and take a look to be sure that no one exceeds—and we have had very few violations of this—we have had some. And in these we proceed against them very quickly and very strongly. But we have had very few violations of that 15-percent effective interest rate.

Mr. MITCHELL. One of the prime complaints the committee has from some small business companies is concerning the effective cost of SBIC money to the small business concern. And there are indications that in some instances the effective cost runs over 15 percent. But from what you are stating, you police that carefully?

Mr. BROWN. That is right, Mr. Mitchell. And every time we get a complaint from a small business concern we investigate it quickly and diligently. And if we find that excessive interest rates have been charged, we proceed against these companies very strongly. This is something we are not going to allow to happen. And I think it happens very little. And we are going to make sure that it does not. They have to make a settlement statement, the SBIC's do, when they make any financing to a small business concern. And in that settlement statement they have to show exactly how much money is going to any sort of fees, discounts, commissions, charges, and anything else. And we have to review the settlement statement that is submitted to us. And we require this for every financing of a small business concern.

Mr. DINGELL. Mr. Chairman, if the counsel would yield to me very briefly.

The CHAIRMAN. Mr. Dingell.

Mr. DINGELL. Mr. Brown, I am curious about one thing. You have discussed a number of matters, but you have not mentioned whether or not it is the standard practice here for SBIC's to, so to speak, take a piece of the action, that is, to insist the conveyance of interest in the borrower. Is this a fact?

Mr. BROWN. To make an equity type financing instead of just straight loans, yes, Mr. Dingell, it is. The last figures that we had, Congressman, show about 145 in debt securities, $145 million, $86.7 million in capital stock, and about $250 million in loans. So it comes close to being a 50-50 split, when you consider the stock and equity type securities on one hand versus the long-term loans on the other hand. Of course, we are trying to encourage these companies to make equity type investments. Many of them make a combination type investment, the debenture with some sort of warrant or options attached. Of course, these have to be worth what they pay for them at the time of investment is made. And it is an investment in this small business concern's future. And we feel like these are the type of investments that Congress had in mind when it started these programs.

Mr. DINGELL. Do you impose controls to insure that these are fairly done, and that they are equitable to the small business firm?

Mr. BROWN. Yes, we certainly do.

Mr. DINGELL. Have you indicated what those are for the purposes of the record already?

Mr. BROWN. We have, but we will try to elaborate if you would like, Congressman.

Mr. DINGELL. So long as you have indicated it for the report, all right, because I intend to scrutinize the record. Have you had any situations where there have been violations of your rules or breaches of good conscience, or where there has been the taking of control as opposed to making equity financing?