

manufacturer in industry is oil oriented. We happen to be in textiles and other things too. That happened because these things came along. The geographic location also determines—if you are in Montana or Idaho, mining may become appropriate, and a specialization develops. A particular individual who is running that SBIC may have had small business experience in his own line. This is where he starts with his specialization.

Mr. MORTON. Are there many “shoppers” in the marketplace who go from SBIC to SBIC looking for a better deal?

Mr. DAVIS. They tell me that that occurs in some areas. I have to say to you that there is such a tremendous demand for our funds and our assistance that I think it is really an inconsequential development.

You mentioned earlier in questioning whether we were going to have restraint of trade problems. Generally speaking among knowledgeable SBIC's, we eagerly look for additional SBIC's, because it will broaden our impact. There are too few people who know what the SBIC is and what it can do for them. This is part of the educational program. The more companies that are available, the more exposure, the better the opportunity to have more of that assistance come from us. And we are available. At a time when few dollars are available in the marketplace today, we have money. The problem is, How do we get business to know that we are here ready to help them? We are proceeding in that direction.

Mr. MORTON. One final question. How do you feel toward equity versus straight loan financing? Do you feel the SBIC industry generally should lean more toward the purchase of part of the equity or should it, perhaps, continue in long-term funding, bonds and loans?

Mr. DAVIS. Well, my company originally was predicated on the basis that we would loan only, with an eleven times leverage. I had it all carefully figured out. I discovered within 18 months that it was impossible.

Since that time practically all of our deals are combination—equity in portion, and loan in large portion. In my opinion the pattern of what will develop in this industry in the next 5 years is that in excess of 80 percent of the fund will go into the combination transaction.

Now, the danger is that in reporting the equity portion may represent only \$50,000. And the loan portion may be \$500,000. But the fact is that it is an equity transaction in combination. I think that the days of the SBIC people that are exclusively lending money—they are lending it because they understand that. Once they get a taste of the opportunities that exist in equities, then they will be willing to let their money stay in. They are willing to ride for the benefits, because they can be so great. And with success stories all around them, the lenders are going to turn into equity operators; they have to.

Mr. MORTON. Do the regulations, which are an umbrella over your business, restrict you in—

The CHAIRMAN. Are they burdensome?

Mr. MORTON (continuing). Going to the marketplace for executive talent?

Mr. DAVIS. I must say this, that the greatest single problem that SBIC's have are the regulatory problems. This is not that we do not understand the problems that SBA has. We understand. For example, the industry is against control situations, just as the SBA is against