

Mr. Louis L. Allen, President, Chase Manhattan Capital Corp., 1 Chase Manhattan Plaza, New York, New York 10015.

The CHAIRMAN. You mentioned the improvements in regulations, and I marked them here as you testified. First, specific authority for SBIC's to guarantee to institutional lenders debts of small portfolio concerns. Would you elaborate on that?

Mr. BROWN. Well, it isn't one that has been used to any extent at all. But the SBIC's are allowed to guarantee debts of the small business concerns that they loan to, from banks or other lending institutions.

The CHAIRMAN. In other words, if a small business concern has accumulated debts, and the SBIC has previously made some loans or investment in it, SBA can take a second action to guarantee these debts?

Mr. BROWN. It is a guarantee, Mr. Chairman; that is right.

The CHAIRMAN. And give them additional support?

Mr. MOOT. Its primary purpose, Mr. Chairman, is to extend the private sector financing base whereby a small business investment company can say to a bank, "If you will provide funds to this small company in addition to us, we will guarantee that loan from the bank to the small business investment company." In a small way it is the same way that SBA works directly with a small business concern, we will guarantee a bank loan.

The CHAIRMAN. No. 2, the regulations governing control of small business concerns by an SBIC have been tightened. Do you want to elaborate? In what particular? What is control?

Mr. BROWN. Well, any time—and that is a pretty difficult question, Mr. Chairman. Generally we consider 50 percent as control of a small business concern. But in many cases this is not the case, where you have large holdings of a company. But we have been concerned with small business concerns being controlled by SBIC's, because this was not the intent of the program. And we have tightened our regulations where SBIC's, although they still occasionally have to get into control, because of problems of the small business concern, they have to put in more money to keep them alive, they have to now divest within a reasonable period of time, and have to submit to SBA a written statement showing us how they are going to get out of control, and within a reasonable period of time.

The CHAIRMAN. How many control cases have you had including banks or building contractors, and how many have divested themselves of control once they gained control?

Mr. BROWN. You mean bank SBIC's, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. BROWN. I will have to supply that for the record. I don't have it broken down.¹

The CHAIRMAN. You must know how many cases of control and divestiture you have had.

Mr. MOOT. What we required, Mr. Chairman, as of March 31, most recently, is that all companies with control situations submit plans for the divestiture of such companies, so that we do have statistics. Whether we have them readily available by type of SBIC, I don't know.

The CHAIRMAN. Do you know overall how many such cases in numbers?

¹ See p. 210.