

I believe the essence of my question goes also to this point. Mr. Hendricks, you stated in your statement that this program must be self-sustaining, that SBA can or must participate with an insurance company in any lease under 15 years because of this cost factor. Would it not be anticipated that in beginning a program like this, under the rules that Congress has set out, that you could take some small chances, instead of guaranteeing a 20-percent load factor for an insurance company? Are you held by that word "must"? You say it must be self-sustaining. Do you interpret the act to mean that?

Mr. Moot. No, sir. The Congress, as you know, provided a \$5 million working capital fund.

Mr. MITCHELL. Yes.

Mr. Moot. The Congress also said that this \$5 million should be paid back to the fund from which it came, the business loan investment fund, as soon as is practicable. We take that to mean that we can use it to operate and to pay early losses under the program. We did not take it to mean that you intended or Congress intended that we subsidize this program over any period of time.

Mr. MITCHELL. I believe in speaking of this fee, the act states that "sound actuarial practices procedure to the extent practicable may be used."

Mr. Moot. That is right, sir.

Mr. MITCHELL. It states that you will participate with the insurance companies "to the greatest extent practicable."

Mr. Moot. That is right.

Mr. MITCHELL. The question that the committee is now asking is, Do you think it is practicable for small business concerns to pay the type of premiums for the insurance companies that we have been discussing here, in order to be able to get in one of these leased places?

Mr. Moot. Yes; we do, Mr. Mitchell. We think it is good for them. I would like to mention one thing, because I think it is well to put it on the record. The total cost, as you have derived it, I am sure you appreciate has a portion of investment as well as cost. The \$1,100 figure that you mentioned, which is the escrow payment, at a 4-percent interest rate, comes back and is actually rental payments, so that it is not a total cost to the man.

Mr. MITCHELL. Excuse me. I believe the \$1,170—

Mr. Moot. Is the \$900.

Mr. MITCHELL. Is the premium that is paid in full in advance. The \$900 in escrow, they get 4 percent back on it.

Mr. Moot. I am talking about the \$900. I stand corrected.

Mr. MITCHELL. Does that \$900 go to the insurance company in escrow?

Mr. Moot. Well, it depends upon whether it is a direct loan or reinsurance. If it is reinsurance, the insurance company is responsible for investing it and paying the interest.

Mr. MITCHELL. Now, at the end of the period, the insurance company returns that \$900.

Mr. Moot. It is an offset against the rental cost at the end of the lease.

Mr. MITCHELL. At 4 percent interest.

Mr. Moot. At 4 percent interest.

Mr. MITCHELL. And the insurance company can utilize that fund, making anywhere from 5½ to 6 percent interest today.