The CHAIRMAN. You mentioned on page 3 the problems of the day. What are they, other than the desire for more liberalizing legislation by Congress and tax writeoffs?

Mr. BROWN. We still feel that we need to encourage the SBIC's to make more equity-type investments as opposed to straight loans. We still feel, as the Administrator indicated, that we have still got to increase geographic coverage. And we have eight States that have no SBIC's active right now. We want to get the other States served, although they are served usually from the outside. We have investments in all 50 States but we feel like this is an area—and, of course, increasing private capital coming into the program.

The CHAIRMAN. Mr. Brown, at the bottom of page 10 and the top of page 11 you review the maximum SBA loans to SBIC's. The maximum amount of SBA loans to an SBIC has increased from $4 to $10 million. Now, you can make loans or investments up to $10 million?

Mr. BROWN. Under the old legislation, Mr. Chairman, a company could borrow up to $700,000 in debentures. SBA would buy $700,000 in debentures of that company, no matter what the size; if a company was $700,000, SBA could buy $700,000, and if it was $5 million private capital they could still buy $700,000 of debentures. And they were eligible for up to $4 million in loans, operating loans, in addition to this, on the basis of one-half of the combined total of the private capital and the subordinated debentures that were bought.

Thus, as the example illustrates, an SBIC having $3½ million of private capital under the old rules would be eligible for only $2.8 million, $700,000 of debentures, and $2.1 million of operating loans. And now that same SBIC can borrow 2 to 1 on that $3½ million, up to $7 million. And if invested 65 percent or more in what we call venture capital, those with a million dollars or more can get a third dollar. So that that same company that could only borrow $2.8 million under the old legislation, under the new legislation provided by Congress can borrow $9½ million.

The CHAIRMAN. So that today, in the formation of a new SBIC, SBA would invest initially how much, a maximum of how much?

Mr. BROWN. A maximum of $10 million if the company is big enough.

The CHAIRMAN. And how much is the——

Mr. BROWN. Two to one on their ordinary investments and their portfolio. And if they have 65 percent in what we call venture capital, and if they are a million dollars or over, they get a third dollar of leverage. A company of $500,000 or more——

The CHAIRMAN. Do you consider that the great number of SBIC's today are active, sound, and profitable institutions?

Mr. BROWN. Yes, sir; we think so. The ones that we don't feel like are active or sound, we are going to proceed to get out.

The CHAIRMAN. I see that your regulations deal with inactive companies. We want them to be active and helpful. Suppose they haven't made any loans in 6 months, or a year. They have their capital structure there, but they are not busy. They are sort of an adjunct to a bank, or some construction company. What do you do with an inactive company?

Mr. BROWN. We have just received instructions from Congress on this. And we have proceeded to issue regulations on inactivity, where a company must not have above a certain amount of money in cash.