

ordinated basis, unless credit considerations preclude this in particular cases. This long-term, subordinated, additional leverage will better allow the companies to develop private financing sources to supplement their private capital and SBA loans. The SBIC statutory total program authorization from SBA's revolving fund has been increased from the \$400 million limit at the time of the previous hearings to \$450 million; \$271.2 million has been charged against this \$450 million limit through February 29, 1968, leaving \$178.8 million.

Features of the legislation which will encourage SBIC's to increase to a viable size include eligibility of larger companies for the "third dollar" leverage, as well as the fact that companies which do not increase their private capital will gradually over a 5-year transition period have their investment limit in a single small concern reduced. At present, the limit is based on a combination of private capital and debentures purchased by SBA from the companies. In 1972, after the transition period, an SBIC's maximum permitted investment in a single small concern will be 20 percent of its private capital. This should encourage minimum size companies to increase their private capital to a more adequate amount.

The new legislation specifically indicates that companies should be of sufficient size to operate soundly and profitably, and be managed actively and prudently, in accordance with the act and SBA regulations. While the legislative history indicates that private capitalization should not be the sole determinative of an adequate SBIC, Congress definitely indicated its intent that SBIC's have sufficient resources to be active, sound, and profitable financial institutions.

SBA has recently issued regulations implementing the provisions of the new law. For example, related to the question of size of SBIC's, the regulations require that each SBIC shall have and maintain qualified management in charge of its operations and available at its office to the public during regular business hours.

We believe that over a period of time these provisions, as well as a growing recognition by the companies of the desirability and necessity for an adequate capital base, will result in an SBIC industry comprised of companies with adequate amounts of private capital to support effective operations under the act. It should be remembered that many minimum-size companies have left the program either as a result of SBA action against them for violations, through default on their loans, or voluntarily because of lack of profit. We are also encouraging growth of remaining smaller companies through mergers and the addition of more private capital.

The SBA regulations also define "venture capital," which must comprise 65 percent of an SBIC's funds and investments in order for eligibility for the "third dollar" from SBA. "Venture capital" is defined to include common and preferred stock, and debentures or loans—whether or not convertible or having stock-purchase rights—which carry an effective interest rate not to exceed 10 percent, are subordinated to borrowings of the small concern from other institutional lenders, and have no part amortized during the first 3 years. This definition will encourage SBIC's to provide long-term funds to small concerns on a basis which will not require early amortization or prevent short-term borrowings of the small concern. This equity-type assistance is the type that is generally needed by small business and for which the program was primarily designed.