The CHAIRMAN. Proceed.

Mr. HENDRICKS. Nineteen companies have formed the National Association of State Development Corporations. As of September 30, 1967, the association reports that members have made 836 loans for a total of $76.4 million and that 90 percent of these loans have gone to small businesses. It is evident then that approximately $68.7 million has been made available to small businesses with an investment of Government funds of only $14.5 million or 21 percent.

We require that the State development companies maintain outstanding balances in loans to or investments in small businesses in a amount equal to 133½ percent of the amount due SBA. In this way we are assured of private sector participation in a substantial degree.

The 501 program has the advantage of being extremely flexible. They can put together a financial package to accommodate the requirements of almost any kind of a business situation including direct equity investments.

We have no delinquent 501 loans and no indication that there will be any in the foreseeable future.

We expect this program to grow. Through the efforts of the National Association of State Development Corporations the program should become better known and recognized as a source of funds by businesses requiring financing and by communities desiring to develop their economies.

The willingness of member banks to finance operations of these companies has resulted in a minimum demand for SBA funds. We expect this healthy condition to continue through fiscal year 1969 and, accordingly, our budget calls for a modest $5 million for this program in fiscal year 1969.

The program of loans to local development companies is preeminently a local, self-help program. While a State development company, as provided for under section 501 of the Small Business Investment Act, may perform the function of a local development company, its interest is statewide. The local development company as provided for under section 502 normally confines its activity to a given local community, a town, city, a township or a county. While communities may overlap political boundaries, the average local development confines its operation to a single well-defined community. Each company must be principally composed of and controlled by persons residing in the community.

Loans are made to local development companies for the benefit of identifiable small businesses. Maximum SBA exposure is $350,000 for each such business assisted. A development company may have more than one project and indeed many of them do. The use of proceeds of the loans are restricted to land, building, machinery, and equipment. Section 502 loan funds may not be used for working capital.

In identifying a small business concern for the purposes of this program, we may use the regular small business size standards as established for the business loan program, or the more flexible standards generally used for small business investment companies. A business is therefore considered to be small if its total assets do not exceed $5 million, its net worth $2½ million and net profits $250,000 averaged over the past 2 years.

The CHAIRMAN. Mr. Hendricks, for emphasis and review at this point, I think it is well to emphasize this. Many times the question