

With respect to Section II of your proposed bill, we do not have at the present time in effect a priority system in the sense of mandatory instructions to our loan officers. In your letter you state that "While I recognize the need for guidelines, these categories of priorities must not become exclusive." The loan objectives which we have given to our field offices are in the nature of guidelines, a restatement of the mandates (competitive environment, economic growth, balanced employment, etc.) given to us by the Congress for the conduct of this program, and not an exclusive list of priority categories. The funding of national goals as described in your letter is covered in our program reporting system in order that we may learn the intended use of Government funds. However, SBA regulations have historically prohibited loans to various kinds of business enterprises. I am attaching (Attachment No. 3) Part 120 of SBA Rules and Regulations which, under Subsection 120.1(d), Subsections 5, 6, 7, 8, 9, 10 and 12, indicates the types of such restrictions. Since the inception of this Agency these restrictions have been in effect and, although reviewed at frequent intervals, there has not been sufficient justification to warrant revision. An amendment as broad as that proposed might require SBA to make such loans in which the public interest might not be well served. The Congress has in effect directed this Agency to conduct its affairs under fairly specific policies. Therefore, our job is delimited, if you will, by certain basic considerations, which affect the geographic distribution of our funds as well as the categories of small businesses to which such funds are made available. May I list a number of them:

1. Availability of credit—credit generally is more readily available in centers of financial institutions and in areas of economic well-being, thus the need for SBA funds is normally greater in areas of economic stagnation and smaller financial institutions. This is true despite the comparative population totals in these areas.
2. Without recognition of the economic needs of an area—areas with slow growth rate could be penalized.
3. Industry structure is not well distributed geographically—states such as those in the South and Rocky Mountain areas which need new industry could be penalized due to lack of capital—states with industry needing modernization such as textile industry in New England could be denied critically needed funds.
4. Bank lending practices are not uniform throughout the nation, particularly in non-urban areas. Banks tend to be interested in certain lines of business activity, thus new industry needed in non-urban areas could be denied funds.
5. In the area of R & D, the technologically based entrepreneur does not follow a geographic equality pattern—his type is usually found in university and research centers—geographic distribution of funds would limit financial assistance to firms interested in new products and innovative ideas.
6. Capital markets are unevenly distributed in the United States—largely concentrated in New York, Illinois, California, and Texas—this has impact on supply of equity on long term capital.

Your proposed amendment in Section III to require certain reporting information in our annual report we believe is unnecessary since such requests may be handled administratively. We are always responsive to the requests of our select, legislative and Appropriation Committees of the Congress. In addition, if at any time you have any problems with respect to the operations of the SBA and require certain information we will be happy to develop the information and furnish it to you.

In summary, we believe that our loan program is not on the decline but rather will enjoy the biggest year in its history in 1968. We have a system of fund management which will provide on an equitable basis an appropriate distribution of funds to small businessmen throughout the country. We must in the conduct of our affairs establish guidelines so that the resources which are available to us may be distributed to accomplish the stated objectives of the Congress. This will be done recognizing the needs in certain geographical areas and in certain categories of business. Judgment and administrative flexibility are needed by an operating agency within well defined guidelines to carry out the intent of the Congress. It is my considered judgment that the matters with which you are concerned can be handled on a mutually acceptable basis within the authority of our present legislation.

I would like to express to you my appreciation for your interest on behalf of the small business community of this country.