The regulation requires the SBIC in all cases where such control is acquired to divest control within a reasonable time, subject to a written plan approved by SBA. While it is recognized that SBIC's must take control in some cases in order to protect their investments, the regulation insures that such control is temporary only. It is clear that Congress did not intend SBIC's to be holding companies, operating or indefinitely controlling small business concerns. Other significant changes in the regulations include a tightening of the conflicts-of-interest regulations to prevent possible self-dealings by SBIC's; and a specific regulation prohibiting unreasonable inactivity, since the act contemplates that an SBIC shall conduct active operations to meet the needs for financing of small business concerns in its area. A provision has also been added for an early warning to SBA in the case of significant capital impairment by a debtor SBIC.

The intent throughout the regulations is to encourage stable and useful financial institutions serving small business. We believe these regulations are fair and sound, and provide reasonable desirable guidance to the companies in keeping with the congressional intent to provide aid to small concerns, to protect the Government's funds, and to encourage participation of private financing sources in the program.

The industry is now on a much sounder footing, largely as a result of these legislative and administrative improvements.

SBIC profits have been rising, and realized and unrealized appreciation of SBIC investments has been much greater. After a shakeup period of a number of years, the industry is gaining increased recognition as a needed and viable form of financial institution. SBIC managers are more experienced, and many companies have developed high-quality staffs. The SBIC's have learned how to invest in equity financing growth situations with the best chance of maximizing profits and minimizing losses. And there is every indication that the demand for capital from growing and high-potential small businesses will continue to present many desirable and profitable investment opportunities to SBIC management.

But there is still much work to be done. Many areas of the Nation are still not adequately served by SBIC's. We are continuing our efforts to foster interest in the program in such areas. SBIC's still have a difficult time raising additional private capital, since their shares frequently sell at a significant discount from book value. And the portfolio turnover rate of the industry needs substantial improvement, through better methods to realize on seasoned and appreciated investments, in order to enable the companies to perform maximum financial assistance services for the small business community.

But there have been advances in these areas and we look for more progress as the industry continues to prosper. The price index of publicly held SBIC's has risen substantially in the past year. Many portfolio small concerns have gone public, thus providing a market for sale of SBIC investments. And the possibility of some sort of capital bank, with secondary market features for purchase or loan against an SBIC's portfolio, is being actively considered within the industry. It should be noted that the new legislation, which generally provides for the subordination of SBA loans to the companies, would materially aid the development of such market financing sources for the SBIC industry.