

All of these aspects have been greatly affected by the recent Small Business Investment Act Amendments of 1967, Public Law 90-104, signed by the President on October 11, 1967, and which became effective on January 9 of this year.

This legislation resulted from the experience by SBA, the Congress, and the industry over a period of years, and a general agreement that certain basic problems faced the program. These problems generally fall into three categories: SBIC size, SBIC profitability, and the need to encourage more equity-type investments by the companies.

Studies indicated that minimum-size SBIC's lacked sufficient capitalization to interest prospective investors and competent management, to make thorough investigations of investment prospects, to maintain continuous services for portfolio concerns, to insure a competitive return on investments, and to create a reasonable prospect for success. In short, these studies indicated that the minimum-size company was generally much too small, too limited in finance resources and management skills, to do the job contemplated by the Congress.

It was also recognized that the leverage offered to investors in SBIC's by prior law through SBA loans to the companies was not enough to attract and maintain the flow of private capital to the program. Moreover, larger companies were discriminated against in the amount of assistance they could receive from SBA.

The other major problem was that financing provided their portfolio companies by SBIC's was too frequently of a conventional-debt nature rather than the more desirable and needed equity-type investment. While long-term loans are beneficial to small firms, equity financing is often more appropriate and necessary. In contrast to straight loans, equity-type financing does not place the recipient under early-repayment pressure. It does not take priority over other obligations of the borrower. And it does not cut off other sources of credit. Such equity-type investments may include common or preferred stock, or debt obligations which have appropriate subordination and nonamortization features.

The recent legislation, which had the backing of the President, substantially improves the situation with respect to these matters. The maximum amount of SBA loans to an SBIC has been increased from \$4 to \$10 million. The companies are eligible up to \$7.5 million for loans on the basis of \$2 for every dollar of private capital. Thus, an SBIC having \$3.5 million of private capital would be eligible for \$7 million of Government loans, compared to its eligibility for only \$2.8 million of SBA loans under previous law. SBIC's having at least \$1 million in private capital may receive an additional so-called third dollar of Government loans for every dollar of their private capital exceeding \$1 million if they have 65 or more percent of their funds invested in "venture capital" financings of small business concerns.

The \$3.5 million privately capitalized SBIC would thus be eligible for a total of \$9.5 million of SBA loans if it meets this "venture capital" test, compared to its previous eligibility for \$2.8 million. As a result, potential SBIC financial assistance from SBA is substantially increased from prior law, and a special incentive is provided for equity-type assistance.

I will discuss in a moment our definition of "venture capital" for this incentive purpose. Another beneficial feature of the legislation is that SBA loans to the companies will generally be on a 15-year sub-