privately in such companies. We would, of course, have no objection to a further modification of the provision to reduce legal lending limits where companies do, in fact, hereafter reduce the amount of their private capital.

This suggestion will not eliminate all the problems raised by the new language of section 306, but I believe this minimal relief will be beneficial.

Eight: Our association has given the most serious study to the provision of S. 1862 which will raise the minimum private capital level of SBIC's through several successive steps.

Fundamentally, we believe that any SBIC which has been licensed by SBA and which has been operating properly under the 1958 act and SBA's regulations and which has been providing financial assistance to small business concerns should be allowed to continue in operation. In a sense, the founders of such an SBIC and their Government have signed a contract and such undertakings between a citizen and his Government should be honored on both sides.

On the other hand, we grant the validity of SBA's claim that it is difficult for a small SBIC to operate effectively, properly, and profitably. The Agency has the data and it is hard to argue with such documentation. Nonetheless, we know of some SBIC's which are small in private capital, but large in contribution to the small businesses of their community. We feel they should be given every consideration and allowed to continue to operate even if they are unable to raise sufficient capital to meet SBA's new standards. If their owners are willing to accept a low return on their investments, if SBA's funds are not in jeopardy, and if they operate properly, who loses if they are allowed to live?

Let me interject parenthetically—somebody certainly does lose if they are required to die.

We realize that the language of S. 1862 provides for exemptions by SBA. On the other hand, it seems to us that the grounds for such exemptions should be spelled out in more detail and that Congress should clearly state that the SBA has the power and the duty to make individual, as well as class, exceptions to the general rule.

Therefore, we propose the following language which should be added as a new paragraph (4) of subsection 302(a) on page 6 of the bill.

I should say at this point, Mr. Chairman and Senators, I was most heartened this morning by the Administrator's comments on this subject, because it seems to me the language we have suggested is very much in line with the view he expressed:

(4) Any company which (i) is operating in compliance with this Act and the regulations promulgated thereunder, (ii) affirms its intention to reach the levels of private capital specified in this Section, and (iii) submits a feasible plan to the Administration to achieve these levels, should receive an exemption from the requirements of paragraph (2). Such companies should receive a reasonable extension of time to meet the minimum capital levels and should, in the meantime, have full access to all the benefits of this Act.

In addition, and on the positive side of this question, we believe that the legislative history should show the intent of Congress that SBA should encourage and facilitate mergers by and among smaller SBIC's. During the past 8 years, scores of licensees have tried to merge, but few have succeeded in running all the business and regulatory gauntlets to achieve a merger. At the same time, the Securities and Exchange Commission should examine its present policies and rules relative to public offerings by SBIC's to facilitate their ability to increase private capital through that means.

Mr. Chairman, these are my general and specific observations on S. 1862.

I conclude by repeating my earlier statement, since these later reservations may have thrown our strong and wholehearted support of this bill into question. We praise and congratulate the drafters and supporters and the sponsors of S. 1862. Although this bill and S. 1863 do not contain everything in NASBIC's comprehensive legislative program, we feel they represent a tremendously important step in the right direction. We believe they will guarantee the survival of our industry which we believe is full of promise for small business and for our competitive economic system. We literally and sincerely implore you—which is ordinarily a word I do not care to use, but I

think it is appropriate here—to take prompt and affirmative action on this measure to insure its passage by the Congress.

I would like, if I may have your indulgence for a further minute, to say a word or two on what is almost a personal basis. I have spent a fair amount of my life in the Federal service, in the service of my State, and municipal government. And I have spent a fair amount of it in the business community. I wish I had every Member of the Senate and House of Representatives here to say this to them as strongly as I know how. I have watched Federal policy, State policy, and city policy made on not one or two, but 50 subjects of general concern. I have never seen a program which more deserved the unremitting support of all people in the Congress and the executive branch than this one.

I probably know 50 or 60 businesses from the gizzard side out. I know of no form of business organization that more deserves the energetic support of the financial community and the whole business community of the Nation than does the SBIC industry. I have to tell you, though, that I do not believe either the Federal Government or the business community has yet recognized the promise that there is in this program.

This legislation will not achieve that promise. It is too much to ask that of it, or of the Congress or of the executive branch now. But it will enable us to survive and to establish a foundation from which to work.

I cannot say too strongly that when we talk of survival here, we talk about today, a time during which men and money, both of value to this program, are leaving or considering leaving it. Companies have left in very recent weeks. Other companies are seriously considering leaving. It is for this reason that as strongly as we have expressed the needs we think there are here for amendments, we must just as strongly urge that this subcommittee, the full committee, the Senate, the House, take the most rapid action possible.

Thank you, Mr. Chairman.

Senator McINTYRE. I want to thank you, Mr. Stewart, not only for your very fine statement, but for the sense of urgency that was contained in the statement and which you buttressed in your extemporaneous remarks.

I wanted to ask you something about this widespread dissatisfaction and ask you how widespread is this feeling on the part of some SBIC's of wanting to leave the program, and, if you care to comment, why?

Mr. STEWART. First, I would speak to the breadth and depth of this feeling. The most remarkable thing about this program, Senator, is the number of very fine people whom it attracted into it. The headlines talk about the troublemakers. You go through the list of directors of the companies around the country and it is just heart warming to see the good guys who came out of banks, who came out of all kinds of private life to take the trouble to try to organize these companies.

Now why are they discontented, unhappy, dissatisfied?

This is a sufficiently challenging area of business venture capital, so that I think it is an overstatement to say that these people want to leave this industry. They do not. Most of them are devoted to it, to its importance in the economy. They are committed to it in personal

terms that go beyond dollars and cents. They have begun to doubt the durability, the degree of commitment of the Federal Government to the program. They have begun to doubt it because the needs of this industry—and this goes for all three kinds of companies within it—have been apparent to us for 4, 5, or 6 years.

We criticize no one, but it has taken the executive branch a longer period of time than many of us would have liked to recognize some of the things that this legislation recognizes. If that is not specific enough, Senator, I will put it more specifically.

As managers, we are obligated to our stockholders to go out of this business unless we see reasonable prospect of earning as good a rate of return on their investment in this business as can be earned in any other legitimate, respectable business.

I want to pay the highest tribute to Messrs. Boutin and Greenberg. We have had six Administrators and six deputies since this program was launched. For the first time these are men who talk in terms of the relative profitability of SBIC's and other forms of investment, and that is the beginning point of a reasonable approach to the needs of this industry.

Senator McINTYRE. This morning I asked the Administrator a question about why wouldn't it be preferable to define equity financing, equity capital, in the statute rather than to leave it to him and to the regulations that he might proposed or draw up. Would you care to comment?

Mr. STEWART. I feel a little bit between what we call a rock and a hard place in upstate New York because that is a problem that I think will take some wrestling with either in the legislation or in regulation. My preference probably would be—speaking as a lawyer now—for leaving it to regulation on the theory that a lot of experience is going to have to be had with this, except for one very brutal fact; and that is, we have had six SBA Administrators. They have had different points of view, as human beings would. They have had different orders of priority. They have had differing relationships with the balance of the executive branch.

I think in the light of our history I would not mind seeing a definition in the act. There should be some leeway perhaps for the Administrator to make some changes in it, but I think it ought to be there. It is an important enough incentive and it is the first effective selective use of the incentive principle since the act was passed. Consequently, I really would like to see that nothing went wrong with it. That is a pretty tough definition because—

Senator McINTYRE. That is a pretty two-sided answer in some respects. You started off by saying as a lawyer you prefer to have it with the regulations, and ended up by saying due to the experience with the Administrators' changing, perhaps for the overall good of the industry it ought to be in the act itself.

Now, which is it?

Mr. STEWART. I would like a general definition in the act with the Administrator being left enough discretion to make such amendments as his experiences dictate. If that is still two sided, Senator, I am afraid it is because it is honest.

Senator, perhaps one of my reservations is that I think this is a tough problem, so if you get to wrestling with it, it may slow up your legislative process. If it did that, we would like you to leave it to the Administrator.

Senator McINTYRE. You heard the Administrator testify this morning. When he got down to specifics of how exemptions or extensions could be given the small SBIC's that have proven to be of value to the industry and have records of profitability and which the owners were willing to live with at present levels, are you satisfied that we have in the record the various indicia that will be used by the Administrator?

Mr. STEWART. I am satisfied, sir, that Mr. Boutin is a competent, honest, forthright Administrator and, as long as he is SBA Administrator, he will do just what he told his committee he would do this morning. But, I have to tell this committee that this is an area in which we have a right to look for some degree of certainty for a long period of time, whether Mr. Boutin is the Administrator or not. And our only certainty here is enactment by Congress, and this is why we have taken the view outlined in our testimony.

Senator, I am troubled still by your characterization of my answer to a prior question as two sided. We have wrestled with this problem of definition of equity. We will be glad to try to help either the Congress or the Administrator. But we are in an industry where equity is very much a matter of definition. What we call a loan, is often a loan for administrative reasons only. But the level of risk involved makes it truly venture capital. And we must have a definition which recognizes that.

We will be happy to provide you with a view of that.

Senator McINTYRE. I wish you would.

Mr. STEWART. Yes, sir.

Senator McINTYRE. Along the line of that, a general question: Does your statement covering the new minimum size standards amount to a grandfather clause for all SBIC's to stay at any size they wish for an unlimited length of time?

Mr. STEWART. I think not, Mr. Chairman. I think we made it plain on page 9 that their continuation in the program would be conditioned on their maintaining certain things: First, that they would obviously have to operate in compliance with the act and regulations. Second, that they would have affirmed a clear intention to reach the higher level of private capital. Third, they would have actually submitted a feasible plan for the achievement of that higher level.

Senator McINTYRE. That feasible plan was what the Administrator mentioned, that sort of indicated an area of compromise: That if a feasible plan, acceptable to him, arrived at the, say, \$1 million level, when I don't know, there might be some area there we could move to protect some of these small companies.

Am I on firm ground when I say this is what you feel should be done in deference to the original understanding?

Mr. STEWART. Senator, here I just have to speak as strongly as I can. The original decision of the Congress to allow companies to be licensed with \$150,000 in private capital may have been a mistake. If

it was, it was made in good faith. But in reliance on that law, a number of people have risked their private capital. I really dislike, as a lawyer and as a citizen, to see the Government change the rules of the game without giving those people a chance. As long as they abide by the law and regulations and as long as it makes sound business sense, then they should be able to continue their operation.

Senator McINTYRE. Would you care to comment on this additional criteria that the Administrator was talking about when he said "in violation"? As I understand, there have been a number of violations and many, many companies have been in violation. Now, I just thought that when he kept inserting this, that this was something that was not in his statement, that this might be something, well you are in violation 2 years ago, and therefore you are not to be given any consideration.

Would you comment on whether or not it should be a willful violation or serious violation?

Mr. STEWART. I would hope that the committee will have the legislative history make plain that the violations relied upon by the Administrator to refuse exemptions would have to be serious violations, violations amounting to willfulness, or fraud, or jeopardizing the Government's money, or misusing the program in some way.

Senator, if there is one thing we do not have a shortage of, it is regulations. Our industry is the most regulated industry of which I know, and I will be happy to detail that with chapter and verse. I do not know many SBIC chief executive officers who would be prepared to go under oath on any given day and tell you they are not in violation.

Senator McINTYRE. The Senator from Illinois.

Senator PERCY. I think, Mr. Stewart, I will have to ask some questions, because of my lack of experience and background in this field.

Mr. STEWART. I respectfully dissent. We know you as a distinguished venture capitalist.

Senator PERCY. I was interested on page 3 in your statement, where you indicated that the very existence of the SBIC program hung in the balance during the past year or two. I think that might come as a surprise to some of the members of this committee. Could you elaborate on this statement and really tell us why things look so bleak? Was there reason for it, and, if so, what were the causes?

Mr. STEWART. Senator, I think you will have to let me talk about this subject for a few minutes. We have companies of different sizes and nature and the reasons are somewhat different for all of them.

The money market was saying that this SBIC industry is not even attractive enough so that if you paid a dollar for \$1 of its cash, you would be getting your money's worth.

Our smallest companies became loaned up, and fully invested, very quickly. It has been an industry with a high level of risk, long-term loans, no secondary financing adequate beyond what was available from the Government, no financing clearly in sight from private lenders, no way to turn its money over, no way for a company to increase its income or to expand its rate of return. Certainly there was some management inexperience and they were paying the cost of that.

The above characteristics could be applied to our middle-sized companies. An additional factor is the blockage of growth in size to the point where they could have access to the equity market or public capital market. Finally the companies had become disillusioned with the program, partly because of overexpectation at the outset.

Everyone had asked too much of this program too quickly. That was true for the Government, stockholders, managers, and small businesses. But these companies saw no way to meet one of the ultimate requirements a manager of an investment company must meet for his stockholders—the ability to raise more capital to keep on doing what he has been doing, to get them greater leverage and growth.

And this brings us to the largest companies. They found that they were being treated in the money market in the traditional way closed-end investment companies have been treated. Their stocks, as was mentioned this morning, sold at continuing discounts, well below their net asset value. In one or two cases, they were priced below their cash liquidating value.

A share of SBIC stock was worth less than the actual amount of cash in the till of the SBIC it represented.

We felt this was a pretty harsh, clear, and dramatic judgment on this program by the money market. And we felt that its significance should have been recognized by the Federal Government far sooner than it was.

I can recall being told by one former Budget Director that this was a temporary thing that would pass in time. He thought the money market would learn to understand us, how to evaluate our problems, and how to appraise our kinds of companies. We have found, I think, that this is not the case. But all three of these kinds of companies learned the intrinsic difficulty of the business the hard way. They knew that this had been originally characterized as an experimental industry. They had that in mind as all of the difficulties become clear. They knew many had been anticipated in the legislative history. They were distressed by the fact that the Government outside SBA did not seem to care enough to take quick remedial action. That naturally led many people in this industry to wonder whether the candle was worth the game, and whether they were warranted in keeping their stockholders' money in the business.

I don't know if that is a good answer, Senator, but that is the best I can do.

Senator PERCY. I am not sure I understand why the money market has looked so skeptically at this. This is not an emotional market. They are not known for their judgments based on sentiment.

Mr. STEWART. They are surely not.

Senator PERCY. They are realistically looking at what the future is. Are they right or wrong in saying that the future doesn't warrant their confidence?

Mr. STEWART. A half dozen elements are responsible for the summary judgment the money market has made. We have had a long string of unfortunate publicity stories, having to do with licensees who are in trouble one way or another. The market was oversold on SBIC's at the outset, and it always overreacts. The discount in closed-

end investment companies has been a perennial thing. For our companies, the market seemed to think it was even more warranted than for others. I do not think you can avoid the conclusion that there is \$40 billion in the mutual fund industry and \$400 million in the SBIC industry, because the money market thinks the mutual fund industry is a better way to make money.

Mutual funds are a form of financing large-scale enterprises which are relatively stable, which have continued access to the money market, and able to survive the ups and downs of the business cycle. We are at the jugular of risk as well as growth.

We do not have yet a surplus of investors in this country who have either the experience or the interest in taking the level of risk that SBIC's involve, or who can see a large enough rate of return given our Government licenses and Government regulation. We have not yet been able to attract, on a continuing basis, the kind of broad support which other forms of investments have attracted. Still not clear enough?

Senator PERCY. Oh, it is coming. We are not a people, though, that are looking just for sure-shot things. I mean, this \$40 billion in mutuals, we know is stable, ready, but relatively undramatic. No one will double their money overnight. Now, why has the State of New York gone into lotteries, where no one, you know, rationally has a chance, but—

Mr. STULIS. Do not put us in that category, Senator.

Senator PERCY. In other words, what happens in between, where the infant industries, the infant Arnold Beckmans, and all of these companies that have an idea, a scientist, an engineer behind it, a product, but they can't get money for it, they need long-shot money, high-risk elements, this is the kind of thing that I felt SBIC's were going to go into and would have the promise for.

And it seems to me there is a lot of that money in this country, if there is good management behind the enterprise, if there is a seeking out to find these ideas. They do exist all over the country, they exist in college campuses, and in the minds of brilliant people. What has to happen to cause us to seek out and find those things which I feel were really in the minds of the instigators of this concept 8 or 9 years ago?

Mr. STEWART. The first thing that has to happen, Senator, is that this bill has to pass quickly, because if it does not we are not going to have an industry to build on. I can't say vigorously enough how much I agree with you that this is the right question. I honestly do not think this legislation answers it entirely. I think we have better answers than I am able to give you at the moment in the time we have limited to this legislation.

But I would just hope as hard as I can that as soon as you have passed this legislation, this subcommittee turns its attention to just the question Senator Percy raises, because it is a critical one for the future of new business and small business in this country.

Senator PERCY. I am for the bill, I cosponsored it. However, I don't think this is the panacea, frankly.

Mr. STEWART. We don't either.

Senator PERCY. We are going to be here this time next year, looking over the ledger sheet of SBIC's, and all the hopes and expectations that we have for it will probably be a little bit better than now, but it is going to be a change of degree only, not a large change.

I hope that your imagination, your enthusiasm, the force you can put behind us, will help us break through to find some of the big answers that will really help stimulate small business in a way that I don't see will be done by this legislation.

You indicate in your testimony that the industry has not been certain whether or not, and you say, "Our Federal partner has his heart in the program." Now, the Federal partner is a many-headed thing. Can we be specific about it? Who is it? Is it the Congress who created the idea? Is it the executive branch that is carrying it out?

Here we have an idea coming out of the legislative branch. It has to be executed and carried out by the executive branch, who, being human beings, always will be more enthusiastic about their own ideas than someone else's ideas.

Mr. STEWART. That is one reason we love this little bill. We hope you will pass it quickly, it is theirs.

Senator PERCY. In other words, you see now a grabbing hold of it by the executive, saying, "By gosh, we are going to live with this, so let's make it work." Maybe that is why for 8 years we haven't made enough progress.

Mr. STEWART. I think that is a very reasonable statement, Senator.

Senator PERCY. I won't press you any further, you have to live with it.

Mr. STEWART. Senator, you do not have to press me at all. My former colleagues in the U.S. Bureau of the Budget are the most dedicated, hard-working guys you ever saw, but they have a job to do. They have to balance the budget.

Those great fellows in the Treasury Department have to raise the money for the Federal Establishment, and it is a tough job. SBIC's are not important to them. SEC is sweating out money market problems that seem much more important to it than SBIC's. We have had a very low priority in those three agencies and for understandable reasons. But, I think we now have an opportunity to have a higher priority if we get swift action on this measure.

Senator PERCY. We have discussed a little bit already this question under the chairman's questioning on the million-dollar minimum capitalization. Would you favor an amendment, under certain circumstances, to permit some SBIC's to remain permanently in the program although they may never reach the \$1 million figure, and would you favor an amendment to require that at least one SBIC be retained in each State regardless of size? This is the same question I asked this morning.

Mr. STEWART. In answer to your first question, emphatically yes. We adhere very flatly to the view that people ought to be allowed to stay in the program as long as they comply with the law and the regulations and they are satisfied with their rate of return. As to the future,

the establishment of the minimum standard for new SBIC's, we can't quarrel with that.

In answer to the second part of your question, I am not sure that one SBIC in each State is enough. But to answer your question the way you put it—absolutely—I would be for such amendment.

Senator PERCY. In other words, you would favor it.

Mr. STEWART. Absolutely. I would like to see a little competition, the more the merrier.

Senator PERCY. Lastly, in your experience, have there been instances of abuse of subsection 304(c) which permits small businesses to purchase SBIC stock with a portion of the equity funds made available to them by an SBIC?

Mr. STEWART. None that I know of directly, Senator. The agency may have better information about that.

Senator PERCY. Mr. Chairman, as a very junior, very freshman Senator whose experience in this Federal Government is limited now to less than 200 days, I think that your hearings have brought out a principle which I, through the course of my Government experience, am going to try to adhere to. It doesn't matter what the origin of an idea is, if it is a good idea, we ought to be for it. And I am going to support, back up, and fight for those concepts and ideas and programs that come from the administration, be it Democratic or Republican, and support them in the legislative branch of Government, and I do indeed hope that the executive branch of Government, all departments of it, will respond favorably to and support those creative ideas and thoughts that do come out of the legislative branch. We can't execute and carry out, we can only initiate and support. And certainly I think it is the sense of many of us that we should go all the way now to support and strengthen this program to make it truly effective and make it really work. We will give support to this initiative now on the part of the administration for remaking the program, by taking the benefit of the experience we have now had, and recognizing that no idea can be perfect from its inception and that anything can be improved.

But I hope we will have the courage and foresight now to break through in an even bolder way to find things that we can do to strengthen and support the initiation and start of small businesses which can become a great contribution to American enterprise through this initiative.

Senator McINTYRE. I certainly appreciate the Senator from Illinois thoughts, and speaking as one who has a very small past experience in being a subcommittee chairman, I certainly hope, too, that together, from both sides of the aisle, that we can move forward into these uncharted areas, working together with small business investment companies, and SBA, and hopefully next year we can be coming up with legislation that will further help the very critical area of small business financing.

I have just one last question, Mr. Stewart. I want to get your answer to this. You may be aware and you may not be aware that another

subcommittee of this Banking and Currency Committee has been holding hearings on legislation known as truth in lending. And the problems posed by State usury laws have been discussed in this subcommittee. Now, I note that your members presently can make loans at up to 15 percent. Does the SBIC industry have problems in any States because of a conflict between the State usury laws and SBA loan charges, or can you foresee such a conflict?

Mr. STEWART. Mr. Chairman, my recollection is that several State usury laws required amendments in order to permit companies to operate under the Federal regulations. But I cannot recall where usury laws present us with problems.

Perhaps we could provide you with a list and memorandum for your record. Mr. Stults tells me he does know of some.

Mr. STULTS. There are States, Senator, that are very strict 6-percent States, and since we must express our interest in simple interest terms, we can't have the add-on, SBIC's find it almost impossible to make loans and investments in certain States. Where there is a strong 6-percent State, it is obviously impossible for SBIC, borrowing money at 5½ percent, making high-risk loans, to put the dollars out at 6. So small businessmen in these States take a shellacking, because we aren't going in there and make loans.

Senator McINTYRE. We would appreciate a brief memo on your experiences on this in the States indicated.

Mr. STULTS. As you know, this is not a simple question, because a 6-percent State sometimes allows add-on, so you go to 11¾ automatically. We will certainly give you the information we have on State usury laws.

Senator McINTYRE. This will be helpful to us.

(The following material was received by the committee:)

NATIONAL ASSOCIATION OF SMALL BUSINESS INVESTMENT COMPANIES,
Washington, D.C., June 7, 1967.

Hon. THOMAS J. McINTYRE,
Chairman, Subcommittee on Small Business, Senate Banking and Currency Committee, Washington, D.C.

DEAR MR. CHAIRMAN: During our appearance before the Small Business Subcommittee on June 1, I promised to supply whatever information I could on State usury laws.

Last year, the Small Business Administration developed a table giving an outline of usury laws for the various States. I am attaching a copy of that table for your use.

Incidentally, the Investment Division drew certain conclusions from its study on State usury laws and I am also including those three paragraphs for your perusal.

Thank you for this opportunity to supplement our testimony.

Respectfully,

WALTER B. STULTS,
Executive Director.

Usury laws

State	Small-loan regulatory laws	Maximum legal interest	
		Noncorporate	Corporate
Alabama	Yes	8 percent	8 percent.
Alaska	Yes	do	Do.
Arizona	Yes	do	12 percent.
Arkansas	No	10 percent	10 percent.
California	Yes	do	Do.
Colorado	Yes	12 percent	12 percent.
Connecticut	Yes	do	Do.
Delaware	Yes	6 percent	(1).
District of Columbia	Yes	8 percent	8 percent.
Florida	Yes	10 percent	15 percent.
Georgia	Yes	8 percent	(1).
Hawaii	Yes	12 percent	12 percent.
Idaho	Yes	8 percent	8 percent.
Illinois	Yes	7 percent	No limit.
Indiana	Yes	8 percent	Do.
Iowa	Yes	7 percent	Do.
Kansas	Yes	10 percent	(1).
Kentucky	Yes	6 percent	(1).
Louisiana	Yes	8 percent	(1).
Maine	Yes	None	None.
Maryland	Yes	6 percent	(1).
Massachusetts	Yes	None	None.
Michigan	Yes	7 percent	Profit corporation. ¹
Minnesota	Yes	8 percent	(1).
Mississippi	Yes	do	8 percent.
Missouri	Yes	do	(1).
Montana	Yes	10 percent	10 percent.
Nebraska	No	9 percent	9 percent may be exceeded.
Nevada	Yes	12 percent	12 percent.
New Hampshire	Yes	None	None.
New Jersey	Yes	6 percent	Except as to small loans of \$500 or less. ¹
New Mexico	Yes	12 percent (unsecured)	12 percent (unsecured).
		10 percent (secured)	10 percent (secured).
New York	Yes	6 percent	(1).
North Carolina	Yes	do	6 percent. ²
North Dakota	Yes	7 percent	7 percent.
Ohio	Yes	8 percent	(1).
Oklahoma	Yes	10 percent	10 percent.
Oregon	Yes	do	12 percent.
Pennsylvania	Yes	6 percent	(1).
Puerto Rico	No	8 percent (over \$3,000)	8 percent (over \$3,000).
		9 percent (up to \$3,000)	9 percent (up to \$3,000).
Rhode Island	Yes	30 percent over \$50	30 percent over \$50.
South Carolina	Yes	7 percent	(1 ³).
South Dakota	Yes	8 percent	8 percent.
Tennessee	Yes	6 percent ⁴	6 percent. ⁴
Texas	No	10 percent	10 percent.
Utah	Yes	do	14 percent.
Vermont	Yes	6 percent	6 percent.
Virginia	Yes	do	(1).
Virgin Islands	No	10 percent	10 percent.
		7 percent on 1st mortgage on real estate.	7 percent on 1st mortgage on real estate.
Washington	Yes	12 percent	12 percent.
West Virginia	Yes	6 percent	(1).
Wisconsin	Yes	12 percent	No limit.
Wyoming	Yes	10 percent	10 percent.

¹ Usury as a defense is not available to a corporation.

² In North Carolina, loans to corporations of \$30,000 or more repayable over at least 5 years, with repayments of principal not exceeding $\frac{1}{2}$ of the original principal amount during any of the 1st 5 years may bear interest at a rate up to 8 percent per annum; provided that if there are individual guarantors, such guarantors cannot be required to pay more than the principal due plus 6 percent interest, and provided further that this section shall not apply to any loan which matures less than 5 years or provides for repayment in excess of $\frac{1}{2}$ during any year of the 1st 5 years (ch. 24, sec. 8 of the general statutes).

³ In South Carolina, the defense of usury is not available to business corporations having issued par value stock or stated capital in the amount of \$40,000.

⁴ In Tennessee (a) loans secured by mortgage on property (real or personal) located in another State can bear interest allowed in State where property is located; (b) corporations, firms, and individuals are authorized to issue their bonds or notes in an aggregate amount of \$50,000 or more, secured by lien of mortgage or deed of trust, bearing interest at a rate not greater than $7\frac{1}{2}$ percent per annum, payable annually or semi-annually, the shortest maturity of said notes or bonds to be not less than 2 years after their date of issuance.

USURY LAWS AS A FACTOR IN THE FORMATION OF SBIC'S

SBA has found no discernible relationship between the usury limitations of a state, and the number of SBIC's in the state.

Nearly half of the states either set no limit on legal interest for loans to corporations, or their laws provide that usury as a defense is not available to a corporation. The latter is the case, for instance, in New York, which has 104 Licensees, the second highest in the country. On the other hand, California, with a 10% limit, has 118 SBIC's, the most of any state. Massachusetts with no limit, has 39 SBIC's. Texas, with a 10% limit, has 56.

A list of SBIC's, separated by states, is submitted herewith. It appears that licensing activity has been heaviest in the financial centers of the country, and has not been significantly affected by the usury statutes. More than one-third of the SBIC's are found in the Boston area, New York City, Philadelphia, Chicago, Dallas, Los Angeles-Beverly Hills and San Francisco-Oakland.

Mr. STULT. Senator, you asked this morning about why there were limits on section 302 subordinated debentures. This act was passed in 1958 under the assumption that there would be literally thousands of SBIC's throughout the country. Each SBIC was to be sort of home-grown, grassroots company with \$150,000 in private capital generating \$300,000 of SBA loans. I can recall in 1960, the Senate Small Business Committee questioning the then Administrator of SBA, and getting from the then Administrator a prediction that there would be 2,000 SBIC's by the end of 1960.

It was hoped at that time that these would be essentially one-man, small, personal investment companies. This concept just didn't work, and in 1961, Congress raised the limit to \$400,000, under section 302.

In 1964, the limitation was raised to \$700,000, so there has been a succeeding growth in size. This legislation would in effect take it to \$3 $\frac{3}{4}$ million, on a matching two to one basis.

At the beginning of the SBIC program, it was assumed there would be \$2 of Government money for every dollar of private capital. That has never been achieved, largely because big SBIC's that went public in the 1959, 1960, and 1961 new issues market were able to raise large amounts. Some \$300 million was raised in that 2-year period through public stock offerings.

These companies, by and large, could borrow very little from SBA in comparison with their own lending limits. At the outset of the program, there were no limits on section 303 loans. It was not until 1961 that Congress changed the ground rules by putting in a \$4 million limitation, so that the whole program has been shifting.

It has grown through experience. We have found difficulties in certain types of operations. Congress has always been very responsive to the industry's needs for changes in the basic ground rules, and this, as the Administrator pointed out today, will be certainly the most comprehensive rewrite, taken together with the tax bill, that we have had in these 9 years.

Senator McINTYRE. Well, Mr. Stewart, I want to thank you for your fine statement and able testimony, and assure you that as chairman of this subcommittee, along with the distinguished Senator from Illinois, we will be giving it our attention, trying to move the bill along just as rapidly as the tenor of your voice has indicated the urgency that apparently is true.

So, with that, and with the ammunition you have given us, the record will remain open until June 16 for any official statement—it has been suggested that in view of trying to move this down the legislative path that we amend that date from June 16 to June 9. Do you think that will give everybody an opportunity to get in anything that they want?

Mr. STEWART. Yes, indeed, sir.

Senator McINTYRE. You like that. All right, with that, we will adjourn the meeting of the subcommittee.

Mr. STEWART. Thank you very much.

(Whereupon, at 3:25 p.m., the subcommittee was adjourned.)

(The following material was subsequently received by the committee:)

SBIC PROGRAM

SIZE OF REPORTING COMPANIES AS OF MARCH 31, 1966—606 REPORTING COMPANIES OUT OF 700 LICENSEES

BY AMOUNT OF PRIVATE CAPITAL

	<i>Size</i>	<i>Number</i>
Under \$300,000	-----	368
\$300,001 to \$500,000	-----	132
\$500,001 to \$1,000,000	-----	58
\$1,000,001 to \$3,000,000	-----	23
\$3,000,001 to \$5,000,000	-----	6
Over \$5,000,000	-----	19
Total	-----	606

BY STATUTORY CAPITAL

	<i>Size</i>	<i>Number</i>
Up to \$325,000	-----	275
\$325,000 to \$1,000,000	-----	243
\$1,000,000 to \$5,000,000	-----	69
Over \$5,000,000	-----	19
Total	-----	606

THE AMERICAN BANKERS ASSOCIATION,
Washington, D.C., June 9, 1967.

Hon. THOMAS J. McINTYRE,
Chairman, Subcommittee on Small Business,
Committee on Banking and Currency,
U.S. Senate

DEAR SENATOR McINTYRE: The American Bankers Association supports S. 1862 which is designed to strengthen and improve the laws under which the small business investment companies operate.

Some of the changes in S. 1862 are in conformity with the findings of a 1965 study sponsored by The American Bankers Association. The study is entitled, "The Role of Commercial Banks in the SBIC Industry." In this letter we will only comment on two provisions of the bill:

1. An important feature of the legislation is the provision to raise capital requirements of the SBIC by steps over a period of years from its present \$300,000 minimum to \$1,000,000 by February 1971. SBA will have discretionary authority to permit some SBIC's to continue even though they fail to meet the capital requirements. These changes would seem to be necessary. Many small business investment companies are too small to serve their market, employ adequate personnel or to be economically profitable. It is believed the increase in capital requirements together with the increased financial incentives will provide the

SBIC's with the adequate financial resources they need to operate more efficiently and more economically.

2. The bill increases from 2 percent to 5 percent of capital and surplus the maximum amount commercial banks may invest in the stock of SBIC's. This increase will make it possible for banks to participate more actively in the program.

It has been established that bank-affiliated SBIC's have been operating in accordance with the original intention of the SBIC Act and have, generally speaking, been successful. Banks have been strong supporters of the program and we expect that they will continue their support under the new program.

The A.B.A. urges prompt enactment of the program recommended by the Administrator of the Small Business Administration.

Sincerely yours,

CHARLES R. McNEILL.

WEST CENTRAL CAPITAL CORPORATION,
Abilene, Tex., June 5, 1967.

Senator JOHN J. SPARKMAN,
Chairman, Banking and Currency Committee,
Senate Office Building,
Washington, D.C.

DEAR SENATOR SPARKMAN: I am grateful for the interest of the Banking and Currency Committee and the Subcommittee on Small Business as evidenced by the thoughtful consideration you have given the need for additional legislation to make the SBIC program meaningful to small business and attractive to SBIC investors.

As the principal owner and active manager of a minimum-capital SBIC, I write you to express an opinion on the captioned Bill.

I favor Title I of the proposed Bill, and I favor all Sections of Title II except Sections 2 and 6, to which Sections I am opposed for the following reasons:

1. It is manifestly unfair to those of us minimum-capital companies (and there are many) which have, ever since our licensing, conducted our affairs entirely in keeping with the spirit and letter of the Act which created us and in conformance with the ever-changing regulations governing us, to require that we double our capital investment in the next 20 months or be considered in violation and have our licenses subject to revocation.

2. Not only is it unfair, but it is confiscatory in that we could not prudently continue to make new investments . . . we are restricted, remember, to a minimum of five years on our investments . . . in view of the threatened loss of our license if we do not double our capital within the next 20 months, more than treble it in 44 months and increase it by nearly seven times in the next seven years. Where could we find investors for an industry so subject to administrative extinction?

3. In your introduction of this proposed legislation, you cited the remarkable record of 20,000 SBIC financing totalling over \$1,000,000,000. The text indicates that 88 companies with over one million capital supplied 60 percent of the total dollars of this financing. This means that the rest of us supplied the other 40 per cent, and because of the loan limits imposed on us, it is reasonable to suppose that this 40 percent of the total dollars represented far more than that percentage of the 20,000 financings. Would not a better criterion be the number of small businesses assisted, rather than the total dollar amount of such assistance?

4. Section 2 seems based on the completely unsupported premise that (1) NO small SBICs can make a profit, and (2) any large SBIC can make a profit, and that therefore all SBICs, regardless of record, should be required to become big. If, as SBA has apparently concluded, companies like mine cannot continue to operate profitably on our minimum capital (like the bumblebee which cannot, aerodynamically speaking, fly at all) is it not reasonable to believe that we ourselves will reach that conclusion in good time and either merge with other companies of our size, obtain additional capital as our need and our earnings record justify, or voluntarily surrender our license?

5. Providing for exceptions and exemptions to be granted at the will of the Administrator is, in my opinion, a delegation of Congressional responsibility which might, in the hands of administrators less dedicated than Mr. Boutin and

Mr. Greenberg, be seriously abused. I think most of our present difficulties stem from the fact that Congress has had too little to do with administering the industry it created in 1958. We are already subjected to a regulation which administratively increased the amount of capital which Congress originally thought necessary, and no sale, merger, or transfer of control can be processed unless this new and administratively-arrived-at minimum is met. Regulations regarding the class and type of our investments and the nature and character of our ownership are changed with the seasons and reflect the philosophy of administrators rather than Congress.

6. I can hardly believe Congress would look with favor on a regulation such as is contained in Section 2 of Title II if it were meant to apply instead to banks and savings associations across the country. No one would ever think of insisting that all small banks increase their capital to one million or shut up shop.

7. In addition to the assistance provided in the other sections of this Bill and in S. Bill 1863 (which I wish would permit ownership by an SBIC of stock in a Sub-Chapter "S" Corporation), all the SBIC industry needs is strict and knowledgeable supervision, frequent examinations, and prompt and certain punishment for violation of simple, understandable, workable and stable regulations.

The text of the proposed legislation mentioned the support given it by Mr. Milton Stewart, President of the National Association of SBICs. I am a member of that Association, but I wish to record the fact that in the instance of Section 2 and 6 of Title II of this proposed Bill, NASBIC does not represent me.

Mr. Stewart's views in regard to this legislation are, I am sure, sincerely held, but I feel they may be somewhat colored by the fact that he is President of one of the largest SBICs in the country. Certainly those opinions expressed in the text and attributed to him, if meant to apply to Sections 2 and 6 of Title II of this Bill, do not coincide with mine or with those of any other minimum-capital SBIC operator I know, and they should not be accepted as the opinion of our industry as a whole.

The small businessman who really needs help right now is the man who owns a minimum-capital SBIC. I trust that his interests and the interests of other small businessmen who would find it difficult to persuade a million-dollar corporation to listen to their problems, will not be neglected in your hearings.

Sincerely,

ELBERT E. HALL.

JOHN I. THOMPSON & COMPANY,
Washington, D.C., June 9, 1967.

Mr. JOHN J. SPARKMAN,
U.S. Senate, Washington, D.C.

DEAR SENATOR SPARKMAN: As a small businessman, member of the District of Columbia SBA Advisory Council for several years and its present chairman, I would like to lend my support to the bill S. 1862 Title I and II. I recommend its enactment as beneficial to small business.

Very respectfully,

B. J. HANSEN.