Q. You talked about reasonable interest rates; our customer may be quoted a figure of 6% but it normally is add-on. In other words it figures out to 11.5% or 11-¾% and in view of tight money situations with the banks, I question how often this small purchaser can borrow money from the bank on a piece of equipment at a simple 6%.

A. Add-on interest may bring it up. Our's is 5-½% simple interest and 11 or 12% may, under the circumstances of this particular borrower (and he is the man we judge, not small businesses as a whole) for him that may be an unreasonable rate of interest. And he might qualify for our 5-½% rate of interest.

Q. If your interest rate is only 5-½% simple, what's going to happen to the banks? I don't think anybody is going to want to visit the bank anymore.

A. The first basic eligibility requirement that we have is that your customer establish that the bank won't give it to him and we will have a couple of letters and our people will talk to the banks before we will make him his loan.

Q. Maybe the reason the bank's wouldn't give it to him is he has already borrowed $30,000 and that's as much as he can borrow with his capital. Does that still entitle him to come to you and get another $30,000?

A. Well, we are no different. These are public monies that we lend and it is a business institution and not a charitable organization. We have to have reasonable assurance that that loan can be repaid from earnings.

Q. How about those who are willing to start a business? They don't have a previous record of earnings, yet they are or were capable employees with a firm who decided to start a little business of their own.

A. We have a great many small businessmen who come to us and want to form a company and have no background at all. In that case we have a rule of thumb in regular business loans that the SBA would like to see them invest about 50% of what is needed. If they have half, we will give them half of what is needed. As far as their background goes, if they have no earnings and the business hasn't started, the only thing a lender can do is look at the capacity of management and their training and the reasonableness of their projection—what inquiries and evidence have they established that they are going to have the business.

Q. What policing is this borrower subject to? May he borrow in the future without going back to you to get permission and does he have to give you a profit and loss report?

A. Oh yes. Like any lender we want to see their balance sheet and operating statements, maybe annually. We have some pretty good financial men. The rendering of the examination of that is often as helpful to the businessman as it is to the lender. We do not, as a rule, impose limitations that prevent further borrowing. But we do do this. A great many small business concerns get into trouble because of going overboard on capital assets. And we may very well, and frequently do, put a limitation in the loan saying, "This borrower will not buy new machinery or equipment in excess of (well, let's say $20,000 in any one year) without the prior written consent of SBA." And the only reason we would withhold that consent would be if we didn't think he could handle it. If he can, fine, but that is the only restriction. To answer your first question again, we do not generally restrict borrowing.

Q. Is there any pre-payment penalty?

A. No. On any SBA loan there can be pre-payment without penalty.

Q. How about the bank?

A. Any bank that participates with us has to accept pre-payment without any penalty.

Q. You have said there is a time restriction of five months on delivery of the machine tool. This will be ample in most cases. However, there will be instances where machines will be sold that will have to be rebuilt and retooled. And in this case it could well exceed the five month period. Is this an inflexible rule?

A. I think it reasonable to assume that if peculiar circumstances arise our people will waive the particular contents of a directive. Now they will not waive them automatically because if they were to do that, there would be no point in writing them. But when a man comes in with a particular circumstance that would justify waiver, our people will consider it.

Q. Are there any limitations as to domestic or imported machines?

A. This applies to *all* machinery which you gentlemen would have for sale.

Q. Does your office have technical men that can go out and appraise these machines?

A. Yes, we do. We have engineers and we have some very able men. The question came up before lunch. Our people (appraisers) are going to look at this piece of machinery because it is the sole collateral for our loan in most cases. But