In the event a cotton gin loan application is to be declined, our regional director first will discuss the situation with the industry representative. Before the file is sent to the area office for final action, the industry representative may, if he does not concur in the proposed declination, submit for the file a report of his evaluation. We anticipate that this cooperative effort will prove to be mutually beneficial.

One additional matter I would like to report on relates to the alleged financial gap for certain enterprises that cannot be clearly defined as either "agricultural" or "commercial."

The Chairman will remember that this has caused some question in the past. This would be a situation where the applicant is not considered eligible by either SBA or the agricultural credit agencies. We have established with the Farm Credit Administration a mutually satisfactory procedure to resolve this problem. Under the procedure our regional office will furnish the essential information to the appropriate Federal intermediate credit bank.

If the bank determines that the operation primarily is agricultural and thereby eligible for production credit association financing, it will advise our regional office of the name and address of the PCA to which application should be made.

On the other hand, if the bank determines that the operation is not primarily agricultural, it will refer the case back to our regional office for consideration under SBA financial assistance programs.

The CHAIRMAN. Mr. Hendricks, again before you move into other areas, if a matter is identifiable as an agricultural loan, it is referred to the Production Credit Association or to the Department of Agriculture. If it is a commercial loan, then it is referred to the Small Business Administration?

Mr. HENDRICKS. This is correct.

The CHAIRMAN. So this liaison has been worked out. Each matter is identified and referred to the appropriate agency for consideration?

Mr. HENDRICKS. Yes, sir.

The CHAIRMAN. Very well.

Mr. HENDRICKS. Our 7(a) business loan loss experience through June 30, 1967, reflects actual losses of $31.4 million and estimated losses of $34.7 million. Thus, total actual and estimated losses are $66.1 million, which represents 2.86 percent of total disbursements, up slightly from 2.58 percent as of June 30, 1966.

Our 7(a) business loan delinquency rate as of March 31, 1968, was 3.6 percent, representing 1,349 loans out of our 37,037 7(a) business loan portfolio. The rate as of June 30, 1967, was 7.1 percent. This substantial reduction in delinquencies primarily results from the team-act approach I referred to earlier.

Administrator Moot, in his statement, referred to the extensive analysis made of some 22,000 firms which had received assistance through the business loan program since establishment of SBA in 1953, in order to determine benefits to the borrower, cost to the Government, and benefits to the economy. Details of this evaluation are set forth on pages 2 through 6 of appendix A to the Administrator's statement.

The CHAIRMAN. When you refer to the 22,000 that have received assistance through loans, you are only referring in this instance to the section 7(a) business-type loans?

Mr. HENDRICKS. This is correct, and it would be a portion of the total loans made from the inception of the agency.