

control. What happens is that we run into a problem of what constitutes control. An intelligent SBIC operator can engineer a loan agreement and can have control with 20 percent stock ownership. The important thing is that once an SBIC has been in operation for a great number of years, you can look at the overall pattern of that operation, and you can tell, is this an SBIC which seeks control, or is this one that runs from control? All most SBIC's want to do is make certain that it is in a position where it can enforce the agreements that it has with the small businesses it has financed.

I think this is generally the area. I have had lengthy discussions with SBA. You see, the problem is that whenever one thief is uncovered, there are a whole bunch of fences that are closed. And then that makes it more restricted for all the honest ones. Then if SBA finds another thief in another area, it closes more fences. And all these things become more and more restrictive. And finally it became so difficult that we have serious problems in operating at all.

Mr. MORTON. That is all. Thank you.

The CHAIRMAN. Mr. Mitchell.

Mr. MITCHELL. Are you suggesting on these matters that SBA should not have regulations and guidelines, definite regulations which they should enforce and go by?

Mr. DAVIS. By all means. SBA should have regulations and should enforce them. We favor them. The problem lies in the fact that recently we have had a change in regulations. For example, SBA set one policy and held it for years. Now we have a change in position. This has created tremendous problems, for all SBIC's particularly smaller ones, because they are dealing with companies that are not established, that do not have management depth. You have a difficult situation in terms of trying to make sure that the terms of a loan agreement are complied with.

Mr. MITCHELL. You are thinking of stable, set rules, instead of indefinite rules.

Mr. DAVIS. Yes, that are worked out in conjunction with the industry and the SBA, with the industry recognizing what SBA's problems and obligations to the Congress and to the small business are.

Mr. MITCHELL. You do not want it lax, then?

Mr. DAVIS. No, we want it firm and reasonable.

Mr. MITCHELL. For a few years it was rather lax, and then——

Mr. STULTS. On this question of controlled companies—there were 97 control cases in 1966 and 1967, according to Mr. Moot. There are 20,252 outstanding financings right now. That's a tiny percentage.

One thing that really hurts us is that 2 years ago a brandnew administrator came in and said that there are not more than 200 decent guys in this whole industry. Today Mr. Moot says there are 395 good ones who will serve as the nucleus of an industry. That really hurts. How do you attract capital to an industry when Uncle Sam is saying: "Two-thirds of all SBIC's should be thrown out"? I just plead——

The CHAIRMAN. When you revise your remarks——

Mr. STULTS. I just make a plea for the fact that here we are operating in the free enterprise tradition of venture capital. It is a tough enterprise. You have to keep alert. And at the same time we are operating within a Federal framework of regulation.