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ORGANIZATION AND OPERATION OF THE SMALL BUSINESS ADMINISTRATION (1968)

HEARINGS

BEFORE THE

SELECT COMMITTEE ON SMALL BUSINESS HOUSE OF REPRESENTATIVES

NINETIETH CONGRESS

SECOND SESSION

PURSUANT TO

H. Res. 53

A RESOLUTION CREATING A SELECT COMMITTEE TO CONDUCT STUDIES AND INVESTIGATIONS OF THE PROBLEMS OF SMALL BUSINESS

WASHINGTON, D.C., MAY 20, 21, AND 22, 1968

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Select Committee on Small Business

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ORGANIZATION AND OPERATION OF THE SMALL BUSINESS ADMINISTRATION (1968)

MONDAY, MAY 20, 1968

HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE TO CONDUCT STUDIES AND INVESTIGATIONS OF THE PROBLEMS OF SMALL BUSINESS,
Washington, D.C.

The committee met, pursuant to call, at 10 a.m., in room 2359 Rayburn House Office Building, Hon. Joe L. Evins (chairman) presiding.

Present: Representatives Evins, Kluczynski, Smith, Irwin, Conte, Broyhill, Horton, and Burton.

Also present: Richard L. Mitchell, special counsel; Myrtle Ruth Foutch, clerk; Beth Russell Schultheis, staff assistant; and John J. Williams, minority counsel.

The CHAIRMAN. The committee will come to order.

We have with us this morning Administrator Moot of SBA and our friends from the SBA staff. We want to take up the hearings on the organization and operation of the Small Business Administration. Before doing so, I note we have present our ranking minority Member, Mr. Silvio Conte, of Massachusetts. Other Members present include Mr. Kluczynski of Illinois, Mr. Smith of Iowa, Mr. Irwin of Connecticut, Mr. Broyhill of North Carolina, Mr. Horton of New York, Mr. Morton of Maryland, and Mr. Burton of Utah. It has been several months since we have had an overall review of the programs of the Small Business Administration. Within the last year there has been new legislation, and new powers have been given to the Small Business Administration which we want to review. We want to conduct hearings that we trust will be helpful and constructive.

The committee has convened this morning for the purpose of reviewing all of the operations of the Small Business Administration.

We want to seek full information concerning all of SBA's programs in its various divisions. The Congress, in creating this committee vested in it by resolution the authority and duty to conduct a continuing review of the operations and programs of Federal laws relating to small business, and the operations of Government agencies as they affect small business. This resolution in part provided:

> It shall be the duty of such Committee to conduct studies and investigations of the problems of all types of small business existing, arising, or that may arise with particular reference to * * * (2) Administration of Federal laws relating specifically to small business to determine whether the laws in their administration adequately serve the needs of small business; (3) Whether government agencies give due consideration to the problems of small business * * *.

This authority placed a particular mandate on the committee to review the activities of the Small Business Administration and the laws under which the agency operates. The SBA is a great agency, which has taken its place among the most vital governmental operations in the field of business. It is an independent agency and it is an arm of the Congress. It has a revolving fund of more than $2.5 billion, excluding funds available for disaster loans. It is the advocate of the business community composed of approximately 5 million entrepreneurs—all of them small business.

SBA has emerged as an important force in the business life of this Nation.

Since SBA was established in 1953, we are advised that financial assistance has been made available to more than 117,000 businesses involving more than $5 billion. Its economic opportunity loans, displaced business loans and disaster loans have assisted many additional thousands, and its procurement and management assistance programs exert a powerful influence in the competitive structure of our economic society.

Some say that SBA has fully "grown up".

Because of its size, its importance, and its impact on our business and the economy, it is incumbent upon this committee to review its programs, to assist the agency in ironing out its problems, to discuss with the agency ways and means by which programs may be improved and to keep the public spotlight on all governmental activities that relate to small business. And, yes, to also inquire into complaints that may have been made concerning the agency's work.

No agency of the size and importance of SBA can operate without some complaints and some problems, and one of the functions of this committee is to recognize complaints of the small businessman, and to utilize those complaints in connection with the review of the agency's policies.

It is this committee's desire to assist and strengthen the arm of the Small Business Administration, Mr. Administrator. This is the very purpose of these hearings. Certainly it is my desire that these hearings may be helpful and constructive.

The role of SBA is of particular significance at this time when there is such a great desire and need to stimulate the development of a healthy business sector in the poverty areas of our country. We think there is no better way to provide jobs and to assist the economically deprived than through the building and expanding of small business enterprise. We think that SBA must play an increasing role in this effort.

The agency's management assistance programs and its antipoverty lending programs under the Economic Opportunity Act are especially geared to help along these lines. The committee desires to fully document at these hearings the manner in which the Small Business Administration has utilized its programs to "zero in" on urban decay and rural underdevelopment. As we have stated in previous findings of this committee:

> The committee believes that the building and strengthening of our small business community is as effective as any course of action in the economic development of our cities, small towns and rural areas, especially in areas of poverty and economic deprivation.

We want to assist the agency in this great task.

These hearings will continue through Wednesday, May 22, and we will on Wednesday look into the operations of the Small Business Investment Division of SBA.

The implementation of the Small Business Investment Act of 1958, as amended, is of great importance to this committee. The committee especially desires to inquire into the effect and utilization of new legislation passed by the Congress that confers additional powers upon the SBA and its constituent departments, and gives additional incentives to small business investment companies.

The members of this committee are particularly gratified to have with us this morning for the first time the new Administrator—not the first time to be with us, but the first time before the full committee—Mr. Robert C. Moot.

Administrator Moot came to SBA with a great record of public service. He has already proved to be a strong, active, and able administrator.

Mr. Moot, we are very happy to have you and your associates with us. We welcome you and we will be pleased to hear your statement.

May I say, Mr. Administrator, that I have reviewed your very lengthy statement, some 72 pages with appendix. You may proceed as you wish. It is my suggestion that we take up each division or branch of SBA separately and confine questions by the membership to each particular division in an orderly fashion, if that is your wish.

TESTIMONY OF ROBERT C. MOOT, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION; ACCOMPANIED BY LOGAN B. HENDRICKS; ASSOCIATE ADMINISTRATOR FOR FINANCIAL ASSISTANCE; AND HOWARD GREENBERG, DEPUTY ADMINISTRATOR

Mr. MOOT. Thank you, Mr. Chairman and members of the committee.

I would like to start this morning by introducing my two colleagues at the table. On my left is Mr. Howard Greenberg, Deputy Administrator of the agency, and on my right is Mr. Logan Hendricks, Associate Administrator for Financial Assistance.

Mr. Chairman, it is a great pleasure for me to appear before you today and to participate in hearings which I believe are of paramount importance to the small business community and to the Nation. We feel that this is a very propitious time to put on the record what small business contributes to our national economy and to our society.

Over a year ago this committee stated that:

> The building and strengthening of our small business community is as effective as any course of action in the economic development of our cities, small towns, and rural areas.

Mr. Chairman, the Small Business Administration is dedicated to that proposition as we think these hearings will show. I do have a comprehensive statement, as you mentioned, Mr. Chairman, too long to read in full. With your permission, I would like to read those brief passages that will not be covered by my associates testifying about our individual programs, and then submit my full text for the record.

This morning, together, Mr. Greenberg, Mr. Hendricks, and myself will cover our various financial assistance programs, with the exception

of the economic opportunity program, which with your permission will be included later by Mr. Greenberg in his testimony on our economic development and antipoverty program.

We will, of course, be happy to answer any questions you may have as we proceed. So, Mr. Chairman, if there are no objections, I will now go into the highlights and the summary of my statement.

The CHAIRMAN. Very well.

Mr. MOOT. The status and prospects of small business in a progressively growing economy are generally good. Yet, some grave problems confront us, growing out of the increased market power of giant firms in some segments of industry; current inflationary pressures, high-interest rates, and attendant tight money market conditions; the increasing need for management and technical assistance to small firms; and the uneven distribution of the benefits of economic growth and prosperity among social groups, regions, and industries.

From the date of SBA's establishment through December 1967, our financial assistance programs, excluding disaster assistance, have made $5.3 billion available to finance the capital needs of over 117,000 borrowers. Of this total, $2.2 billion—or 41.6 percent—was financed by the private sector (table 1).

Our studies of the business loan program demonstrate that these loans have helped borrowers to achieve highly satisfactory growth rates and to contribute to the well-being of the economy in general. These growth rates, in recent years, have been at higher levels than the growth of business in general and confirm the oft-stated belief of the Congress that small business, if given a fair opportunity can compete in the open market place without subsidy.

The local development company loan program has assisted over 1500 projects, representing a gross investment of more than $300 million, principally in smaller communities (table 20). I believe that this program is still well below its full potential in both rural and urban economies.

The legislative enactments of 1966 and 1967 have done much to strengthen the SBIC program and to restore confidence in its prospects. The companies have undertaken almost 27,000 financing transactions, involving a total investment of close to $1.2 billion. We expect progressive improvement in the financial soundness of licensed companies and extension of the benefits of the program to additional areas in the near-term future.

In the first 13 months of complete operation under SBA we have made over 3,700 economic opportunity loans, aggregating almost $40 million, to disadvantaged persons in urban and rural areas. Our management assistance facilities have played a major role in this program and will be further emphasized to assure achievement of the congressional objectives set forth in the recent amendments to the Economic Opportunity Act.

We have loaned almost $97 million to 1,308 business concerns displaced by federally financed construction projects (table 15). We are stepping up our efforts to increase private sector participation in this program.

Since the establishment of SBA, there have been about 600 declarations of disaster of widely varying dimensions. A total of 69,000 loans and $616 million have been approved for disbursement to assist

the victims of floods, hurricanes, other catastrophes, economic injury, and product disasters (table 22).

We have recently completed a review of loan policies and eligibility criteria covering this program and have instituted necessary or desirable changes.

Federal prime contracts placed with small business concerns have risen from $4.7 billion in 1960 to $10.2 billion in 1967. The small business share of total procurement rose from 18.3 percent to 20.5 percent in the same period. We are also progressively expanding our cooperative efforts with large prime contractors to maximize subcontracts to small firms.

The CHAIRMAN. If I might interrupt there for just a moment, I recall a few years ago we set a target in this committee of 25 percent as the goal for procurement participation by small business, and your statement here indicates it has now reached 20.5. We are approaching that goal, and I commend you. I think it is a very interesting fact.

Mr. MOOT. Thank you, sir.

We are, as you know, embarking upon a new program which we hope will add additional stimulus by the reestablishing of our procurement center representatives in this room.

The CHAIRMAN. Thank you.

Mr. MOOT. Defense prime contractors report that they have placed $7.3 billion in subcontracts to small business in fiscal year 1967. [See table 23.]

Following a 2-year hiatus, we resumed operation of the procurement set-aside program on November 1, 1967. In addition, we have added emphasis to our efforts to encourage the development of State and local small business procurement programs.

We are continuing a moderate expansion of our management assistance program in response to the expanding needs of the small business community. The number of SCORE volunteers has reached 3,210 and continues to grow. We are intensifying our efforts to promote greater participation by small business in export trade and to broaden and expedite the transfer of federally financed technology to small firms.

We have entered into a number of lease guarantee transactions under the original limited authorization and others are in process We believe that a sound basis has been laid for expansion of the program under the broadened program authorized by the Congress, effective January 9, 1968. We expect a substantially larger volume of guarantees in the current and future fiscal years, with increased private participation.

We have initiated a study of the impact of crime on small business, as directed in the 1967 amendments to the Small Business Act. A report, with appropriate recommendations, is to be submitted to the Congress in October 1968.

Finally, the 5 million small business concerns spread through every community of the Nation are vitally involved and acutely interested in the major Federal, State, and local programs which have been launched to promote balanced economic growth and to cope with the problems of urban decay and rural stagnation.

We believe that the utilization of the actual and potential economic capacity of small business in support of these programs is clearly in

accord with the Small Business Act, as well as the Economic Opportunity Act, and one of the keys to the success of the programs themselves. Accordingly, we are actively engaged in a review of our programs and procedures to insure full coordination with these major national efforts.

While this has brought about some new departures in programs and operations, I believe it to be fully in harmony with the declaration of this committee, issued more than a year ago, that:

> * * * the building and strengthening of our small business community is as effective as any course of action in the economic development of our cities, small towns, and rural areas * * *.

STATUS AND PROSPECTS OF SMALL BUSINESS

The year 1967 was the seventh year of uninterrupted expansion of the U.S. economy—the longest period of sustained growth in the Nation's history. The prospects for continued growth at a sustained high rate are very bright.

The general health of the economy is reflected in the vigor and persistent growth of the small business community. Over the past decade, the total business population has increased by approximately 700,000 firms. Virtually all of this represents a net increase in the small business segment.

Small business accounts for over 50 percent of the total employment by all business concerns and approximately 30 percent of total capital outlays for plant, equipment, and business inventories. Despite mergers, the competitive pressures of large concerns, and marketing problems, it remains very much alive.

Experience over the recent past indicates that small business will continue to grow at least in pace with the general economy.

As a rule, small firms tend to gain more than proportionately in periods of business expansion; conversely, they tend to suffer disproportionately in periods of contraction.

In addition, there are certain favorable indications which point to realistic opportunities to improve the relative position of small business in a progressively expanding economy:

Higher individual and family incomes will increase demands for more personalized, custom-type goods and services which often are produced most efficiently by small firms.

Growing mass markets—which stimulate the growth of large firms for certain functions—create new opportunities for specialized small firms in other parts of the production and distribution process, as has been the experience in the automotive industry.

The drift of technology and growing diversification of the mass market tend, in general, to favor smaller units.

Long-term growth prospects are most favorable for trade and service industries, in both of which small concerns predominate.

The progressively higher level of education of the general population should generate an increasing supply of entrepreneurs more capable of coping with the challenges of the modern urbanized economy than their counterparts in the present and earlier generations.

Government expenditures for goods and services have been rising dramatically since 1960. In 1966, the National Planning Association projected these expenditures to rise from $100 billion in 1960 to $287

billion in 1976. Of these amounts, NPA estimated that purchases from business would increase from $52 billion in 1960 to $138 billion in 1976 and that the State and local expenditures would exceed the Federal purchases from business:

[In billions of 1966 dollars]

	1960	1965	1971	1976
Purchases from business:				
Federal	31.6	37.9	44.9	54.4
State and local	20.5	29.8	52.3	83.6
Total	52.1	67.7	97.2	138.0

These projections indicate that we can expect a product mix more favorable to small business and that the absolute and relative share of small concerns in Government purchases should progressively increase.

While encouraged by these favorable indications, we are not oblivious to certain unfavorable situations or trends which will continue to pose challenges to small business in the years ahead.

The total number of firms in manufacturing has been declining slowly over most of the past 10 years, in a period of extraordinary growth of total output. While there are some indications that the downward trend has been arrested or reversed in the past 2 years, grave problems persist for small manufacturers in major segments of the industry.

Recent studies by the Federal Trade Commission shed some new light on developments in the industry. A study of 213 categories of manufacturing revealed that the number of firms increased from 95,000 to 99,000—a growth of 4.6 percent in 16 years.

Within the groups, however, the number of firms manufacturing producers goods—where technology has had a major impact and where successful marketing is subject to rigorous cost and quality tests—the number of firms actually increased by 23.3 percent in the same period. Meanwhile, the number of firms manufacturing consumer goods declined by 8.1 percent. These widely divergent trends appear to reflect the influence of brand name and other forms of product differentiation, practiced by large manufacturers and conglomerates, powerfully reinforced by television advertising.

Dr. Blair, chief economist for the Senate Subcommittee on Antitrust and Monopoly, stated the problem succinctly in the following words:

"It would indeed be ironic if the potential for greater decentralization and stronger competition inherent in the new technologies of production were to be more than offset by the inability of any but the largest firms to make effective use of this new technology of communication."

The President and the Secretary of the Treasury, in recent statements and testimony, have pointed out the unfavorable and discriminatory impacts of inflation and the tight money market on small business concerns.

The prime bank interest rate has risen to 6 percent, in contrast to 5 percent or lower, which prevailed from March 1 ,1960, through March 10, 1966. Equal or greater proportionate increases have been registered in other rates and in public and private bond yields.

Further, there is significant evidence to indicate that small concerns have greater difficulty in securing needed financing, even at these high rates, than do larger concerns.

The impact of the uneven distribution of economic growth and prosperity among geographic areas, industries, and social groups on the small business sector of the economy generally escapes public attention. Yet, the decay of central cities and the flight to the suburbs have taken a heavy toll of small business enterprises and weakened an important element of the economic and social structure of our largest cities.

At the other end of the economic spectrum, thousands of small business concerns serving a declining farm population or dependent upon mining or other primary industries have disappeared, leaving behind pockets of high unemployment and poverty in small towns and among the rural nonfarm population across the Nation.

The following summary tabulation shows the wide variations in growth trends and prospects among industries within SBA geographic areas. The figures show extended employment changes from 1950 to 1970, based on current trends.

(The table follows:)

EMPLOYMENT SBA AREAS, ACTUAL 1950, AND EXPECTED CHANGE, 1970—SELECTED INDUSTRIES

SBA areas	Agriculture and mining		Manufacturing		Trade		Services		Total employment	
	1950 (thousands)	Change, 1970 (percent)	1950 (thousands)	Change, 1970 (percent)	1950 (thousands)	Change, 1970 (percent)	1950 (thousands)	Change, 1970 (percent)	1950 (thousands)	Change, 1970 (percent)
Rocky Mountain	654	—40	273	107	520	60	368	85	2,654	43.8
Southwestern	1,078	—51	689	80	1,036	55	811	77	5,209	42.8
Pacific coastal	604	—21	1,125	141	1,296	68	1,013	131	6,255	92.9
Southeastern	1,526	—61	1,585	80	1,187	69	1,101	82	7,202	51.8
Northeastern	140	—35	1,387	10	652	35	536	63	3,647	29.8
Mid-Atlantic	1,289	—60	3,298	18	1,927	35	1,517	57	11,194	22.6
New York	228	—7	2,521	12	1,591	16	1,307	56	7,933	27.0
Midwestern	1,541	—48	3,714	16	2,320	35	1,645	59	12,265	23.3
Total, United States	7,060	—49	14,592	36	10,529	44	8,298	73	56,359	38.2

Source: Compiled from tapes furnished in fall of 1967 by Economic Development Administration. Revised tapes will shortly become available which may change the above projections to an extent now indeterminate.

Mr. MOOT. Concern for the widely varying impacts of these uneven growth trends is the central theme of most current appraisals of the Nation's economic health.

In fact, the growing commitment of Federal, State, and local governments—with progressively increasing private sector involvement—to the promotion of balanced economic growth is possibly the most significant single factor affecting the future rate and direction of economic change throughout the Nation. Major new or enlarged Federal programs aimed at this objective have been launched, stemming from such landmark statutes as those pertaining to manpower development and training, aid to vocational and higher education, equal economic opportunity, Appalachian regional development, public works and economic development, and model cities.

These programs have two principal thrusts:

(1) To upgrade the skills and the employment, business and social opportunities of disadvantaged persons and groups throughout the Nation; and

(2) To arrest and reverse the economic stagnation of the decaying core of major metropolitan complexes and other pockets of poverty in rural areas created by dependence on industries with slowly growing or declining employment opportunities.

The status and prospects of the 5 million small business concerns spread throughout the Nation will be determined, to a large degree, by these major developments in the national economy.

IMPLICATIONS FOR SBA PROGRAMS

Implications of the current and prospective economic environment and the agency's objectives may be summarized briefly as follows:

1. Small business needs for all SBA assistance programs will continue to grow. Continued assistance will be necessary to enable small business to cope with the opportunities and challenges of an expanding modern economy.

2. The availability of credit and the terms on which it can be obtained from private sources will, at best, show only moderate abatement from the tightness that currently prevails in the capital markets.

3. So long as defense expenditures remain at current high levels, pressures to restrain inflationary forces through restriction of other programs will remain strong. This will intensify the need to strengthen the economic justification of loans and other assistance to small business concerns, and to make sure that each dollar returns an equivalent or greater benefit to the national economy—as well as benefiting individual businessmen.

4. The economic health and survival of individual small business concerns depends, in large measure, upon the progress of economic development programs undertaken in communities and regions in which the concerns are located. Business loan programs, in particular, need to be tied closely to soundly conceived and broadly supported local development programs since this constitutes the most effective compliance with the statutory requirement that business loans "* * * be of such sound value or so secured as reasonably to assure repayment."

5. There will be an increasing need to tie all SBA assistance programs in comprehensive packages tailored to the needs of small business in each local environment.

In the light of these developments, we are shaping our program to complement the potential economic strengths and needs of specific geographic areas and industries.

We are also shaping them to satisfy the requirements of local development planning and to dovetail with State, Federal, and other blueprints, both public and private, which seek balanced economic development.

We are as convinced as is this committee that small business is the most responsive and effective means of building and maintaining balanced economic growth in the nation.

Mr. Chairman, we are ready to answer general questions, or we are ready to proceed with our specific financial assistance program, which Mr. Hendricks has a prepared statement on, if you desire.

The CHAIRMAN. Thank you, Mr. Administrator, for a very concise, yet broad statement regarding all the operations of the agency—an overall look at the SBA's program.

Without objection, the full statement of the Administrator with the appendix and the table will be included in the record at this time.

(The prepared statement of Mr. Moot and attachments follow:)

STATEMENT OF ROBERT C. MOOT, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION

SECTION I—INTRODUCTION

Mr. Chairman and Members of the Committee, I am grateful for this opportunity to discuss with you the status, problems and prospects of the small business community and the related programs of the Small Business Administration. I know that you desire a comprehensive review of all SBA programs, with added emphasis on selected areas of interest. This is a major undertaking, in which I am happy to participate. My several formal statements will cover a broad range of subjects. To cite a few selected highlights:

The status and prospects of small business in a progressively growing economy are generally good. Yet, some grave problems confront us, growing out of the increased market power of giant firms in some segments of industry; current inflationary pressures, high interest rates, and attendant tight money market conditions; the increasing need for management and technical assistance to small firms; and the uneven distribution of the benefits of economic growth and prosperity among social groups, regions and industries.

From the date of SBA's establishment through December 1967, our financial assistance programs, excluding disaster assistance, have made $5.3 billion available to finance the capital needs of over 117,000 borrowers. Of this total, $2.2 billion—or about 42 percent—was financed by the private sector (Table 1).

Our studies of the business loan program demonstrate that these loans have helped borrowers to achieve highly satisfactory growth rates and to contribute to the well-being of the economy in general. These growth rates, in recent years, have been at higher levels than the growth of business in general and confirm the oft-stated belief of the Congress that small business, if given a fair opportunity, can compete in the open market place without subsidy.

The Local Development Company Loan program has assisted over 1500 projects, representing a gross investment of more than $300 million, principally in smaller communities (Table 20). I believe that this program is still well below its full potential in both rural and urban economies.

The legislative enactments of 1966 and 1967 have done much to strengthen the SBIC program and to restore confidence in its prospects. The companies have undertaken almost 27,000 financing transactions, involving a total investment of close to $1.2 billion. We expect progressive improvement in the financial soundness of licensed companies and extension of the benefits of the program to additional areas in the near-term future.

In the first 13 months of complete operation under SBA, we have made over 3,700 Economic Opportunity Loans, aggregating almost $40 million, to disadvantaged persons in urban and rural areas. Our management assistance facilities have played a major role in this program and will be further emphasized to assure achievement of the Congressional objectives set forth in the recent amendments to the Economic Opportunity Act.

We have loaned almost $97 million to 1,308 business concerns displaced by Federally financed construction projects (Table 15). We are stepping up our efforts to increase private sector participation in this program.

Since the establishment of SBA, there have been about 600 declarations of disaster of widely varying dimensions. A total of almost 69,000 loans and $616 million have been approved for disbursement to assist the victims of floods, hurricanes, other catastrophes, economic injury and product disasters (Table 22). We have recently completed a review of loan policies and eligibility criteria covering this program and have instituted necessary or desirable changes.

Federal prime contracts placed with small business concerns have risen from $4.7 billion in 1960 to 10.2 billion in 1967. The small business share of total procurement rose from 18.3 percent to 20.5 percent in the same period. We are also progressively expanding our cooperative efforts with large prime contractors to maximize sub-contracts to small firms. Defense prime contractors report that they have placed $7.3 billion in sub-contracts to small business in Fiscal Year 1967 (Table 23). Following a 2-year hiatus, we resumed operation of the procurement set-aside program on November 1, 1967. In addition, we have added emphasis to our efforts to encourage the development of state and local small business procurement programs.

We are continuing a moderate expansion of our Management Assistance program in response to the expanding needs of the small business community. The number of SCORE volunteers has reached 3,210 and continues to grow. We are intensifying our efforts to promote greater participation by small business in export trade and to broaden and expedite the transfer of Federally financed technology to small firms.

We have entered into a number of lease guarantee transactions under the original limited authorization and others are in process. We believe that a sound basis has been laid for expansion of the program under the broadened program authorized by the Congress, effective January 9, 1968. We expect a substantially larger volume of guarantees in the current and future fiscal years, with increased private participation.

We have initiated a study of the impact of crime on small business, as directed in the 1967 Amendments to the Small Business Act. A report, with appropriate recommendations, is to be submitted to the Congress in October, 1968.

Finally, the five million small business concerns spread through every community of the nation are vitally involved and acutely interested in the major Federal, state and local programs which have been launched to promote balanced economic growth and to cope with the problems of urban decay and rural stagnation. We believe that the utilization of the actual and potential economic capacity of small business in support of these programs is clearly in accord with the Small Business Act, as well as the Economic Opportunity Act, and one of the keys to the success of the programs themselves. Accordingly, we are actively engaged in a review of our programs and procedures to insure full coordination with these major national efforts. While this has brought about some new departures in programs and operations, I believe it to be fully in harmony with the declaration of this Committee, issued more than a year ago, that—

"* * * the building and strengthening of our small business community is as effective as any course of action in the economic development of our cities, small towns and rural areas * * *"

SECTION II—STATUS AND PROSPECTS OF SMALL BUSINESS

The year 1967 was the seventh year of uninterrupted expansion of the U.S. economy—the longest period of sustained growth in the nation's history. The propsects for continued growth at a sustained high rate are very bright.

The general health of the economy is reflected in the vigor and persistent growth of the small business community. Over the past decade, the total business population has increased by approximately 700,000 firms. Virtually all of this represents a net increase in the small business segment. Small business accounts for over 50 percent of the total employment by all business concerns and for approximately 30 percent of total capital outlays for plant, equipment and busi-

ness inventories. Despite mergers, the competitive pressures of large concerns and marketing problems, it remains very much alive.

Experience over the recent past indicates that small business will continue to grow at least in pace with the general economy. As a rule, small firms tend to gain more than proportionately in periods of business expansion; conversely, they tend to suffer disproportionately in periods of contraction. In addition, there are certain favorable indications which point to realistic opportunities to improve the relative position of small business in a progressively expandnig economy:

Higher individual and family incomes will increase demands for more personalized, custom-type goods and services which often are produced most efficiently by small firms.

Growing mass markets—which stimulate the growth of large firms for certain functions—create new opportunities for specialized small firms in other parts of the production and distribution process, as has been the experience in the automotive industry.

The drift of technology and growing diversification of the mass market tend, in general, to favor smaller units.

Long-term growth prospects are most favorable for trade and service industries, in both of which small concerns predominate.

The progressively higher level of education of the general population should generate an increasing supply of entrepreneurs more capable of coping with the challenges of the modern urbanized economy than their counterparts in the present and earlier generations.

Government expenditures for goods and services have been rising dramatically since 1960. In 1966, the National Planning Association projected these expenditures to rise from $100 billion in 1960 to $287 billion in 1976. Of these amounts, NPA estimated that *purchases from business* would increase from $52 billion in 1960 to $138 billion in 1976 and that the State and local expenditures would exceed the Federal purchases from business:

[In billions of 1966 dollars]

	1960	1965	1971	1976
Purchases from business:				
Federal	31.6	37.9	44.9	54.4
State and local	20.5	29.8	52.3	83.6
Total	51.2	67.7	97.2	138.0

These projections indicate that we can expect a product mix more favorable to small business and that the absolute and relative share of small concerns in Government purchases should progressively increase.

While encouraged by these favorable indications, we are not oblivious to certain unfavorable situations or trends which will continue to pose challenges to small business in the years ahead.

The total number of firms in manufacturing has been declining slowly over most of the past ten years, in a period of extraordinary growth of total output. While there are some indications that the downward trend has been arrested or reversed in the past two years, grave problems persist for small manufacturers in major segments of the industry. Recent studies by the Federal Trade Commission shed some new light on developments in the industry. A study of 213 categories of manufacturing revealed that the number of firms increased from 95,000 to 99,000—a growth of 4.6 percent in 16 years. Within the groups, however, the number of firms manufacturing producer goods—where technology has had a major impact and where successful marketing is subject to rigorous cost and quality tests—the number of firms actually increased by 23.3 percent in the same period. Meanwhile, the number of firms manufacturing consumer goods declined by 8.1 percent. These widely divergent trends appear to reflect the influence of brand name and other forms of product differentiation, practiced by large manufacturers and conglomerates, powerfully reinforced by television advertising. Dr. Blair, Chief Economist for the Senate Subcommittee on Anti-Trust and Monopoly, stated the problem succinctly in the following words. "It would indeed be ironic if the potential for greater decentralization and stronger competition inherent in the new technologies of production were to be more than offset by the

inability of any but the largest firms to make effective use of this new technology of communication."

The President and the Secretary of the Treasury, in recent statements and testimony, have pointed out the unfavorable and discriminatory impacts of inflation and the tight money market on small business concerns. The prime bank interest rate has risen to 6 percent, in contrast to 5 percent or lower, which prevailed from March 1, 1960, through March 10, 1966. Equal or greater proportionate increases have been registered in other rates and in public and private bond yields. Further, there is significant evidence to indicate that small concerns have greater difficulty in securing needed financing, even at these high rates, than do larger concerns.

The impact of the uneven distribution of economic growth and prosperity among geographic areas, industries, and social groups on the small business sector of the economy generally escapes public attention. Yet, the decay of central cities and the flight to the suburbs have taken a heavy toll of small business enterprises and weakened an important element of the economic and social structure of our largest cities. At the other end of the economic spectrum, thousands of small business concerns serving a declining farm population or dependent upon mining or other primary industries have disappeared, leaving behind pockets of high unemployment and poverty in small towns and among the rural non-farm population across the nation.

The following summary tabulation shows the wide variations in growth trends and prospects among industries within SBA geographic areas. The figures show expected employment changes from 1950 to 1970, based on current trends:

EMPLOYMENT SBA AREAS, ACTUAL 1950, AND EXPECTED CHANGE, 1970—SELECTED INDUSTRIES

SBA areas	Agriculture and mining		Manufacturing		Trade		Services		Total civilian employment	
	1950 (thousands)	Change, 1970 (percent)	1950 (thousands)	Change, 1970 (percent)	1950 (thousands)	Change, 1970 (percent)	1950 (thousands)	Change, 1970 (percent)	1950 (thousands)	Change, 1970 (percent)
Rocky Mountain	654	—40	273	107	520	60	368	85	2,654	43.8
Southwestern	1,078	—51	689	80	1,036	55	811	77	5,209	42.8
Pacific coastal	604	—21	1,125	141	1,296	68	1,013	131	6,255	92.9
Southeastern	1,526	—61	1,585	80	1,187	69	1,101	82	7,202	51.8
Northeastern	140	—35	1,387	10	652	35	536	63	3,647	29.8
Midatlantic	1,289	—60	3,298	18	1,927	35	1,517	57	11,194	22.6
New York	228	—7	2,521	12	1,591	16	1,307	56	7,933	27.0
Midwestern	1,541	—48	3,714	16	2,320	35	1,645	59	12,265	23.3
Total, United States	7,060	—49	14,592	36	10,529	44	8,298	73	56,359	38.2

Source: Compiled from tapes furnished in fall of 1967 by Economic Development Administration. Revised tapes will shortly become available which may change the above projections to an extent now indeterminate.

Concern for the widely varying impacts of these uneven growth trends is the central theme of most current appraisals of the nation's economic health. In fact, the growing commitment of Federal, state and local governments—with progressively increasing private sector involvement—to the promotion of balanced economic growth is possibly the most significant single factor affecting the future rate and direction of economic change throughout the nation. Major new or enlarged Federal programs aimed at this objective have been launched, stemming from such landmark statutes as those pertaining to manpower development and training, aid to vocational and higher education, equal economic opportunity, Appalachian regional development, public works and economic development, and model cities.

These programs have two principal thrusts: (1) to upgrade the skills and the employment, business and social opportunities of disadvantaged persons and groups throughout the nation; and (2) to arrest and reverse the economic stagnation of the decaying core of major metropolitan complexes and other pockets of poverty in rural areas created by dependence on industries with slowly growing or declining employment opportunities. The status and prospects of the five million small business concerns spread throughout the nation will be determined, to a large degree, by these major developments in the national economy.

SECTION III—IMPLICATIONS FOR SBA PROGRAMS

Implications of the current and prospective economic environment and the Agency's objectives may be summarized briefly as follows:

1. Small business needs for all SBA assistance programs will continue to grow. Continued assistance will be necessary to enable small business to cope with the opportunities and challenges of an expanding modern economy.
2. The availability of credit and the terms on which it can be obtained from private sources will, at best, show only moderate abatement from the tightness that currently prevails in the capital markets.
3. So long as Defense expenditures remain at current high levels, pressures to restrain inflationary forces through restriction of other programs will remain strong. This will intensify the need to strengthen the economic justification of loans and other assistance to small business concerns, and to make sure that each dollar returns an equivalent or greater benefit to the national economy—as well as benefiting individual businessmen.
4. The economic health and survival of individual small business concerns depends, in large measure, upon the progress of economic development programs undertaken in communities and regions in which the concerns are located. Business loan programs, in particular, need to be tied closely to soundly conceived and broadly supported local development programs since this constitutes the most effective compliance with the statutory requirement that business loans "* * * be of such sound value or so secured as reasonably to assure repayment."
5. There will be an increasing need to tie all SBA assistance programs in comprehensive packages tailored to the needs of small business in each local environment.

In the light of these developments, we are shaping our programs to complement the potential economic strengths and needs of specific geographic areas and industries. We are also shaping them to satisfy the requirements of local development planning and to dovetail with state, Federal and other blueprints, both public and private, which seek balanced economic development.

In keeping with this approach, we are striving to cooperate with development efforts in both metropolitan centers and the numerous pockets of rural poverty. Although SBA is not primarily an economic development or poverty agency, we are convinced that our statutory mission requires that we support these programs. Considerations underlying this conclusion are:

First, as I have already noted, small business concerns have been most severely impacted by the unfavorable economic trends which these programs seek to moderate or reverse.

The *second* consideration was set forth most clearly in the report issued by your committees in December 1966:

"The Committee believes that the building and strengthening of our small business community is as effective as any course of action in the economic development of our cities, small towns and rural areas, especially in areas of poverty and economic deprivation. Small business loans are quickly translated into more jobs and stronger, healthier communities."

A *third* consideration was the enactment by the Congress of the Economic Opportunity Act Amendments of 1967. Title IV of this Act provides that special attention be given to the strengthening and upgrading of small businesses located in urban or rural areas with high proportions of unemployed or low-income individuals or owned by low-income individuals.

We are convinced that any sound economic development program requires the active involvement of the small business community and must produce an economic environment in which small concerns can survive and prosper. The President's budget for Fiscal Year 1969 recognizes that this objective underlies programs of assistance to business, in general, and small business, in particular. "* * * these programs increasingly seek to enlist the active participation of the business community in the solution of deep-seated social and economic problems, such as hard-core unemployment and regional economic imbalance. Similarly, technological and financial assistance for small business is being brought to bear on stubborn urban and rural economic problems."

Finally, we strive to insure that resources used in SBA programs will produce maximum returns for small business and the general economy. Since the prospects of any small business are closely tied to the prospects of the community in which it is located, benefits of SBA assistance are greatly reinforced by a broadly based community economic development program.

While we have emphasized our responsibility to assist small business concerns in depressed urban and rural areas, we also recognize that we must promote small business growth in prosperous areas. The rapid growth of these areas will be favorable to the development of a numerous and healthy small business community. It is essential, therefore, that we assist small concerns to take advantage of these opportunities in every feasible way. Sound development programs can promote orderly growth in these areas and help avoid the critical economic and social problems currently encountered in the more mature regional economies. Also, in these areas, we would expect major private sector participation in our financial assistance programs and a strong role for Small Business Investment Companies.

Our review of the current status and future prospects of small business in the U.S. economy has caused us to undertake a series of actions which, when completed, will improve our ability to comply with the intent of the Congress that SBA programs should help ". . . to improve and stimulate the national economy in general. . . . "

First: With the cooperation of the Department of Agriculture Graduate School, we instituted a series of *Economic Development Workshops* to acquaint our staff with the principles and techniques of economic development. These workshops emphasize the need for relating SBA's assistance programs to local economic situations, to programs conducted by other Federal agencies throughout the country, and to state and local economic development programs.

Second: We have installed a *Regional Economic Information System* through which we can keep our headquarters and field staffs abreast of national, regional, and local economic developments. The information supplied from the Central Office is supplemented with data gathered locally in our area and regional offices.

Third: We have under development a *Regional Programming System* which we hope to have operational by the end of the year. The System is being designed to provide us with an *economic* basis for allocating our human and financial resources to our sixty-two regional offices. Future resource allocations to each region will take into account (a) current local economic trends and developments; (b) other Federal Agency programs; and (c) national goals and objectives.

Fourth: We have been sponsoring local *Economic Development Conferences* to stimulate long-range economic development planning by local business groups and state and local government officials. The main theme being stressed is that economic growth is dependent upon (a) local initiative leading toward development of good economic development plans; (b) involvement of the local business community in developing and executing plans; and (c) cooperation between Federal, state and local governments in providing assistance to individual communities in accomplishing their economic objectives. We do, of course, explain to the conference participants what SBA assistance programs can be brought to bear to enhance local economic growth. The attendance at these conferences has been excellent.

Fifth: We have established a good working relationship with other Federal agencies engaged in economic development such as the Economic Development Administration and the several Regional Development Commissions such as Appalachia, Upper Great Lakes, etc. Our objective in working with these agencies

is to assure that there is a high degree of "dovetailing" of their programs with those of SBA.

Finally, and most important, I have established a new "Community Economic Development Program" directed at specific urban and rural target areas. You will recall that Title IV, Section 406, of the Economic Opportunity Act of 1967 places additional responsibilities on SBA and other agencies to accelerate their programs leading to the alleviation of poverty. The basic goal of our new CED program is to stimulate local economic expansion by creating minority-owned and managed new small businesses of substantial manufacturing or wholesale type employing the "hard-core" unemployed residents of the target areas.

This program is under the personal direction of my Deputy Administrator, Howard Greenberg, who will have available to him a small staff in the Central Office, supported by "Community Economic Development Terms" located in the designated target areas. The CED program will work with state and local community organizations in developing business and employment opportunities. They will cooperate with and seek assistance from other Federal agencies seeking to achieve the same goals—OEO, Labor, DHEW, and EDA.

We have established a tentative listing of target areas, both urban and rural, for concentrated efforts during the remainder of FY 1968 and in FY 1969. We have already made direct contact with local action groups in many communities. We plan a modestly staffed "face-to-face" approach. The CED Teams will consist of three well trained people. One of them will be a resident of the target area recommended by the community organizations. The full gamut of SBA assistance programs will be brought to bear to achieve the goals in each target area.

SECTION IV—CAPITAL REQUIREMENTS OF SMALL BUSINESS

Largely because of variation in size standards among and within industries, no precise estimate of the flow of capital investment into small business is available. Extremely crude estimates, based on broad industry-wide data and national income accounts, indicate that during 1967, gross new investment in small business aggregated about $35 billion. This estimate includes investment in sole proprietorships, partnerships, and corporations with total assets of $5 million or less.

Of the $35 billion gross investment, over 70 percent—or roughly $25 billion—was financed by the small concerns themselves from internal sources such as depreciation allowances, personal savings, and retained earnings. The remaining $10 billion was financed from external sources—principally private financial institutions, trade creditors, private individuals, and Government loans. Clearly, means have been found to finance the progressive growth of small business in pace with the expansion of the economy in general.

The fact that an increasing volume of new capital has flowed into small business in an expanding economy does not, in itself, indicate that a small business capital gap no longer exists or, if it exists, that it has been narrowed. The "capital gap" may be defined as the difference between a volume of investment in small business concerns which would produce benefits in excess of its cost, and the volume of investment actually made available on reasonable terms through the private sector. Since wide differences in opinion are possible in assessing both benefits and costs, no unique measure of the gap is possible and, to my knowledge, few have tried to measure it. Professor Edwin Mills estimated a gap of $5 billion in manufacturing in 1965. An additional investment of this total amount, distributed over a period of years, would, he estimated, eliminate half the difference between the ratio of capital to output for firms with less than $1 million total assets and the comparable ratio of medium sized firms.

Whatever the dimension of the gap, I believe that our analysis of the performance of SBA borrowers, which I shall discuss later on, indicates that it does exist. Business loans to firms which were unable to secure adequate financing from other sources have, in fact, realized highly satisfactory returns for the economy, in general, and small business, in particular.

SECTION V—MEETING THE CAPITAL NEEDS OF SMALL BUSINESS

It is evident, from the foregoing, that most of the financial needs of small business have been satisfied from private sources. Financial assistance through SBA, although accounting for a relatively small proportion of total financing, has played a significant role in further bolstering the competitive position of small business. Further, the Congress has, over the years, recognized the wide variety of small business financial needs—from the disadvantaged small pro-

prietor to firms of significant size; from small rural areas to large metropolitan complexes—and has given us a broad span of lending programs to cope with them. Since the authorization of the regular business loan program in 1953, several additional financial assistance programs were authorized, namely, (1) The Displaced Business Loan program, (2) The Economic Opportunity Loan program, (3) The State and Local Development Company Loan programs, (4) The Small Business Investment Company program, and (5) The Lease Guarantee program.

These additional programs have enhanced the ability of SBA to assist thousands of small businessmen in their efforts to enter into the market, to expand or modernize their facilities, and in some cases, to survive. A detailed discussion of each of our lending programs is included in the Appendix to my statement and, with the permission of the Committee, will be inserted into the record. However, I would like to summarize, for the benefit of the Committee, the accomplishments under these programs.

(a) *Summary of all Lending Programs (except Disaster).*—Analysis of the historical performance of the SBA lending programs indicates conclusively that they have substantially assisted in providing the capital needs of the small business community, contributed to economic growth of the nation, stimulated private-sector interest an d participation in Government programs, and assisted in creating new jobs needed to meet an expanding work force.

Since the inception of our lending programs, over 117,000 businesses have obtained $5.3 billion in loans and financings, of which $2.2 billion (almost 42%) was provided by the private sector. (Table 1.)

Reliable employment statistics are available on three of our loan programs:

The Economic Opportunity Loan (EOL) Program indicates that each loan results in 2.5 jobs, including the borrower. Thus, for the 6,297 loans made thus far, about 15,000 job opportunities were created.

The Local Development Company (Section 502) program provided employment opportunities for 64,631 persons. (Table 20).

Reports from 1,381 firms assisted by SBIC's indicate they have increased their employment by 11,800 jobs (29%) since the original financings were made.

In addition to these benefits, there are several additional but unquantifiable benefits which accrue to the national economy from our financial assistance programs, namely:

The $5.3 billion in gross financings have contributed substantially to the Gross National Product when we consider the multiplier effects of Federal Expenditures.

Added tax revenues to the States and Federal Government.

Keeping people off the unemployment rolls.

Improving family income with a consequent reduction in welfare payments.

Our analysis also shows that these significant contributions to the economy were made at very modest loss rates. A recent study shows the estimated loss rates to be: (a) 2.9% in the business loan program; (b) 8.9% in the EOL program; (c) 1.5% in the displaced business loan program, and (d) 0.93% in the Local Development loan program (Table 6).

(b) *Business Loan Program.*—Since the inception of this program, almost 81,000 loans for $3.6 billion had been approved by December 31, 1967; 55% of the loans for $1.4 billion went into retail and service businesses and 24% for $1.4 billion went into manufacturing (Table 2). Private sector funding amounted to $1.2 billion or 34% of the $3.6 billion in approved loans (Table 1).

During the past year, an extensive analysis was made of the program to determine its benefits to the borrowers, its cost to the government and its benefits to the economy. Briefly, the analysis disclosed the following:

(1) *Borrower Growth Patterns.*—Our analysis traced the annual increase, or decrease, in the sales, profits, net worth and assets of SBA borrowers for a period of six years following the loan approval. The results were gratifying: Profits increased at an annual average rate of 20% for all SBA borrowers and 14% when new firms were excluded; assets—8%; net worth—6%; and sales—8%.

The profit growth of SBA borrowers exceeded industry-wide patterns in manufacturing, wholesale and services; however, SBA borrowers in retail trade lagged slightly behind the industry-wide pattern. We also found that profit growth under guaranteed loans exceeded those under direct and participation loans. (Tables 8 thru 14).

(2) *Cost to the Government.*—A cash-flow analysis was made to determine the ultimate net cost of the business loan program over the life-cycle of each year's loan approvals. All income and expenses, including Treasury interest, administrative costs, and losses, were considered in the calculations. The result indicates that

the Government will receive a direct return of 95¢ on each dollar expended. This is indeed a modest cost in relation to the benefits of the program I previously recited. In addition, there is substantial return in the form of increased taxes and decreased unemployment and welfare payments.

(3) *Benefits to the Economy.*—A cost benefit analysis was made to determine whether the granting of a government loan to a small businessman produced a benefit to the economy which was at least equal to the benefit accruing through private investment. An "opportunity cost" factor of 10% was used on the assumption that this represented a minimum annual return on private investments. The results showed that the average benefit-cost ratio for all SBA loans was 1.73. Since a ratio of 1.0 would represent a 10% annual rate of return, we believe the SBA program represents a significant contribution to economic growth.

Mr. Chairman, to my knowledge, this is the first time an analysis of this nature has been made of a Government lending program. We do not claim it to be perfect or precise. We know that the methodology and data base can be improved and we are working in this direction. However, we believe the analysis is reasonably good and the following conclusions drawn on the benefits of the program are not too far out of line.

SBA borrowers experienced very satisfactory growth in their respective competitive markets and compare favorably with industry-wide experience.

SBA borrowers were presumably high risk, marginal firms, unable to secure private financing; yet, they survived and prospered.

The program entails a very modest net cost to the Government in relation to the benefits achieved. The direct and indirect benefits to the economy and the production of increased tax revenues, almost without question, more than offsets the direct net cost.

The success achieved in this program has created an increased confidence in the private sector which has increased its participation in SBA loans in recent years, from 19.6% in 1961 to 47% in 1967 (Table 7); this trend is expected to continue in future years.

We plan to extend this type of comprehensive analysis to all of our loan programs in the current year.

Our program for FY 1968 and FY 1969 calls for significant increases over 1967 in total loan volumes and increasing private sector participation (Table 7). The 1967 level was 385.3 million of which 181.1 million (47%) was financed by the private sector. In 1968 the comparable figures are $537 million of which $330 million (61.5%) will be private sector financed, and in FY 1969, $649.7 million of which $388.7 million (59.8%) will be private sector financed.

(c) *Displaced Business Loans.*—Loans are made by SBA to small business concerns displaced by urban renewal, highway construction, or any construction conducted by or with Federal funds. Thus far, 1,308 loans for $96.9 million have been made under the program (Table 15). Our program for 1968 and 1969 calls for $54 million and $56 million, respectively. Also, we are concentrating our efforts on increasing the private sector participation in this program from 3.8% in 1967 to 40% in 1969. Close liaison is maintained with other Federal agencies, such as HUD and DOT, to assure that early contact is established with potential displacees.

(d) *Economic Opportunity Loans.*—Responsibility for this program was transferred to SBA in November 1966. Considerable progress has been made since that time. The program was expanded and made available through all SBA offices. Our "management assistance" program has been made an integral part of the loan processing and counseling is provided to borrowers. We have clarified the loan eligibility criteria.

In the 13 months of operation under SBA, 3,712 loans for $39.7 million were approved as compared with 2,585 loans for $26.2 million in the preceding 23 month period (Tables 16 and 17). The budget allowances for 1968 and 1969 provide for $39 million and $47 million, respectively.

We look on this program as a key contributor to the President's program for bringing industry into ghetto and other depressed areas and for stimulating ownership and management of businesses by the economically disadvantaged. As in other programs, we are encouraging private sector financing to supplement SBA resources. Some progress has already been made in Connecticut and Illinois.

(e) *State Development Corporations (Section 501).*—We are pleased with success of the State Development Corporation program, particularly because it has *not* required extensive outlays of Federal funds. Thirty-nine (39) states have enacted legislation to establish the Corporations. Only seven have borrowed funds—$14.5 million—from SBA (Table 18). Yet, 19 of the Corporations reported that

on September 30, 1967, they had outstanding 836 loans totaling $76.4 million, of which 90% went to small businesses. We expect the private sector to continue to finance corporate activity and have accordingly only budgeted a modest $5 million for each of FY 1968 and FY 1969.

(*f*) *Local Development Companies* (*Section 502*).—The Local Development Company program is one I like to describe as a "peoples program" because it is pre-eminently a local, self-help program. Each company must be principally composed of, and controlled by, persons residing or doing business in the community. The benefits of the program accrue to the people in the community—not just the company or the small businessman.

Since the inception of the program in 1959, a total of 1,556 projects costing $305 million had been approved by December 31, 1967. Of this amount, SBA financed $219 million (71%), the Local Development Companies raised $69 million, and private lending agencies provided $17 million. The small businesses financed under this program report that 64,631 employment opportunities have been provided (Table 20).

During FY 1967, 70% of the 338 loans were made in communities with under 10,000 population; 23.4% were in depressed areas such as Appalachia; some were used to assist in diversification of industries; others to expand existing businesses; 41.2% went into new businesses. A wide range of industries was involved: Manufacturing—189; Services—83; Wholesale-retail—45; Construction, Transportation, Recreation, etc.—21. With its proven capacity to stimulate economic growth at the local level, this program will continue to have a high priority in our operations.

The program for 1968 calls for 413 projects costing $79 million, excluding Local Development Company contributions; comparable figures for FY 1969 are 479 projects costing $84.7 million.

(*g*) *Small Business Investment Companies*.—We view the SBIC program as an important and vital SBA resource to aid small business, and as a substantial contributor to business profitability and job creation in both urban centers and local communities. From the inception of the program in 1959 to March 31, 1967 (the latest reporting date for the program evaluation report):

SBIC's had made 26,751 financings totaling $1,179 million.

SBIC's had assets of $691.5 million, of which only 36% represented borrowings from SBA.

Reports from 1,381 SBIC-assisted firms indicate they have increased their employment by 11,800 jobs (29%) since the original financings were made. Thus, for every $9,000 in SBIC disbursements, one new employee was hired. To put it another way, for every $3,000 in SBA seed money, $6,000 was added by SBIC's to create a new job opportunity.

The accumulated information which we have available regarding the impact of the SBIC program on small businesses and job creations is still sparse. The information available covers only two years since the installation of the requirement by SBA for SBIC's reporting data on their portfolio concerns. As the data builds up on the small business concerns financed by SBIC's, a more complete and profound analysis can be made of this impact. The information which is available, however, demonstrates the high potential of the program to provide assistance to small business concerns. For instance, a comparison of pre-financing and March 1967 data indicates that—

Gross Revenue increased 42 percent on the average for the small business concerns.

Profits showed an increase of 100 percent, from $11.1 million to $22.2 million.

Net Worth increased 18.8% from $179 million to $213 million.

Total Assets increased 36.8% from $711 million to $973 million.

Short-term borrowings increased 22.2% from $113.4 million to $138.6 million, demonstrating the increasing ability of SBIC financed concerns to secure funds from other sources.

We feel that the SBIC program is particularly valuable in providing assistance to small businesses in the manufacturing and technical innovation fields, not only by supplying loan or equity financing to these concerns but in providing management assistance and financial expertise to the principals of the small concerns, which is often as valuable as the funds provided.

The legislative enactments of 1966 and 1967 have done much to strengthen the SBIC program and improve its image. We believe we now have the tools to properly administer the program to assure that it achieves, more effectively, its intended purpose—to provide venture capital and long-term loans to small business.

In the 18 months ending December 31, 1967, we examined 657 SBIC's and corrective action was instituted on all noted violations. In calendar 1967, 121 SBIC's surrendered their licenses under enforcement actions taken by the Agency, voluntarily or through mergers and 30 were in the final stages of the surrender process. At the end of February 1968, there were 547 SBIC's in the program.

The Small Business Investment Act Amendments of 1967, significantly affect the future of the SBIC program.

These Amendments:

Stress the importance of venture capital for small business.

Increase the amount of Government funds available to SBIC's.

Permit creation of an Advisory Board for the program.

Give SBA additional guidelines in issuing licenses.

Limit bank ownership of SBIC's but expand the amount banks may invest in SBIC's, and:

Require SBA to examine SBIC's annually.

With the effective date of these amendments, SBA issued a comprehensive new package of regulations which revised, simplified, and reorganized the existing regulations.

The SBIC industry today is in the most promising position that it has been in for some years. It is now gaining recognition as a financial institution; its profits have been rising, and unrealized and realized appreciation of its investments have been greater; its management is more experienced and many companies have developed high quality staffs and it has learned how to invest in high-risk growth situations with the best chance of maximizing profits and minimizing losses.

However, the industry is faced with several problems which we are attempting to help solve. To name a few:

Attracting more private funds into the program.

More complete area coverage, and

Increasing the turnover of the SBIC's portfolio investments.

We are aware and we are sure that the SBIC industry is equally aware that the program has not as yet reached full maturity, but we have high hopes of this program becoming one of the more successful Government-sponsored aids to the small businesses of the nation.

We will discuss the SBIC program, in detail, at the session which the Committee will devote to the SBIC program.

(*h*) *Disaster Loan Program.*—Under Section 7(b) of the Small Business Act, loans are made to victims of disasters—floods or other other catastrophes. Over the life of the program, there have been 599 disaster declarations in the 50 states, Guam, Puerto Rico and the Virgin Islands.

A total of almost $616 million for 68,953 loans has been approved, of which (a) over $585 million pertained to physical damage from floods, hurricanes, etc., (b) over $28 million for economic injury losses, and (c) nearly $3 million for product disasters (Table 22).

Under this program, we provide loans to businesses and householders who suffer losses as a result of riots. Loans totaling $3.4 million were made in Detroit, Michigan and Newark, New Jersey after last year's riots.

In recent months, we have had this program under intensive review to improve operating procedures, reduce paperwork, and tighten up the loan policies and eligibility criteria.

Considerable improvements have already been effected in the paperwork and procedural aspects. With respect to loan policies and eligibility criteria, I have made the following changes:

Loans to Householders

1. Effective March 19, 1968, regulations have been revised to require use of both cash and liquidable assets held by householders to the extent it does not create hardship. In addition, private credit to the extent it can be obtained on reasonable terms and costs shall be used by any householder where the gross income is in excess of $10,000 plus $600 additional allowance for each dependent other than the applicant.

2. The limit of SBA share of loans to any one household group may not exceed $20,000 for repairs or replacement of structures. Up to $10,000 in addition to, or separate from, funds for structures may be approved for repair or replacement of household goods. The total for both purposes combined, however, cannot exceed $25,000, SBA share. Over 98 percent of all home loans made are within this limitation. We can, of course, guarantee bank loans, where necessary, in excess of the limitation.

3. No refinancing of debt of any type is permitted, except on existing SBA disaster loans made as a result of a previous disaster, in order to provide better ability to repay the total debt to SBA. This requires no additional outlay of SBA funds and aids in loan administration by having only one loan to service.

Loans to Businesses

1. In addition to insurance recovery, cash and securities convertible to cash, owned by the business or by a firm controlled by applicant, must be used to the extent that the total available is in excess of funds needed to meet normal payroll requirements for a period of 30 days.

2. Any other assets not required in the normal operation of the business, which can be liquidated for 90 percent of value, must be disposed of and funds used to alleviate disaster losses. Where time is needed to liquidate, the proceeds when obtained must be applied to reduce the principal amount of the loan made.

3. Where a firm has total equity of three times total debt, privately supplied funds must be obtained for any excess over this ratio to the point the assets to liabilities fall below the 3 to 1 ratio. After such private credit is obtained to this extent, a disaster loan may be considered for additional funds needed.

4. The foregoing paragraph 3 shall not apply to any firm with a post disaster adjusted net worth of less than $10,000. None of the requirements of this section on business loans is applicable to churches, hospitals, privately owned schools and colleges or eleemosynary institutions although loans to such entities are considered business loans.

5. In no event will a loan to any firm or business-classed entity be in excess of $100,000, SBA share. Bank guarantee loans can exceed this limit.

General—Apply to Both Households and Businesses

1. No funds will be provided to repair, replace or rebuild, which will increase the size or capacity of any structure, except as may be required by applicable ordinances.

2. No funds will be provided to repair or replace household goods or machinery and equipment which would upgrade the quality, size or capacity of the repaired or replaced item.

3. Where a firm or individual uses its own labor to restore property, funds may be approved for materials only. Whenever controlled or affiliated contractor is used, funds shall be approved only for the actual labor and materials used for the work. No profit or overhead costs shall be allowed.

4. Disbursements will be made only based on submission to SBA of bills and cost records covering work completed and/or materials and equipment delivered except up to $1,000 can be disbursed in advance of purchase, to householders to buy items of replacement furnishings and equipment costing not more than $50 each.

Economic Injury Loans

Loans to small firms for economic injury where there is an Agriculture, Presidential or SBA Diseased Products declaration will be made on the same basis as previously except that the use of available resources and credit shall apply, and the loans shall be limited to $100,000 to any one firm or group of affiliated firms for combined injury under any one disaster. Bank guarantee loans can exceed this limit.

SECTION VI—LOAN POLICY AND ELIGIBILITY

In its report on the hearings conducted in July of 1966, this Committee expressed some concern about the establishment of loan priorities. I have given this subject considerable thought in the light of the SBA mission and the national economic objectives of the President.

(a) *Loan Policy.*—The organic law and legislative history of SBA adopt a philosophy of encouraging the growth of small business (much as national policy has supported the family farm), and of strengthening competition. The two purposes are tied together and usually accomplish the same objectives because a large and thriving small business population restrains oligopoly and enhances competition. In addition to these two objectives, there is today a major policy at national and local levels to promote a sustained high rate of economic growth with a geographically balanced development and major emphasis on the elimination of poverty in urban slums and rural areas. As a general SBA policy, therefore, allocation of SBA resources are made through administrative limits, so as to

maximize all three goals, being superior to an allocation which satisfies only one or two goals.

A result is an evolution of the SBA role in the national economy. Its programs must be highly sensitive to national economic policies. In the forthcoming years, therefore, the loan policy of SBA will reflect a number of significant changes on program emphasis, including:

1. Increased attention will be given to a comprehensive approach to economic development through the coordinated efforts of Federal, state and local governments and the private sector of the economy.
2. There will be an increasing need to assist small businesses in expanding primary employment in central cities and rural poverty areas particularly those firms which reduce unemployment by hiring structurally unemployed and upgrading the skills of those already employed.
3. There will be a need to increase the number of businesses of relatively substantial size in both central cities and in underdeveloped rural areas.
4. Continued pressure to achieve equal economic opportunity objectives will require further expansion of programs designed to extend opportunities for business entrepreneurship to disadvantaged persons and groups.
5. Greater attention will need to be given to achieving a reasonable balance among industries and geographical areas in the distribution of SBA resources to stimulate lagging industires and local economic development in depressed or slow-growth areas.

Notwithstanding the fact that the resources available to SBA will fall short of demands, skillful evaluation of applications for assistance in the light of their prospective economic returns will hopefully obtain maximum return from SBA's resources to the nation.

(*b*) *Loan Eligibility Criteria.*—Closely allied with overall business loan policy is loan eligibility and this area, too, is subject to renewed scrutiny.

Because it is a public agency using taxpayers' funds, SBA has an unusual responsibility as a lender. In many instances, loans cannot be made because SBA is stopped by law. For example, the law does not permit SBA loans to be made if the funds are otherwise available on reasonable terms. Another example, under our interpretation of the law, we do not make loans to applicants which are non-profit organizations.

Also, SBA has a history of established policy which makes ineligible, for one reason or another, the making of loans to certain types of businesses. This is not to imply that there have been no changes throughout the history of SBA with regard to loan eligibility policy. To the contrary, there have been several areas in which review of existing eligibility criteria has resulted in a change, making additional small businesses eligible for SBA assistance such as in the EOL program.

One of my early undertakings as Administrator was to establish a task force under the direction of the Deputy Administrator to examine all SBA loan eligibility criteria.

The task force has made progress and is still reviewing the several areas of eligibility from the standpoint of law and of logic. Relevant questions are being explored: What is prudent from the money management point of view? What is the congruity of each policy with the mission of the Agency? What is the supporting logic behind each eligibility policy?

Defense of present policy is not desired nor are pre-judgments to be made by the task force. Nor is the task force considering the political, social, or moral aspects of existing eligibility policy. These aspects will be considered by me after the criteria have been considered by the task force from the standpoint of law and logic.

The study of eligibility criteria is an effort of SBA to avoid complacency and to make available SBA assistance of every kind to as many small businesses as possible as a public agency.

In Summary—SBA loan policy and eligibility criteria can never remain static. They must be flexible. They must be under continuous review if SBA programs are to achieve the intent of the Congress and keep pace with changing national and local economic trends and national social goals established by the President.

I am convinced that a rigid loan priority system is neither feasible or desirable. I am equally convinced that we can maximize the returns from our loan dollars if they are applied in the right areas, in the right industries, and within the framework of well developed action plans designed to uplift the economy of a given area. These are the guidelines under which we are operating today. Loans are being accepted from all eligible businessmen and approvals are made keeping in mind the need for maximizing returns to the nation and the economy.

SECTION VII—PROCUREMENT AND SALES ASSISTANCE TO SMALL BUSINESS

The general objectives of our Procurement Assistance program are to increase the share of awards to small business at both the prime and sub-contract level, and to decrease the number and severity of the problems which small firms experience either in being considered for awards, or in the field of contract administration.

Since 1960, there has been a dramatic rise in total Federal procurement and the amounts going to small business (Table 23).

In 1967, Federal procurement totaled $49.8 billion, an increase of 92.2% over the $25.9 billion in 1960. The amount going to small business more than doubled and reached $10.2 billion in 1967, an increase of 117% over the $4.7 billion in 1960. Percentage-wise the small business share increased from 18.3% of the total in 1960 to 20.5% in 1967. We believe this trend speaks well for the efforts expended by SBA and for the cooperation we are receiving from the procurement activities of the Government. However, we are not resting on this past record. We intend to continue to press for larger shares of procurement for small business and would like to raise the level to 26% by 1975.

In addition to prime contract awards we are, in cooperation with DOD and GSA, engaged in an effort to induce big business prime contractors to increase their sub-contracting with small business. We are working with 39 large Government contractors to seek out more small firms for sub-contract work. In FY 1968/9, the number of prime contractors will be increased from 39 to 74 and the number of plants from 244 to 324. We also have established "Project Upgrade" which is designed to assist submarginal small firms to improve their capabilities for sub-contract work. The sub-contract program already is producing good results. In FY 1967, DOD, AEC and NASA prime contractors reported that they had placed $7.3 billion in sub-contracts with small firms (Table 23). If we add this amount to the $10.2 billion in total prime contracts awarded to small business, the total would represent 35.2% of the 1967 Federal procurement dollar, as compared with 20.5% (Table 23).

I am glad to report that after little more than a two-year lapse, the procurement set-aside program was resumed on November 1, 1967. We have 18 representatives working at major procurement activities of the Department of Defense and are budgeting for full implementation in 1969. These representatives open up new opportunities for firms to compete by recommending, when appropriate, that sole source procurements be made competitive; recommending that separate portions of large planned procurements, or suitable components of end items, be purchased separately so small firms may compete; locating additional small business suppliers for these opportunities; and recommending modification of unduly restrictive specifications.

To help reduce contract administration problems of small firms, we plan to have representatives stationed at Defense Contract Administration offices. There they can serve as a "friend in court" in such matters as inspection problems, problems of delay in performance caused by the Government, or causes beyond the control of the small firm, progress and other payment problems, and proprietary rights problems (Table 24).

We have recently started some special studies to determine, on a geographic and industrial basis, where the Federal procurement dollar is being spent. The first such study dealing with a contract density index has recently been completed

The contract density index is a useful measure of the relative impact of Federal procurement among SBA regions and areas. The index represents the ratio of each region's or area's share of total procurement to its share of total manufacturing shipments, converted or a base of 100. An index of 100 for an area or region means that its share of total Federal procurement equals its share of manufacturing shipments. Indices above or below this base measure the degree to which the area or region has exceeded or fallen short of its proportionate share of Federal procurement awards.

The wide dispersion of the index (from a low of 20 for the Boise and Sioux Falls regions to a high of 900 for the Washington metropolitan region) reflects major variations in regional industry mixes (Table 25).

The twenty-seven regions with the highest indices (125 and above) generally contain medium or large metropolitan areas which have emerged as growth centers for new industries serving the needs of the electronic, missile and space age. Illustrative of these are most of the regions of the Northeast Area; Jacksonville and Miami in the Southeastern Area; and Los Angeles, San Francisco and San Diego in the Pacific Coastal Area. Indices of 80 or lower were recorded for

29 regions. These include two principal types of region: (1) regions containing metropolitan complexes with high concentrations of manufacturing concerns producing basic materials, heavy equipment, production equipment and automotive vehicles—such as Pittsburgh, Birmingham, Chicago, Detroit, Cleveland and Portland; (2) regions which are predominantly rural with limited manufacturing facilities largely devoted to supplying local markets on processing local primary materials—such as Clarksburg, Jackson, Augusta, Little Rock, Des Moines, Boise and Spokane. In some instances, a high concentration of service-type contracts may distort an index based upon manufacturing capabilities. This explains, in part, the abnormally high index (900) for the Washington metropolitan region.

The Certificates of Competency program is designed to give small firms a better chance to participate in Government procurement. If a small business bids low on a Government contract, and the contracting agency feels that the firm does not have adequate productive capacity or credit to fulfill the contract, SBA is authorized to investigate the competency of the firm. SBA may issue a COC based on a thorough study of the company's operations. The contracting agency must award the contract to the small business when the certificate is issued. SBA follows the progress of the contract until it is completed. If the contractor has difficulty meeting production schedules because of technical or other problems, SBA offers assistance.

The program also makes available to the Government the services and products of those qualified small firms that have submitted low bids on particular purchases. This enables the Government to realize a saving and the Government, as well as small business, benefits.

Since it began through FY 1967, the COC program has saved the Government $29.8 million through the acceptance of low bids on the 2,111 COC's issued. In FY 1967, the total savings were $1,498,000 based on 141 COC awards made for $22.8 million.

Another 94 awards valued at $14.3 million were made without the necessity of issuing COC's after SBA supplied specific information to contracting agencies. The savings, by accepting these low bids, exceeded $1.5 million.

Section 8(a)(1) of the Small Business Act declares it to "be the duty of" SBA, and SBA is empowered whenever it "determines such action is necessary" to enter into procurement contracts with other Government agencies on such terms and conditions as the parties agree.

SBA is authorized by Section 8(a)(2) to sub-contract to others the performance or contracts it has obtained. This authority had not been exercised by previous SBA Administrators. Our decision to utilize this authority was prompted by the President's Test Cities Program announcement proposing to "mobilize the resources of private industry and the Federal Government to help find jobs and provide training for thousands of America's hard-core unemployed." In addition, the Economic Opportunity Act Amendments of 1967 added Congressional emphasis and direction for our use of this authority. In utilizing 8(a) in the context, we are trying to encourage small business development in areas which require economic stimulus and small business participation in resolving a critical national problem of developing job opportunities for the hard-core unemployed in our country.

We are moving carefully in employing our 8(a) authority. Our initial effort was focused on the five cities in which the Test Program operated—Washington, Boston, Los Angeles, San Antonio, and Chicago. With the full cooperation of the Department of Defense and the General Services Administration, we are jointly determining the items that are relatively simple to manufacture; that have a large continuing requirement; and that generally lend themselves to the training and skill development needs of the hard-core unemployed. We are seeking out qualified small business firms that are interested in participating in this program.

Other Government agencies are assisting us in developing a procurement package that will be acceptable to the small business sub-contractor who is being asked to assist not only in training of completely unskilled individuals, but also in providing permanent jobs. The Labor Department has agreed to expedite its consideration of training program requirements that can be included in our negotiations with potential sub-contractors.

Arrangements have been made with Lackland Air Force Base for a contract to supply troop issue bakery items. We have sub-contracted with an existing supplier, and we are assisting in expanding a small minority-owned bakery in San Antonio to which we will sub-contract a portion of the requirement. Both firms plan to work with the Labor Department in a training program. A loan application from the second firm to assist in its expansion plans is now being processed by our Agency.

In Washington, D.C., we are working initially with a large business concern. In this particular case, the large concern in conjunction with a local civic organization is setting up a Local Development Corporation. The Corporation will provide operating capital for a newly formed small business firm to which SBA will subcontract for military requirements.

For the initial production item, we are taking contracts from the Defense Supply Agency for wooden pallets and boxes. These will be sub-contracted to the small manufacturer and will provide a production base from which this business can be launched successfully. Eventually, the firm plans to expand into electronic assembly work. At least 60 hard-core unemployed will be brought into the training program during the initial phase of this operation.

The Labor Department has agreed to a 12-week training program and the Economic Development Administration will provide assistance for necessary management and technical advice.

SBA seeks to assure full opportunity for small logging and milling concerns to bid on Federal timber sales. To do this, SBA and the appropriate Federal sales agency set aside certain timber sales for bidding by small concerns only. Since the inception of this program in 1959, SBA-sponsored set-asides have averaged almost $6 million annually. It is expected that set-asides will be $14 million annually by FY 1969.

SBA also has programs to assist small firms in purchasing surplus Government property; to promote the interests of small business in the purchase of stockpile items; and to encourage the Department of Commerce to keep in mind the interests of small business when preparing regulations governing the allocation of critical materials.

In Summary.—The major SBA procurement assistance events during the past year involved:

Re-establishment of the Agency's "procurement set-aside" program.

Expansion of the sub-contracting program to gain more Government business for the small producers.

Increased activity in the Certificate of Competency program.

Activation of the 8(a) procurement program in furtherance of the President's Test Cities effort to provide more jobs for the hard-core unemployed.

Re-staffing of the procurement centers with SBA representatives to assure continued attention to the *small business potential* by the procurement officers.

SECTION VIII—IMPROVING MANAGEMENT AND EFFICIENCY OF SMALL BUSINESS

(*a*) *Business Management Assistance.*—Our Office of Management Assistance conducts a number of programs designed to assist businessmen in their day-to-day operations. This Office—

Publishes factual pamphlets and booklets covering the whole spectrum of small business operation;

Provides counseling services through its own network of Management Assistance officers in 73 cities;

Offers Counseling at Local Levels Program which brings the services of SBA counselors to about 500 cities per quarter;

Makes arrangements with educational institutions to provide both day and evening training sessions in business subjects for established businessmen as well as potential entrepreneurs;

Manages a cadre of 3,210 retired executives (Service Corps of Retired Executives) who volunteer to provide their expertise to small business free of charge.

During Fiscal 1967, 3,400,000 copies encompassing 500 different business subjects were distributed. Our publications are written by distinguished authorities in the business field, either as a public service or for a modest fee. Interest in our publications is continually growing.

The overwhelming majority of all publications distributed was a direct result of specific requests from individuals, corporations, governmental institutions, State governments, foreign governments, and banks. Many police departments have recently requested volume amounts of publications dealing with crime prevention measures which small businesses located in ghetto areas may be able to take.

During 1967, the Agency set up more than 2,000 business education courses, workshops, seminars, or conferences. This training varies from a course meeting one night a week for 8 to 10 weeks; a one-day workshop for prospective business

owners; or a one-day conference for established small business owners. Approximately 73,000 small businessmen and potential small businessmen attended such training units in FY 1967. This past year there has been a sharp increase in attendance by relatively young people and members of minority groups who desire to own their own businesses.

The 3,210 volunteers in SCORE helped more than 11,500 businesses and individuals last year. These ranged from one-time visits to small stores to assist in such problems as bookkeeping, inventory management, customer stimulation and other subjects, to intensive day-to-day counseling. An outstanding example of the service rendered free of charge by individuals in this category is seen in the case of help given to a Cooperative in a small Louisiana town. A retired Vice President of General Mills went from Minnesota to Louisiana (travel paid by the SBA, but no salary) and as a result of his visit, the Cooperative's ventures into the baking industry, and the retail grocery and gasoline business, was completely remade.

(*b*) *Promotion of Small Business in Export Trade.*—On November 13, 1967, SBA and the Department of Commerce formally signed an agreement to help the nation's small businessmen enter export markets and share in the benefits of our expanding export trade. The agreement provides for close cooperation between SBA and the Commerce Department's Office of International Trade Promotion to expand U.S. exports to help improve the nation's balance of payments. Under this agreement, SBA will give additional emphasis to loans to small business for participation in U.S. export trade. SBA will also encourage small businesses to participate in U.S. commercial exhibits, in U.S. Trade Center exhibitions in trade missions and trade conferences. SBA shares the frequently expressed confidence of the House Select Small Business Committee that American small businessmen possess the competence and ingenuity to compete successfully in export trade, provided they have a knowledge of foreign market potential for a given product, or service and follow sound marketing management practices.

The two agencies, together with American-flag carriers, have set up a series of at least 12 foreign trade conferences in the United States during 1968. A highly successful conference was held in Boston in which Pan American World Airways Cargo Service joined the Government agencies. Another has been held in Seattle, Washington, with Northwest Airlines joining Commerce and SBA as sponsors, with 64 new potential exporters signing up.

Preparations are underway now for conferences in Phoenix, Atlanta, Los Angeles, Jackson, Chicago, Cleveland, Louisville, Miami, and other cities of small business manufacturing concentration.

(*c*) *Technology Utilization.*—In the middle of 1967, SBA undertook to assist to the small business manufacturing community (300,000 companies) to obtain some of the benefits from technology information generated as a result of Government-sponsored research and development. Two programs have been activated:

First, the scheduling of technology utilization conferences throughout the country and technology transfer workshops to encourage the potential commercial application of technical advances from space, nuclear energy and other programs, and

Second, the screening of technical information resulting from Government-sponsored research and development and publication of selected items in special industry-aimed pamphlets.

During the past six months, three highly successful general conferences have been held and an additional 23 are scheduled in the major manufacturing centers of the country. Conferences and workshops are co-sponsored with SBA by such agencies as NASA, AEC, State Technical Services and are participated in by technical staffs from those agencies.

Smaller, industry-oriented, workshops have been held with the co-sponsorship of universities and trade associations, such as the Tool and Die Institute. It is estimated that more than 500 companies have already reacted to conference and workshop attendance by requesting additional and more detailed information on specific technical subjects.

Many publications will be issued in the coming months. The first publication, dealing with Electrical and Electronics Advances, has been issued and will reach a selected audience of 17,000 manufacturing firms. Other carefully screened publications will appear later in the year and will cover such subjects as: Advances in Tools, Dies, Jigs, and Fixtures Technology; Advances in Welding, Brazing and Soldering Technology; and Selected Advances in Instrumentation Technology.

SECTION IX—LEASE GUARANTEE PROGRAM

The Lease Guarantee Program was authorized by the Housing and Urban Development Act of 1965 as new Title IV of the Small Business Investment Act. Initially, the program was limited to those firms suffering substantial economic injury as a result of Federally aided projects, such as urban renewal and highway construction, and to businessmen who could qualify as Economic Opportunity Loan applicants. On January 9, 1968, under an amendment to the Small Business Investment Act, the program was broadened to include *all* small businesses eligible under policies established for SBIC and SBA business loans. The program will enable small businessmen to lease space at prime locations without the necessity of a Triple A rating that requires a net worth of $1 million.

The operating procedures and guidelines for this program have been carefully designed to assure complete compliance with the intent of the Congress:

First, we are seeking the participation of private companies, with SBA acting as re-insurer. We are also urging development of private lease guarantee programs without Government participation. Regional conferences were held in 1967 in Chicago, Washington, New York, San Francisco and Dallas to present our plans for the program. Superintendents of State insurance departments and representatives of private casualty insurance companies attended these conferences. Participation agreements have been signed with three private companies.

Second, on May 13, 1967, a *pilot program* was launched to test the soundness of the procedures and identify needed improvements in the rate structure.

Third, with the advice of outside experts, a *risk rating system* was developed to measure the risks incident to successful operation of a business, i.e., management capabilities, financial position, location and economic evaluations. The adequacy of the fees established in the rate structure will be continually evaluated as the program proceeds.

Agency staffs are being trained to handle the public inquiry publicity and processing of Lease Guarantee applications, both direct and in participation with insurance companies.

Of the three insurance companies with whom we have signed agreements, one company is actively receiving applications in 30 states, and has already, at this date, submitted 24 applications for reinsurance.

An active program to obtain broader participation by insurance companies has been implemented. On February 14, 1968, a conference for this purpose was held with eight midwestern companies and two insurance trade associations, National Association of Independent Insurers and American Mutual Insurance Alliance.

The program was explained to each of the state insurance regulatory agencies, and SBA continues to work with each state agency. Reception by the states of the Lease Guarantee Program is good.

In addition, we are working with the Life Insurance Association of America, American Insurance Association, American Society of Real Estate Counselors, National Association of Real Estate Boards, International Council of Shopping Centers, and the Urban Land Institute to broaden interest in all fields of Lease Guarantee activities.

Forty-four Lease Guarantee commitments have been issued, nine of these in participation with insurance companies. Twenty-three commitments are to prospective EOL tenants in a shopping center of Cuban refugees in Miami, Florida. These are highly qualified small business people who will also obtain Economic Opportunity loans. Participation of these guarantees is being developed with one of our participating insurance companies. Long-term mortgage financing of the shopping center is provided by one of the major insurance companies.

In the same geographical area, we have issued direct lease commitments on three day-care centers for pre-school children, with 100% bank financing obtained because of Lease Guarantee. The mothers can now obtain jobs and escape from dependency upon welfare benefits.

A direct lease guarantee issued to a small Cleveland, Ohio, firm enabled it to get space in an industrial park. Other projects being processed involve two large-sized groups of merchants in Chicago and one group in White Plains, New York, and agencies in Washington, D.C., displaced by urban renewal projects who are working together to develop new urban shopping plazas. Because of Lease Guarantees for these displaced small businesses, long-term mortgage financing for land purchase, design and construction costs becomes available. We are finding that we are able to obtain lower interest rates for the developers for this financing and willingness to extend greater dollar participation because of Lease Guarantees.

Total private investment in these projects is estimated to be in the neighborhood of $28.2 million.

The proportion of direct guarantees is presently high in relation to participations, but it is anticipated that the ratio will reverse in the future. We hope that of the total, direct writings will be about half of participations, although this may not take place during the next fiscal year.

SECTION X—SMALL BUSINESS SIZE STANDARDS

To carry out the policy of the Congress that the Government should assist small business concerns in order to increase the competitive strength of the small business, it is essential to channel the benefits of the programs of the Small Business Administration to those businesses which need assistance to overcome any disadvantages because of their small size.

Since 1953 the small business size standards of the Agency have been developed on the basis of studies of the size structure of the business economy and the experience gained through the administration of the size standards. Studies were made of whatever information was available concerning the structure of the business economy and the disadvantages of small businesses. Most weight was given to the statistics compiled by the Bureau of the Census for the manufacturing industries, the whole sale and retail trades, and selected services in the development of the definitions of small business for these industries. Through the years, there has been a continuing effort to improve the size standards on the basis of new statistical and other factual evidence.

During the first half of calendar year 1967, *1963 Census of Manufactures* size data became available. Concentration ratios for the manufacturing industries were analyzed together with the 1963 data tabulated by size of establishment and the comparable 1958 data. Studies were made also of the multiunit company data for the wholesale and retail trades and for selected services. Using the techniques which had been employed previously in the development of the small business size standards, some revisions were indicated. On the basis of these studies, the Administrator proposed revised and new definitions of small business for certain industries. These proposals were published in the Federal Register in June and July of 1967.

Interested persons were given an opportunity to file written statements of facts, opinions, or arguments concerning these proposals. Divergent views were expressed by many persons interested in the proposal to revise the small business size standard for financial assistance to small petroleum refining companies and procurement assistance to small companies bidding on Government purchases of refined petroleum products. As a result, a hearing was held on October 9, 1967. The statements made at the hearing, together with all other relevant information available, were given further study and it was decided to retain the present small business size standard. Under the present size standard, any business concern having an average of 1,000 or fewer employees, including affiliates, and not more than 30,000 barrels per day crude oil or bona fide feed stock capacity from owned or leased facilities, is classified as small.

A hearing was held also on November 30, 1967, to get the views of interested persons regarding the present small business size standards for the construction industries. After consideration of statements made by members of the industry and all other pertinent available information, it was decided to retain the present definitions of small business for the construction industries. The definition of a small construction concern for SBA loans is any such business that has average annual receipts not in excess of $5 million for the preceding three fiscal years. The definition of a small construction concern for Government procurement assistance is any concern bidding on a contract for construction work that has average annual receipts for its three preceding fiscal years not in excess of $7½ million, except for dredging. The size standard for dredging is $5 million.

During 1967, some size standards were revised or newly established for certain manufacturing industries, wholesale and retail trades, and selected services. However, some of the proposed changes have not yet been made. As indicated above, there is a need for continuing studies to improve the definitions of small business on the basis of changes in the competitive position of small business. In addition, there is need from time to time to review the thinking and the techniques leading to the development of the small business size standards. For these reasons, an interoffice Size Standards Task Force was organized as a working group to develop further information that should lead to the further improvement of the present small business size standards.

It is contemplated that the work being done will provide a better foundation for the definitions of small business to guide future actions designed to assure the channeling of Federal programs where they will do the most good for the small businessman and the national economy.

SECTION XI—SMALL BUSINESS "ADVOCACY" PROGRAM

Section 8(c) of the Small Business Act requires that SBA make studies of matters materially affecting the strength of small business and of the effect of Federal laws, programs and regulations on small business. Section 10(f) permits the Administrator to consult with other Federal agencies in the formulation of policies affecting small business interests. The Administrator can make recommendation to other Federal agencies "for the adjustment of such programs and regulations to the needs of small business" and may request other agencies to consult and cooperate with SBA in order to recognize, protect and preserve small business interests.

The basic mission of the Small Business "Advocacy" program is to comply with these Congressional mandates. Existing and proposed programs and regulations of other Government departments and agencies are studied to identify those which would tend to put a segment of the small business community at a competitive disadvantage compared to large business and to advocate changes or modifications in such programs or regulations. We believe this program to be extremely important to protect the interests of small business. For this reason, it is under the direct supervision of the Deputy Administrator with staff support from the Office of General Counsel and other operating divisions of the Agency.

Recent Examples of Advocacy Matters.—During the past six months, SBA has intervened on a formal basis, in two proceedings before the Federal Maritime Commission and the Civil Aeronautics Board:

1. The FMC conducted an investigation in the form of a public hearing on the disparity of inbound and outbound freight rates between the United States and the United Kingdom. SBA participated in the hearing and filed a brief pointing out that the disparity in freight rates between inbound and outbound traffic, as well as the disparate rate structure in outbound traffic alone, has seriously disadvantaged small business.

On January 31, 1968, an initial decision was issued by the Examiner of the Federal Maritime Commission which sustained the SBA position suggesting both voluntary reforms and guidelines to assist in establishing carrier rates.

2. The CAB instituted a proceeding to determine whether helicopter service between Washington, Baltimore and the three area airports, on a non-subsidy basis was warranted in public interest, and if so, which of the applicants should be certificated. SBA participated in the hearing and has filed a brief setting forth the advantages accruing to small business from such a service and arguing that certification should go to an applicant that is a small business as defined by SBA regulations.

On an informal basis, during the past year under this program, SBA has been in contact with nine executive departments and eight agencies of the executive branch concerning the problems of some segment of the small business community. For example, the National Ice Cream Mix Association, Inc. complaint of unfair standards promulgated by the Department of Agriculture resulted in SBA conferring with the Department of Agriculture to attain an easing of the standards.

Interagency problems can involve any facet of the Government's operations. The program is an important part of SBA's function. It can and should serve as the small businessman's voice in Government channels.

SECTION XII—CRIME STUDY

The Small Business Protection Act of 1967, signed by the President on October 11, 1967, calls upon SBA to conduct a study of the impact of crime on small business concerns to determine ways in which such concerns may best protect themselves. Good progress has been made in conducting the study:

A comprehensive review has been made of the published literature.

In-depth discussions have been held with authorities in the field—International Association of Police Chiefs, Insurance Associations, Manufacturers of protective devices, Industry Associations, and operators of private alarm and detection systems and services.

The foregoing has provided us with a basis for developing a detailed study design which includes:

1. A study of the impact of crime on small business to provide, for the first time, reliable information on losses resulting from robbery, burglary, vandalism and shoplifting. This study is being conducted with the advice and assistance of the U.S. Bureau of the Census. This is an in-house study.

2. An evaluation of existing protective device systems available to businessmen and the development of improved systems using components already in use elsewhere in defense, industry and other countries. Cost-benefits of alternative systems will be considered in the evaluation. This evaluation will be performed by contract.

3. Architectural changes in physical facilities that may assist in reducing losses and deterring crime. An interagency task force will be organized to conduct this study.

4. A review of managerial techniques to identify changes which might be made by the businessmen themselves to reduce losses. This would be aimed at a "self-help" program for the businessman.

5. A review of the role of insurance in helping to reduce economic losses due to crime. Full use will be made of the work of the Insurance Advisory Panel of the President's National Advisory Commission on Civil Disorders.

We are confident that the study will be completed and a report filed with the Congress within the one-year time limit established in the Act.

SUMMARY AND CONCLUSION

Mr. Chairman, this has been a lengthy statement. I felt that a long statement was necessary because it has been over 18 months since SBA appeared before this Committee, and that the Committee should have a complete and current picture of what we have accomplished and what the outlook for the future was. I would like to summarize:

The economic prospects for the nation and the small business community are generally bright but some grave problems persist.

As the economy grows, the opportunities for small business also grow. This causes expansion in demands placed on SBA for assistance to small business—loans, procurements, and management assistance.

Our loan programs have contributed to national economic growth, have provided thousands of new job opportunities, and have enhanced the competitive environment.

The net cost to the Government of SBA programs are quite modest in relation to the returns to the nation and the economy.

The future appears to portend a challenging period for small business and SBA in promoting balanced economic growth on both a national and community basis. SBA and small business will be significant elements in achieving national economic and social goals.

Our new Community Economic Development Program holds much promise for helping to solve the hard-core unemployment problem.

The banking community has gained increasing confidence in the small business prospects and we look forward to greater private sector participation in our loan programs in FY 1968 and FY 1969, thus conserving tax dollars for use in other high priority programs.

Our SBIC program holds much promise to assist in narrowing the equity financing gap existing in the small business segment of the economy and to provide important supplemental assistance to the small concern.

Our procurement assistance program has been revitalized with the reinstitution of the set-aside program and the stationing of SBA representatives at major procurement centers.

Our management assistance program, as supplemented by the 3,210 man cadre in SCORE, are reaching more and more small businessmen with our training and counseling activities.

Our lease guarantee program is off to a good start. It is an important supplement to our small business aids and the outlook for extensive participation by the insurance industry is optimistic.

The legislative amendments enacted in the last two sessions of the Congress have materially assisted us in the conduct of our programs. We do not have any proposals to submit to the Congress at this time. If our program evaluations so indicate, we may submit some new proposals.

This concludes my statement, Mr. Chairman. I would be pleased to answer any questions the Committee may have. Thank you.

Appendix A—Supplementing the statement of Robert C. Moot, Administrator, Small Business Administration

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Appendix A—Preface

Section VI of the Administrator's statement discussed, in summary fashion, the contribution of SBA's lending programs toward Meeting the Capital Needs of Small Business.

The material in this Appendix provides additional details on each of SBA's lending programs—legislative authorization, historical performance, loan policies, and the outlook for the future.

Section I—Business Loan Program

A. *Introduction*—SBA's business loan program is the oldest and the largest of its financial assistance programs. In the fourteen year period ending June 30, 1967, almost 76,000 loans had been approved for a total of $3.4 billion. Of this amount, $2.4 billion (70.1%) has been approved during the unprecedented seven year period of continued national economic growth which began in 1961. This indicates that as the national economy grows, the demands on SBA for financial assistance to small business increases substantially. An expanding economy generates new business entries as well as business expansion and modernization.

The objective of the Congress in authorizing the business loan program was ". . . to insure a well-balanced national economy . . ." Reflecting this objective, we have tailored our program to achieve a balance among the loan recipients.

In the six year period ending June 30, 1966: (a) 11% of our loans were for less than $5,000 and (b) 62% for less than $25,000.

In the fourteen years ended December 31, 1967, the industry distribution of our business loans has been wide and varied (Table 2):

[Dollar amounts in millions]

Industry	Number	Percent	Amount	Percent
Manufacturing	19,331	24	$1,355	38
Wholesale	6,706	8	327	9
Retail	29,005	36	780	22
Services	15,243	19	597	16
Others	10,497	13	544	15
Total	80,782	100	3,603	100

B. *SBA's Participation Program with the Banking Community.*—The authority to make business loans was restricted by the mandate that "no loan shall be made unless it is shown that a participation is not available" and further that "such participation by SBA shall not be in excess of 90% of the balance of the loan outstanding at the time of disbursement."

Over the years, we have maintained close liaison with members of the American Bankers Association and the Independent Bankers Association to get greater participation in our loans. Good progress has been made (Tables 1 and 7):

[Dollar amounts in millions]

	1954–67		By 1967		Fiscal year 1968 estimate		Fiscal year 1969 estimate	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Total	$3,350.7	100	$385.3	100	$537	100	$649.7	100
Direct	856.4	26	60.4	16	57	11	77.0	12
Participation	1,846.5	55	196.4	51	225	42	276.0	42
Guaranteed	647.8	19	128.5	33	255	47	296.7	46

We believe that the increases forecast for FY 1968/69 are realistic in the light of recent experience which indicates a greater confidence in the SBA programs by the banking community. In FY 1967, we introduced the Simplified Bank Guarantee Plan (SBLG), which has been well accepted by the banking community. By December 31, 1967, there were 614 SBLG agreements signed with banks and 340 loans made for $26 million under the agreements.

SBA's immediate participation loan program was improved in earlier years through the adoption of the Simplified Bank Loan Plan (SBLP) and the Simplified Early Maturity Plan (SEMP). These plans streamlined procedures, reduced paperwork and provided other incentives to increase bank participations. Our Bank Relations Officer Program, currently consisting of 24 retired bankers, has contributed to wider acceptance of SBA programs by the banking community. One of the primary tasks of these experienced men is to contact the banks each year to promote the SBA participation program.

C. *Evaluation of Program Performance.*—With the initiation of the Fiscal Year 1970 budget cycle, all SBA programs become subject to the principles and procedures of the Governmentwide Planning, Programming and Budgeting System (PPBS). As part of our preparation for this, we have initiated a systematic evaluation of the performance of all major programs in terms of their contribution to Agency objectives in relation to cost incurred. Over the past year, principal efforts have been devoted to a comprehensive evaluation of the business loan program.

As a first step, we collected, in a mechanized file, financial reports of some 22,000 firms which had received assistance through the business loan program since the establishment of the Small Business Administration in 1953. The progress of each borrower was recorded year by year after the approval of a loan. From these data, we were then able to trace the annual increase, or decrease, in the principal measures of the performance of assisted firms—profits, sales, net worth, and total assets. We were also able to compare some of these growth rates with the growth experience of other private firms over a comparable period of time. Selected results, converted to index numbers, are portrayed in charts attached. While the raw data traced growth experience through 10 years after issue of loans, the number of observations in the sample dropped off sharply in the seventh and subsequent years. This small number of observations in the later years raised questions as to the reliability of the results for these years. Accordingly, we have restricted our analysis to the first 6 years after loan issue.

Average Growth Rate for All Borrowers.—As shown in Table No. 8, every measure of borrower performance displayed marked and progressive improvement over the first 6 years following the issue of loans. Profits, in particular, more than doubled, averaging an annual rate of increase of 20 percent for all firms new and old. Growth, as measured by other indicators, was also significant, though less spectacular—annual growth rates averaged almost 8 percent for total assets, 6 percent for net worth, and 8 percent for net sales. These last three measures were uniformly closely related.

Growth Rates by Industry.—Wide variation was noted in profit growth rates by industry, as shown in Table No. 9. The four industry groups displayed—manufacturing, wholesale trade, retail trade, and services—accounted for approximately 85 percent of the total dollar volume of loans during the period under review. Profits of SBA-assisted manufacturing concerns increased at an average annual rate of 21 percent during the first 6 years following the issue of loans. This suggests that small business can still compete effectively in manufacturing, despite the persistence of mergers and consolidations in many areas. Profits of borrower firms in wholesale trade are shown through the fifth year only and averaged an annual growth rate of 7 percent in that period. An abnormally sharp further increase was indicated for the sixth year, but we question its validity because of the relatively small number of observations for that year. Profits in retail trade and services displayed orderly and progressive growth, with annual rates of increase of 8 and 15 percent, respectively.

Growth in net sales (Table 10)—taken as representative of other growth measures—displayed less variation by industry: 3.9 percent per year in wholesale trade, 6.4 percent in retail trade, 8.4 percent in manufacturing, and 10 percent in services.

Growth of SBA Borrowers Related to Industry Averages.—Available data for industry as a whole, while not strictly comparable with data for SBA-assisted firms, indicate that profit growth rates of the latter compare most favorably with

industry-wide experience. The data used in this particular analysis exclude new firms and cover those loans made for the primary purpose of promoting general economic growth as distinguished from such purposes as economic opportunity, local economic development, and competitive environment. As portrayed in Table No. 11, profits of SBA-assisted firms increased at an average annual rate of 14 percent, as compared with an average of 6½ percent for U.S. corporate profits in a comparable period. The difference was most marked in manufacturing, where SBA borrowers showed a 21½ percent annual growth rate, as compared with 4.8 percent rate for all U.S. corporations. SBA-assisted firms in wholesale trade and in services experienced profit growth rates above their respective industry averages. The industry-wide profits growth rate was slightly higher than the rate for SBA-assisted firms in retail trade. The 8 percent rate of increase in retail trade, while lower than the industry average, still represents a respectable improvement. Further, the SBA-assisted firms are largely comprised of single establishments operating in local markets while the total industry includes large chains operating in numerous markets in broad geographic areas.

Comparable industry-wide sales data are available only for manufacturing, wholesale trade and retail trade, which are displayed in Table No. 12. In manufacturing, the sales growth rate for SBA borrowers—8.4 percent per year—exceeded the 5.2 percent growth rate for the industry as a whole. Borrowers in wholesale trade, with an annual sales growth rate of 3.9 percent, fell short of the industry average; those in the retail trade, on the other hand, registered a higher growth rate—6.4 percent—than the industry average.

Cost of the Program.—Concurrent with the evaluation of the business loan program accomplishments, we undertook a review of the net cost of the program to the Government. We have examined our loan administration experience to develop estimates of all loan costs, including the original amount of the loan, interest payments to the Treasury, losses through borrower defaults, the cost of loan processing, administration, and liquidation, and an appropriate share of overhead costs. Income received to offset costs includes payments on principal, interest payments, fees earned, and recoveries through loan liquidation. This analysis revealed that, at current rates of interest paid and received, we can expect a net ultimate cost to the Treasury of approximately five cents per dollar of loans approvals under this program. For example, we estimate that the total net direct cost to the Treasury of the $590 million business loan program originally budgeted for fiscal year 1968 would be approximately $24 million. This figure, moreover, represents only the net cash flow directly associated with the operation of the program. To the extent that the program results in added profits and employment, additional real benefits accrue to the Government in the form of increased tax revenues.

Benefit/Cost Analysis.—As a means of assessing the indirect economic benefits of the business loan program, we also conducted a comprehensive benefit/cost study based upon the data I have previously described. This required the development and application of rather complicated mathematical formula. Basically, we sought to develop quantitative measures of the total economic benefits and total economic costs of the program. Total economic benefits included principal and interest payments, increases in profits, and, and in the case of corporations, increases in officer salaries and withdrawal. The principal costs included were total loans disbursed, cost of loan administration and servicing, liquidation costs and net losses on liquidated loans. To take into account the fact that the resources made available to borrowers would, theoretically, have been devoted to alternative productive uses and would have resulted in an average rate of return to the economy, all benefits and costs after the date of approval of each loan were discounted at the rate of 10 percent per year. Ratio of discounted benefits to discounted costs were then developed for the total loan program and for several loan classifications. Assuming that 10 percent is an appropriate discount rate, a ratio of 1.0 is a break-even point reflecting neither a net economic gain nor loss as a result of the loans evaluated. A higher ratio would represent a net gain (positive contribution to overall economic growth) and a lower ratio would represent a net economic loss (negative contribution to economic growth). The results by principal industries (accounting for approximately 95 percent of all SBA loans) and by SBA area are shown in the following table:

(All program categories combined)

Benefit-cost ratios—by principal industries

1. Manufacturing	2. 56
2. Transportation	1. 59
3. Wholesale trade	1. 33
4. Construction	1. 25
5. Services	1. 12
6. Retail trade	. 80
All industries combined	1. 73

SBA area benefit-cost ratios

1. Mid-Atlantic	1. 91
2. Southeast	1. 88
3. Pacific coast	1. 87
4. Midwest	1. 85
5. Northeast	1. 85
6. Rocky Mountains	1. 33
7. Southwest	1. 27
8. New York	1. 07
U.S. total	1. 73

It will note that the benefit/cost ratio for all loans was 1.73—well above the break-even point. Questions may be raised as to the accuracy of the break-even measure because of unavoidable limitations of data and methodology and because of certain assumptions in the study. The very high average ratio indicated by these results, however, supports the general conclusion that this program has not only benefited individual borrowers, but has also contributed to the growth of the general economy. Further, other indirect benefits resulting from the improved competitive posture of small concerns are additional to those indicated by the measure of economic growth.

The higher ratio shown for manufacturing reflects the rapid profit growth rates realized by borrowers in this industry. Retail trade, on the other hand, falls below the assumed break-even point. This has been a highly competitive industry, and this is reflected in the earnings of small proprietors. Also, most of the loans to this industry were relatively small and were placed with relatively small firms, resulting in a high administrative cost per dollar of realized returns. Since the growth rates for these borrowers were encouraging, we conclude that, while no overall contribution to economic growth is evident, competitive gains have been achieved.

Finally, retail concerns are highly sensitive to economic trends in the communities in which they are located. Thus, the results of the loans to borrowers in this industry reinforce our conclusion that our assistance programs will yield best results when applied in coordination with active community development programs.

Significance of the Results.—In all candor, I must caution that what I have just presented reflects the initial results of a comprehensive analysis which is still undergoing refinement and elaboration. As far as I know, this is the first time an analysis of this kind has been attempted for any Federal lending program. The results, so far, lead to several principal conclusions. Briefly, these are:

Small firms assisted by this lending program have thereafter experienced very satisfactory growth in their respective competitive markets. Their growth appears to compare most favorably with industry-wide experience.

The firms receiving assistance were high risk, marginal firms which had been unsuccessful in their efforts to secure private financing on reasonable terms. Yet, they survived and prospered. This indicates that the financial needs of creditworthy small business concerns are still not adequately served by private sources—a basic assumption underlying the financial assistance provisions of the Small Business Act.

This lending program has in fact contributed to the "preservation and expansion of * * * competition," as contemplated in the statute.

The program has been carried out at a modest net direct cost to the Government in relation to benefits achieved. It is safe to assume that direct benefits to the economy and indirect monetary benefits to the Government through increased tax revenues more than offset this direct net program cost. The favorable cost/benefit ratio of SBA loans tends to confirm this conclusion.

The proportionate share of private participation in total loans approved under the program has increased progressively and is expected to increase further in the current year. This indicates that the success achieved in this loan program has caused private financing sources to view the future prospects of small business concerns with increased confidence.

Extension to all SBA Programs.—We intend to undertake similar comprehensive evaluations of all SBA assistance programs in the current year. I feel that they will prove to be of great value to the Agency in managing our programs and will permit us to report progress to you in increasingly meaningful terms.

Section II—Displaced Business Loan Program

A. *Authorization.*—In 1961, section 7(b)(3) was added to the Small Business Act authorizing loans to small business concerns displaced by urban renewal, highway construction or any construction conducted by or with Federal funds.

The authorization provides (1) loans with up to 30 years duration, (2) a formula for computing interest on the Government's share of the loans at a lower level—currently at 4¼ percent for 1968—than the regular business loan 5½ percent rate, (3) there is no specific collateral requirement.

B. *Current Loan Policy.*—SBA regulations permit displaced business loans to be made for (1) moving expenses, (2) working capital for a reasonable period of time, (3) the purchase of machinery and equipment, (4) replacement costs of realty or improvements, and (5) increased rental costs or fixed charges in the new location. A recent change in the regulations permits loan proceeds to be used for upgrading the business land area up to 50 percent and higher where justified. Formerly, the limit was 33½ percent. No changes in current loan policy are contemplated at this time.

C. *SBA Advisory Assistance Program.*—As required by section 8(b) of the Small Business Act, we attempt to establish an early contact with potential small business displacees. We maintain close liaison with HUD's Office of Relocation Assistance and with DOT's Bureau of Public Roads. State Highway Departments are also utilizing SBA services in their programs.

Over the next three years, it is estimated that more than 13,000 businesses will be displaced annually by Federal and Federally-assisted programs. This total excludes displacements resulting from HUD's Model Cities and its other new programs.

All the available evidence indicates that business displacement is basically a small business problem and that it is essentially an urban problem. Its biggest impact is expected to be felt in the Nation's densely populated centers in the next few years.

D. *Loan Volumes.*—Since the inception of the program in 1961, through December 1967, a total of 1,308 loans for $96.9 million had been approved (Table 15). Of this amount, 170 loans for $15.8 million were approved in the first half of FY 1968. The estimate for the remainder of FY 1968 is $38.2 million and the FY 1969 budget for this program provides an additional $56 million which we believe adequate to meet anticipated demands.

One of our major objectives for this program is to obtain greater bank participation in the loans. Since the beginning of this program, private sector participation has accounted for only 3.4 percent of the total. Our target for FY 1969 is 41 percent.

Section III—Economic Opportunity Loan Program

A. *Background.*—For some years, SBA has been concerned with the very urgent problem of providing meaningful help to the economically disadvantaged in the business community. Studies indicated that—

The minority-owned business was stymied in its growth potential by a lack of funds or management know-how.

The small business in depressed rural areas found itself unable to develop and provide the means for establishing a solid foundation of economic stability.

The Negro in the big city ghetto, the Indian on a poverty-stricken reservation, the Mexican-American in the Southwest, the struggling entrepreneur in our rural areas—all were lagging in the general, unparalleled prosperity.

In January of 1964, SBA launched on a pilot basis, a special loan and management assistance program to overcome these problems. The "6 x 6" loan program authorized loans for $6,000 with up to a six year maturity.

Based on the "6 x 6" pilot experience, a program of business incentives for the economically disadvantaged was authorized under Title IV of the Economic Opportunity Act of 1964. Initially, this program was delegated to the Small Business Administration by the Director of the Office of Economic Opportunity.

In November of 1966, the EOL program was transferred to the Small Business Administration. Since that time we have:

First: Expanded the program nationwide. Financial and management assistance became available through all of our field offices operating in the 50 states and Puerto Rico. Previously, the program was available in only 44 communities where Small Business Development Centers were located.

Second: Re-oriented our "management assistance" program to make maximum use of specialized talents in processing loan applications and counseling the borrower or potential borrower:

An evaluation guide has been developed to assist in processing loan applications and determining whether (1) the applicant had or could acquire managerial competence, or (2) the applicant's lack of managerial capability and motivation precluded consideration for financial assistance. Over 3,000 loan applicants have been screened and evaluated by our Management Assistance specialists since May 1967.

Where needed, a SCORE volunteer is assigned to the EOL borrower for one-to-one counseling. This assistance is offered for as long as the borrower's need exists.

SBA is also offering courses, workshops, and seminars to those eligible for EOL assistance.

Third: Redefined the eligibility criteria and divided the program into two sections:

EOL (I) Program.—provides loans up to $15,000 with a term of up to 15 years at 5½ percent interest—lower in EDA designated areas—to individuals with marginal or sub-marginal incomes who need help to expand or strengthen an established business and to those who have the necessary talent, motivation, and experience to establish a new business.

EOL (II) Program.—is designed to assist those who, although their incomes may be above the marginal level, have been denied the opportunity to compete in business on equal terms because of social or economic discrimination, health, handicap, hardship, etc. Loans up to $25,000 are available for periods up to 15 years.

B. *Loan Volumes.*—There has been a substantial acceleration in loan volumes since SBA was given direct authority for this program in November of 1966 (Tables 16 and 17):

In the first 23 months, with geographical limitations, 2,585 loans for $26.2 million were approved.

In the 13 months of the expanded operation, 3,712 loans for $39.7 million were approved.

Thus, our loan approvals have already exceeded by about 50 percent, the volume of the first 23 months.

C. *Future Outlook.*—The budget allowances for FY 1968 and FY 1969 provide for $39.0 million and $47.0 million respectively. To assure maximum benefits to the economy we have adopted two basic guidelines:

First, our resources will be carefully allocated so that this assistance will continue to be made available on a nationwide basis, but priority will be accorded to those rural and urban areas where pockets of poverty exist.

Second, we are encouraging private banks and lending institutions to expand their participation in the EOL program. For example:

Five banks in the New Haven, Connecticut area have recently established a million-dollar loan fund to make loans to minority-owned businesses—with an SBA guarantee.

The State of Illinois has deposited $2 million with the Hyde Park Bank in South Chicago with which the Bank will make loans to be guaranteed by the Small Business Administration.

Section IV—Local Economic Development Programs

A. *Authority.*—SBA is authorized to provide financial assistance to *State Development Corporations* and *Local Development Companies* to assist in promoting economic development of communities or areas—and on condition that these entities use the proceeds of Federal loans to assist eligible small businesses. The intent of the programs is to increase the flow of private equity capital and long-term loans to small business concerns to finance their operations, growth, expansion, and modernization.

B. *State Development Corporations (Section 501).*—These corporations are authorized by special Acts of the State legislatures, privately organized, owned and operated, and initially financed from private sources. We are pleased with the success of the program particularly because it has *not* required extensive outlays of Federal funds. Since the program was initiated in 1959:

37 states have enacted legislation to establish the Corporations.

21 of the Corporations are now active.

7 of the Corporations have borrowed $14.5 million from SBA under 23 loans (Table 18).

An organization of 19 State Development Corporations has been formed to stimulate the program. The organization reports that 90 percent of the financing provided by State Development Companies benefits small business; as of September 30, 1967, their 19 companies had outstanding 836 loans totalling $76.4 million.

Future outlook.—The willingness of member banks to finance Corporate operations has reduced demands for loans from SBA. We expect this healthy condition to continue through FY 1969. Accordingly, our budget calls for a modest $5 million in FY 1969 for this program.

C. *Local Development Companies (Section 502).*—The Development Company program is one I like to describe as a "peoples program" because it is pre-eminently a local self-help program. Members of a community are encouraged to build healthy, viable communities capable of sustained economic growth. Each Company must be principally composed of, and controlled by, persons residing or doing business in the community. The benefits of the program accrue to the people in the community—not just the Company or the small businessman.

Program progress.—From a modest beginning in 1959, when only 14 loans were made for $1,671,000, the program has financed through December 31, 1967, a total of 1,556 loans for projects costing almost $305 million (Tables 19 and 20). Of this amount, the Local Development Companies raised $69.0 million and private lending agency participation totalled $17.0 million, thus leaving the SBA share at $219.0 million.

The small businesses financed under this program have provided about 65,000 employment opportunities which means that for every $3,400 in SBA seed money, a new job opportunity was created. This is a most remarkable record. Furthermore, if we assume the average wage to be $4,000 annually, new payrolls would run to over $250 million a year, thus generating local economic growth and added tax revenues.

The majority of these Development Company loans are made in small communities. To illustrate this, I would like to cite a few statistics on our FY 1967 activity:

Community population	Loan projects		Job opportunities Created	
	Number	Percent	Number	Percent
Under 2,500	146	43.1	6,199	53.0
2,501 to 5,000	48	14.1	1,566	13.4
5,001 to 10,000	44	13.0	1,211	10.4
Subtotal	238	70.2	8,976	76.8
10,001 to 25,000	28	8.2	930	7.9
Over 25,000	72	21.6	1,778	15.3
Total	338	100.0	11,684	100.0

During 1967, 23.4 percent of these loans were placed in depressed areas such as Appalachia. Some were used to assist communities in diversification of their industries. Others were used to expand businesses to stimulate economic growth in the community. Forty-one percent of the funds loaned in 1967 went into new businesses. The 338 projects financed in 1967, covered a wide range of industries: Manufacturing—189; Transportation—12; Wholesale-retail—45; Services—83; Construction, recreation, etc.—9.

Loans are made for the overall benefit of the community involved. To give you some examples of how flexible we are in this program, I would like to illustrate the variety of loans we make:

In a mining town in the west for years, the people have been removing ore from beneath the nearby mountains and yet, no use was ever made of

the mountains itself. Last year, we granted a sizable loan to construct a ski-lift, a lodge, and a ski-run to the community.

In another area we found a community having 28 manufacturing firms in its immediate area; yet, there was a limited amount of recreation facilities. In this case we granted a loan for a golf course.

In another part of the country, we helped construct a unique old world style market place in the heart of a large city enabling 42 minority-owned new businesses to sell their wares.

In another city, deep in the ghetto area of that city, we helped construct a shopping center solely owned by the minority citizens residing there.

When a large steel company ceased its operations in a community of 11,000, we provided funds to assist three new industries to establish in that community, providing 85 job opportunities.

In a rural section of this country, we provided funds to assist in the construction of a roller bearing plant providing employment for 206 people, and finally,

In still another rural section of this nation, we aided in the construction of a handbag manufacturer, now employing 125 people in a town having a population of 700 persons. In fact, the same local development company in that town came to us for another loan to aid a manufacturer of men's and boy's socks employing in excess of 100 people.

We have provided 119 loans to aid in the construction and equipping of medical facilities such as clinics, hospitals, and nursing homes.

Among the domestic problems that confront us today is the mass exodus of young people from the small rural communities of our nation and the plight of ghetto area residents of our big cities. Realizing this, our Local Development Company policy is more lenient in these two cases. For example, in communities having a population of 5,500 or less and in a ghetto or depressed target area of a big city, all the Local Development Company needs to raise towards the total cost of the project is 10 percent of its cost. I am now studying ways and means to implement the Local Development Company concept in our EOL program and in carrying our our responsibilities under Section 406 of the Economic Opportunity Act of 1967.

This program has proven the wisdom of Congress in directing a program to blend the people of a community, the private lending sector, and the Federal Government into a solid, strong, and effective mix leading to better overall economic development of this nation.

D. *Future Outlook.*—With its proven capacity to stimulate economic growth at the local level, this program will continue to be given a high priority in our operations. We have recently revised our criteria to encourage greater private participation in the program. A new flexible first mortgage plan has been instituted which permits a bank to participate with as little as 20 percent and up to 40 percent (depending upon the size of the community) in our loans and obtain a first mortgage position on the property. This new plan has stimulated active participation: in 1967, only 16 first mortgage loans were made; in the first half of 1968, we have already approved 34 such loans.

We are still experiencing difficulty in convincing the private lending sector that it should participate in our up to 90 percent guarantee plan. However, we are studying ways and means to make this plan more acceptable to the private lending agencies.

Our program goal for FY 1968 is to approve 413 projects with a total cost of $79 million exclusive of Local Development Company contributions. For FY 1969, the comparable goals are: 479 projects, costing over $84 million.

Section V—Small Business Investment Companies

Since SBA appeared before this Committee in July 1966, the Congress has enacted two pieces of legislation concerning the SBIC Program. In September 1966, the Congress passed legislation giving SBA powers to control, regulate, and investigate the SBIC industry and to penalize violators with fines and losses of licenses. Within the framework of this legislation, we have taken numerous actions, too detailed to list here, to improve the image of the industry and to assure that the SBIC program effectively achieves its intended purpose—to provide venture capital and long-term loans to small business. On October 9, 1967, the President signed into law the most significant alteration of the SBIC program since its inception in August 1958. These amendments were the result of the efforts and consideration of the Congress and represent a new era in the Invest-

ment program. This legislation provided new standards for the licensing of SBIC's, an increase in the funds an SBIC may draw from SBA, an increase in the percent of assets a bank may place in an SBIC, and the establishment of an SBIC Advisory Board as well as other provisions.

We view the SBIC program as an important supplement to SBA resources to aid small business and as a substantial contributor to business and job creation in urban centers. From the inception of the program in 1959 to March 31, 1967, (the last reporting date):

SBIC's had made 26,751 separate small business financing transactions in all 50 states, the District of Columbia, Guam, Puerto Rico and the Virgin Islands.

SBIC's had disbursed $1.2 billion.

Reports from 1,315 SBIC-assisted firms indicate they have increased their employment by 11,800 jobs (29.4%) since the original financings were made. Thus, for every $9,000 in SBIC disbursements, one new employee was hired; to put it another way, for every $3,000 in SBA seed money, $6,000 was added by SBIC's to create a new job opportunity.

SBIC's had assets of $691.5 million March 31, 1967, of which only 36 percent were represented by borrowings from SBA.

This is an impressive record which will, undoubtedly, be improved in the future as our new Act and regulations become fully operative.

This combination of a concerted effort to regulate and the passage of incentive legislation has created a great interest in the program and a positive image has emerged. From July 1, 1967, through January 31, 1968, eight SBIC's were licensed with total private capital of $17.4 million or an average of $2.2 million per company. In addition, several large licensees increased their private capital during this period in excess of $13 million. For the first time in approximately six years an SBIC has requested and received permission to make a public offering of stock. The amount of this offering is $2.9 million.

The price index of the stocks of publicly held SBIC's increased 230 percent during the period of December 31, 1966, through December 31, 1967. The gain in December represents the 12th consecutive monthly rise.

As a result of the regulatory powers afforded by the September 1966 Amendments and vigorous attempts to regulate, the following significant actions were taken:

We intensified our examination of individual SBIC's to determine compliance with regulations. In FY 1967, we examined 487 SBIC's and, in FY 1968, 170 companies were examined through December 31, 1967. Where violations were noted, prompt action was taken to remove from the program those companies whose actions constituted serious violations of the Act or Regulations.

On June 30, 1966, there were 686 SBIC's licensed.

By December 31, 1967, there were 568 licensed companies and 30 of these were in process of surrender.

On December 31, 1967, there were 179 licensed companies classified as "problem" cases, and were in the process of being investigated, the subject of a prelitigation report or a judicial compliant, in the process of liquidation (receivership and so on), or in the process of surrender.

Senate Committee Recommendations.—The Senate Government Operations Committee recently issued a report on its review of the SBIC program. The report contained three recommendations:

1. That SBA and the Department of Justice take all necessary steps to protect the Government's investment in SBIC's.

Comment: On July 1, 1967, SBA and Justice executed a working agreement designed to prosecute violators. In the seven months ending January 31, 1968, civil judgments were obtained against 28 violating licensees.

2. That the examination and investigation activity be maintained at the present level.

Comment: As previously indicated, the examination activity has been accelerated. There are no plans for reducing the current level. Furthermore, procedures have been strengthened to assure timely action on all findings of violations. Since July 1, 1967, twenty-four (24) full-scale investigations had been completed and nineteen (19) new cases initiated.

3. That a report be made on the effectiveness of the new legislation or whether a completely new approach is needed.

Comment: We believe the SBIC Act amendments of 1966/1967 have done much to strengthen the SBIC's. At this time, we feel that we have the requi-

site tools to administer and regulate the industry in a manner to insure a successful program with losses to the Government minimized or completely eliminated.

Outlook For The Future.—After the recent period of shakedown, we believe the SBIC industry is well on its way to becoming a viable financial institution. There is still much work to be done: (1) Many areas of the country remain inadequately served by SBIC's. We are continuing to foster interest in the program in these areas and particularly in ghetto and other depressed and rural areas; (2) Strict surveillance and rapid action must be taken to minimize violations and prosecute those SBIC's who do not adhere to the Act and regulations; (3) Current licensing screening procedures must be continually reviewed and improved to assure that the management is capable, the proposed equity base is sufficient, and that there is a real need for the SBIC in the area of proposed operation.

Section VI—Disaster Loan Programs

A. *Loan volumes.*—Section 7(b) of the Small Business Act authorizes assistance to individuals, businesses, churches, charitable and non-profit organizations, private schools, colleges, and universities which have suffered as a result of floods or other catastrophes. Since the inception of the program, through December 31, 1967, almost 69,000 loans of all types for a total of almost $626 million have been approved (Table 22). In the past fourteen years, there have been a total of 599 disaster declarations involving all 50 states, Guam, Puerto Rico and the Virgin Islands.

A summary of our lending assistance under each of our disaster loan programs follows:

1. During the first half of FY 1968, under Section 7(b)(1), 8,967 loans for $73.3 million were approved to alleviate losses from physical disasters: flooding, hurricanes, tornadoes, etc. Over the life of this program, almost 68,000 loans for over $585 million have been approved.

2. Under Section 7(b)(2), small businessmen who suffered economic injury as a result of drought, excessive rainfall, freezes, floods, hurricanes, etc., obtained 1,240 loans for over $28 million through December 31, 1967; 82 loans for $5.8 million were made in FY 1968 through December 31, 1967.

3. Under Section 7(b)(4), a total of 36 loans for nearly $3.0 million have been made to small businessmen as a result of inability to market a product for human consumption due to circumstances beyond their control, cumulative through December 31, 1967. No such loans have been made in fiscal 1968.

The principal activity in the disaster program during the first half of FY 1968 has resulted from the flood in Fairbanks, Alaska, in August 1967, and Hurricane Beulah which struck south Texas in September 1967. In Fairbanks, through December 1967, there were 2,813 loans approved for almost $50 million and in Texas 5, 243 loans for $21.9 million.

B. *Riot Assistance.*—Under the disaster loan program, SBA can provide loans to businesses and householders who suffer losses as a result of riots. We have provided such assistance in Detroit, Michigan, and Newark, New Jersey. During FY 1968, there were 185 loans for $3.1 million made in Detroit and 30 loans for $305.6 thousand made in Newark.

C. *Disaster Procedures.*—When a disaster occurs in any area, a survey and report of same is made within 24 hours. When a justification exists for a declaration of SBA disaster loan assistance, a disaster cadre in the regional or area office (depending on the size of the disaster) proceeds immediately to the area to obtain space in which to operate. Supplies are immediately shipped to the operating disaster office.

Operating personnel are obtained from regional offices in the area involved to the extent they are available. Upon request from the field, additional personnel are detailed to the emergency area by the Central Office. These come from a list of Government and other retirees indicating availability for disaster work. Also, members of SCORE (Service Corps of Retired Executives) are used, 120 of whom have had special disaster work training by SBA.

During the past few months, the application forms used for requesting disaster loans have been completely revised. Two forms were completely eliminated and others changed so that applicants could more readily supply SBA with information needed for expeditious processing and statistical purposes. These new forms, coupled with special training given representative members of all field

offices and a complete new line of directives applicable to each required function, have greatly streamlined and simplified disaster office operations.

D. *Loan Authority and Policy—*

1. *Loan authority.*—Over the years, legislative amendments to the Small Business Act of 1953 progressively expanded the scope of disaster relief assistance:

1953—Loans were authorized to restore disaster victims, as nearly as possible to the pre-disaster physical condition.

1955—Loans were authorized to farm-oriented small businesses suffering economic injury from prolonged drought.

1958—Loans to farm-oriented small business concerns were authorized to those suffering economic injury due to excessive rainfall.

1964—Loans authorized to small business concerns suffering economic injury from *any* major disaster as determined by the President or natural disaster as determined by the Secretary of Agriculture.

2. *Current Loan Policy—*

(a) Applicants showing a strong cash or a readily liquidable asset position must use their funds to the extent available to reduce or obviate entirely the need for SBA funds.

(b) No upgrading in size of structure, number of rooms or type, is allowed as a replacement for one lost or to be repaired.

(c) Machinery and equipment lost may be replaced with new items of similar size and capacity, unless satisfactory used equipment is available and desired by the victim in order to reduce the debt incurred. Furniture and household goods should be repaired, if feasible. If unrepairable or lost, they can be replaced with new articles of similar size and quality. Loans to replace automobiles are permitted only to acquire one of the same age and condition as the car or truck lost. A wide choice of used cars is readily available in most areas.

(d) Collateral is not a primary requirement in disaster loans and no loan is declined only for lack of collateral. Refusal of an applicant to pledge whatever worthwhile collateral is available may be reason to refuse a loan request.

(e) Loans are generally repayable in level monthly installments, including principal and interest. Although loans may be for a period up to 30 years (with five additional years allowable in certain proved hardship cases), the time allowed for repayment is set at the shortest time possible without creating undue hardship.

APPENDIX B

STATISTICAL PRESENTATIONS

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TABLE 1.—GROSS IMPACT OF SBA LENDING PROGRAMS ON THE FINANCING OF SMALL BUSINESS, JULY 1953 THROUGH DEC. 31, 1967

[Dollar amounts in millions]

Type of loan program	Number of business financing	Gross amount	Funded by SBA	Funded by private sector	
				Amount	Percent of gross
Regular business loans	80,782	$3,603.0	[1] $2,369.2	$1,233.8	34.2
Displaced business loans	1,308	96.9	[1] 93.6	3.3	3.4
Economic opportunity loans	6,297	65.9	[1] 61.9	4.0	6.0
State development corporations (501)	[2] 752	68.8	14.5	54.3	78.9
Local development companies (502)	1,556	305.0	219.0	98.0	32.1
SBIC financing	[3] 26,751	1,179.0	358.3	820.7	69.6
Total	117,446	5,318.6	3,116.5	2,214.1	41.6

[1] "Funded by SBA" represents the full amount of direct loans plus SBA's share of participation loans. The bank share of participation loans and the full amount of guaranteed loans are considered as "Funded by the private sector."

[2] Represents 90 percent of the 836 loans for $76,400,000 reported outstanding by 19 State corporations as of Spet. 30, 1967. The remaining 10 percent went to other than small businesses.

[3] The number and gross amount are loans and financings made by SBIC's to portfolio companies through Mar. 31, 1967.

TABLE 2.—BUSINESS LOANS (7(a)) APPROVED BY INDUSTRY, FISCAL YEAR 1954 THROUGH DEC. 31, 1967

[Dollar amounts in thousands]

Fiscal year	Total		Manufacturing		Construction		Wholesale		Retail		Services		Other	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
1954	473	$27,739	269	$16,531	26	$1,496	17	$1,092	66	$2,270	----------	----------	95	$6,350
1955	1,172	55,957	579	31,117	72	3,682	63	3,620	247	7,518	121	$3,831	90	6,207
1956	1,915	81,977	722	43,465	112	3,910	146	6,592	577	13,692	195	5,501	163	8,817
1957	3,536	159,095	1,182	76,598	202	8,931	303	14,230	1,196	29,584	393	15,747	260	14,005
1958	4,014	194,997	1,250	87,728	279	14,348	312	14,205	1,185	29,681	498	20,388	490	28,647
1959	5,582	267,042	1,517	111,244	308	15,571	465	22,371	1,872	46,396	911	38,284	509	33,176
1960	3,670	168,366	884	60,824	202	10,923	293	13,748	1,269	32,641	709	30,574	313	19,656
1961	4,989	250,432	1,226	93,843	315	15,937	430	20,750	1,670	45,354	945	46,111	403	28,437
1962	6,203	360,762	1,696	146,022	330	20,963	560	33,961	1,943	60,050	1,201	65,869	473	33,897
1963	6,073	313,904	1,496	119,506	341	16,529	577	29,745	2,108	65,732	1,155	58,588	396	23,804
1964	6,288	312,212	1,405	112,973	337	15,329	552	31,044	2,311	67,784	1,242	57,421	441	27,661
1965	13,420	418,057	2,362	136,484	771	23,956	1,051	34,580	5,534	115,250	2,924	77,043	778	30,744
1966	10,404	354,841	1,965	113,559	669	18,219	789	31,261	4,189	98,084	2,198	65,601	594	28,117
1967	8,070	385,300	1,719	126,975	412	15,734	708	40,429	2,985	98,703	1,733	69,391	513	34,068
1968—Dec. 31, 1967	4,973	252,309	1,059	78,528	269	11,799	440	29,160	1,853	67,246	1,018	42,699	334	22,877
Total	80,782	3,603,008	19,331	1,355,397	4,645	197,327	6,706	326,788	29,005	779,985	15,243	597,048	5,852	346,463
Percentage	100.0	100.0	23.9	37.6	5.8	5.5	8.3	9.1	35.9	21.6	18.9	16.6	7.2	9.6

TABLE 3.—STATISTICAL SUMMARY OF LOANS APPROVED, FISCAL YEAR 1954 THROUGH DEC. 31, 1967

[Dollar amounts in millions]

Fiscal year	(7a) Business		Economic opportunity		Displaced business		Economic development		Investment		Total, all loans (excluding disaster)	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
1954	473	$27.7									473	$27.7
1955	1,172	56.0									1,172	56.0
1956	1,915	82.0									1,915	82.0
1957	3,536	159.1									3,536	159.1
1958	4,014	195.0									4,014	195.0
1959	5,582	267.0					15	$2.0	9	$1.3	5,606	270.3
1960	3,670	168.4					37	5.1	74	11.7	3,781	185.2
1961	4,989	250.4					73	10.9	209	35.6	5,271	296.9
1962	6,203	360.8			90	$5.0	80	14.8	322	50.6	6,695	431.2
1963	6,073	313.9			93	5.6	116	17.9	409	83.4	6,691	420.8
1964	6,288	312.2			95	6.9	154	23.0	334	58.8	6,871	400.9
1965	13,420	418.1	159	$1.8	199	12.5	256	40.2	221	47.0	14,255	519.6
1966	10,404	354.8	1,689	17.6	276	18.3	317	54.1	178	50.0	12,864	494.8
1967	8,070	385.3	3,034	31.9	385	32.7	341	54.6	72	15.4	11,902	519.9
1968 to date	4,973	252.3	1,415	14.6	170	15.9	190	27.7	26	4.5	6,774	315.0
Total	80,782	3,603.0	6,297	65.9	1,308	96.9	1,579	250.3	1,854	358.3	91,820	4,374.4
											Total (excluding investment)	
By type of loan:												
Direct	32,791	892.8	5,849	59.9	1,179	81.7	780	131.6			40,599	1,166.0
Participation	47,991	2,710.2	448	6.0	129	15.2	799	118.7			49,367	2,850.1
Immediate	33,102	1,963.4	155	2.5	125	14.9	769	116.3			34,151	2,097.1
Guaranteed	9,170	480.1	293	3.5	4	.3	30	2.4			9,497	486.3
Deferred	5,719	266.7									5,719	266.7
Percent of total:												
Direct	40.6	24.8	92.9	90.9	90.1	84.4	49.4	52.6			45.1	29.0
Participation	59.4	75.2	7.1	9.1	9.9	15.6	50.6	47.4			54.9	71.0
Immediate	41.0	54.5	2.5	3.8	9.6	15.3	48.7	46.4			38.0	52.2
Guaranteed	11.3	13.3	4.6	5.3	.3	.3	1.9	1.0			10.5	12.1
Deferred	7.1	7.4									6.4	6.7

TABLE 4.—LOAN LEVELS

[In millions of dollars]

Loan programs	Fiscal year 1967 Actual		Fiscal year 1968 estimate		Fiscal year 1969 estimate	
	Gross	SBA	Gross	SBA	Gross	SBA
7(A) business loans	385.3	305.3	537.0	406.2	649.7	491.0
Direct	60.4	60.4	57.0	57.0	77.0	77.0
Immediate participation	196.4	143.8	225.0	150.0	276.0	184.0
Guaranteed	128.5	101.1	255.0	199.2	296.7	230.0
EOL	31.9	31.3	39.0	39.0	47.0	47.0
Direct and immediate participation	30.1	29.8	29.0	29.0	32.0	32.0
Guaranteed	1.8	1.5	10.0	10.0	15.0	15.0
Displaced business loans	32.7	31.4	54.0	50.0	56.0	53.0
Direct and immediate participation	32.7	31.4	32.0	30.0	34.0	33.0
Guaranteed			22.0	20.0	22.0	20.0
Development company loans (502 and 502)	54.6	52.2	84.0	77.0	89.7	82.0
Direct and immediate participation	54.2	51.9	50.0	47.0	55.7	52.0
Guaranteed	.4	.3	34.0	30.0	34.0	30.0
Trade adjustment loans			1.2	1.2	1.2	1.2
Investment company assistance	15.5	15.5	15.0	15.0	30.0	30.0
Debentures	6.6	6.6	13.5	13.5	30.0	30.0
Loans	8.9	8.9	1.5	1.5		
Total	520.0	435.7	730.2	588.4	873.6	704.2

TABLE 5

COMPARATIVE LENDING PROGRAMS FISCAL YEARS, 1967, 1968, and 1969

(EXCLUDING DISASTER)

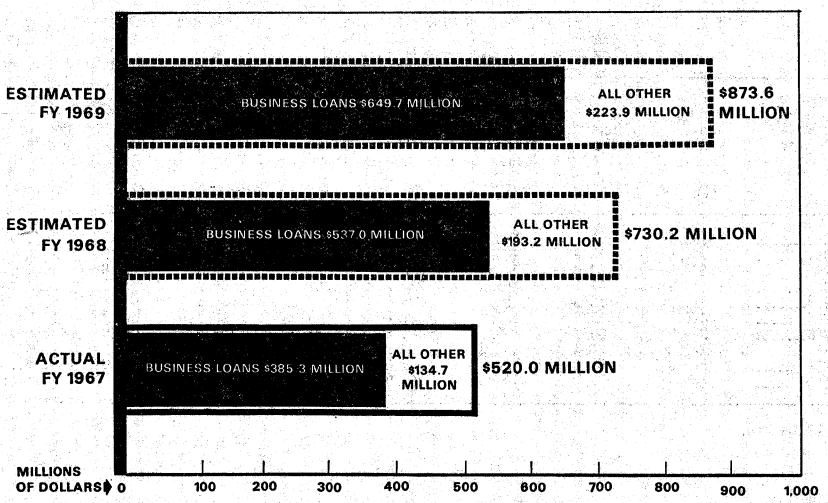

TABLE 6.—ACTUAL AND ESTIMATED PRINCIPAL LOSSES ON LOANS BASED ON ANNUAL LOSS RESERVE STUDIES

[Dollar amounts in millions]

As of—	Cumulative SBA share of disbursements	Actual losses	Actual losses as a percent of disbursements	Estimated losses	Total, actual and estimated losses	Composite loss study rate (total losses as a percent of disbursements)
			7(A) BUSINESS LOANS			
June 30, 1965	$1,809.4	$14.7	0.81	$31.3	$46.0	2.60
June 30, 1966	2,067.7	20.8	1.01	32.6	53.4	2.58
June 30, 1967	2,317.1	31.4	1.36	34.9	66.3	2.86
			ECONOMIC OPPORTUNITY LOANS [1]			
June 30, 1967	$41.4	$0.6	1.44	$3.1	$3.7	8.93
			DISPLACED BUSINESS LOANS [1]			
Do	$53.6	$0.1	0.12	$0.7	$0.8	1.52
			LOCAL DEVELOPMENT COMPANY LOANS [1]			
Do	$135.2	$0.3	0.20	$1.0	$1.3	0.93
			DISASTER LOANS			
June 30, 1965 [2]	$258.0	$2.4	0.92	$5.6	$8.0	3.09
June 30, 1966 [2]	469.8	3.2	.67	12.2	15.4	3.21
June 30, 1967	471.8	4.5	.96	14.4	18.9	3.90

[1] Loss reserve studies not made in prior years.
[2] Includes displaced business loans in these years.

TABLE 7.—TRENDS IN PRIVATE SECTOR PARTICIPATION—APPROVED 7(A) BUSINESS LOANS

[Dollar amounts in millions]

Fiscal year	Total approved	SBA financed			Private sector financed			Percent of total approved
		Direct loans	Participation loans	Total	Participation loans	Guaranteed loans	Total	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	A(8)
1960	$168.4	$53.0	$80.7	$133.7	$20.7	$14.0	$34.7	20.6
1961	250.4	77.8	123.4	201.2	31.5	17.7	49.2	19.6
1962	360.8	93.6	178.4	272.0	55.2	33.6	88.8	24.6
1963	313.9	67.1	154.6	221.7	61.3	30.9	92.2	29.4
1964	312.2	78.0	155.1	233.1	58.5	20.6	79.1	25.3
1965	418.1	115.5	167.2	282.7	60.0	75.3	135.3	32.0
1966	354.8	65.7	96.1	161.8	34.5	158.5	193.0	54.4
1967	385.3	60.4	143.8	204.2	52.6	128.5	181.1	47.4
1968 [1]	537.0	57.0	150.0	207.0	75.0	255.0	330.0	61.5
1969 [1]	649.7	77.0	184.0	261.0	92.0	296.7	388.7	59.8

[1] Estimated.

TABLE 8

GROWTH PATTERNS

SBA Assisted Small Business Firms

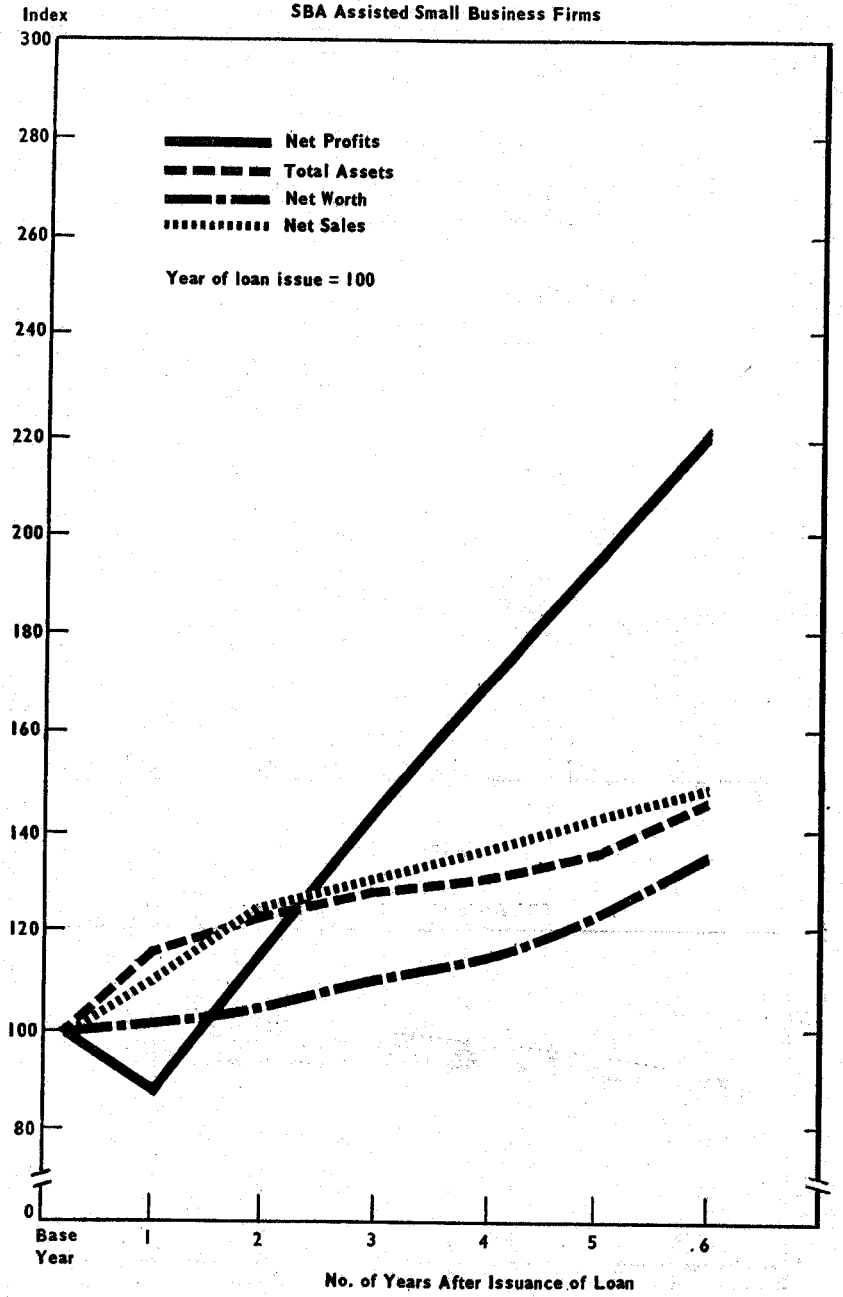

TABLE 9

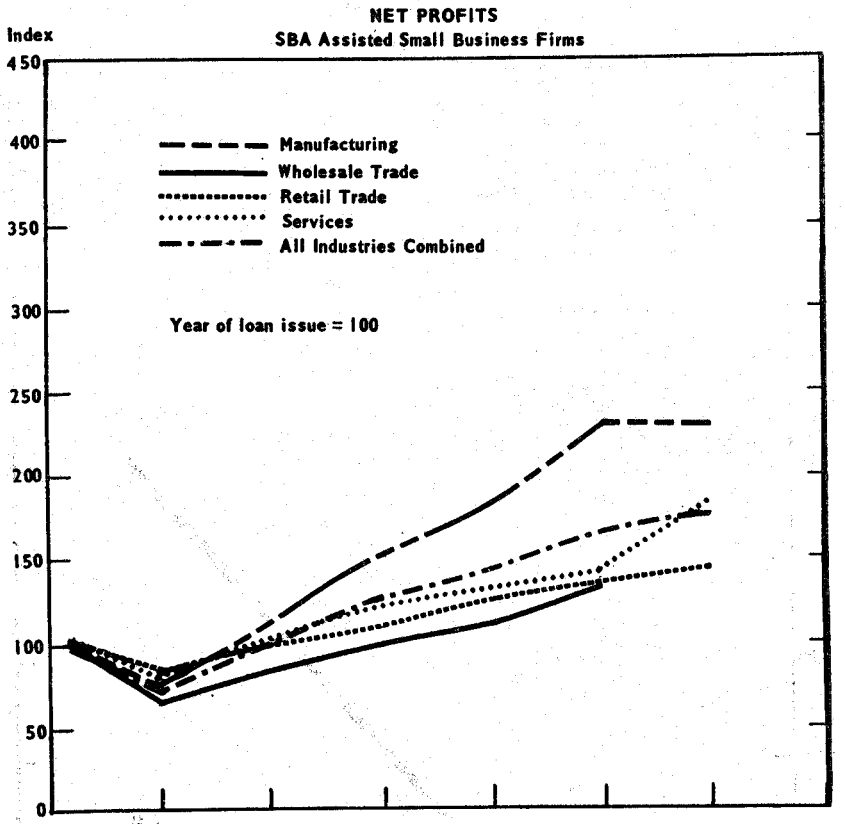

TABLE 10

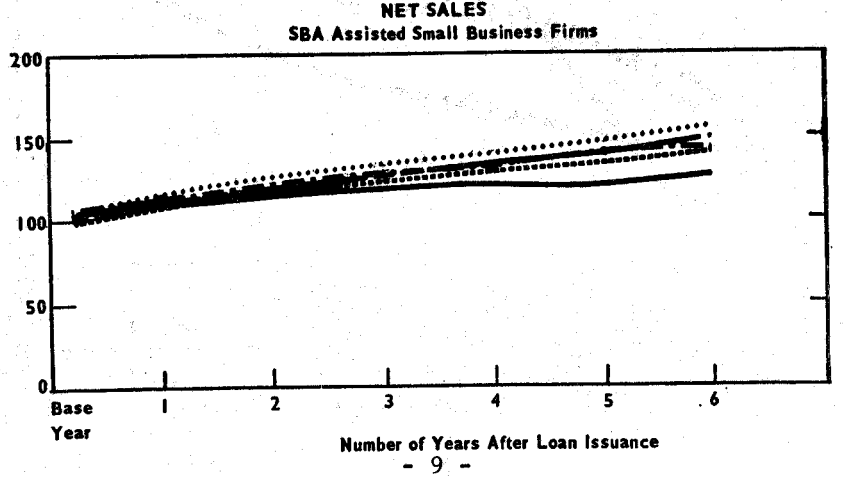

TABLE 11

PROFIT GROWTH COMPARISON
SBA Borrowers and All Corporations
(Annual Rates)

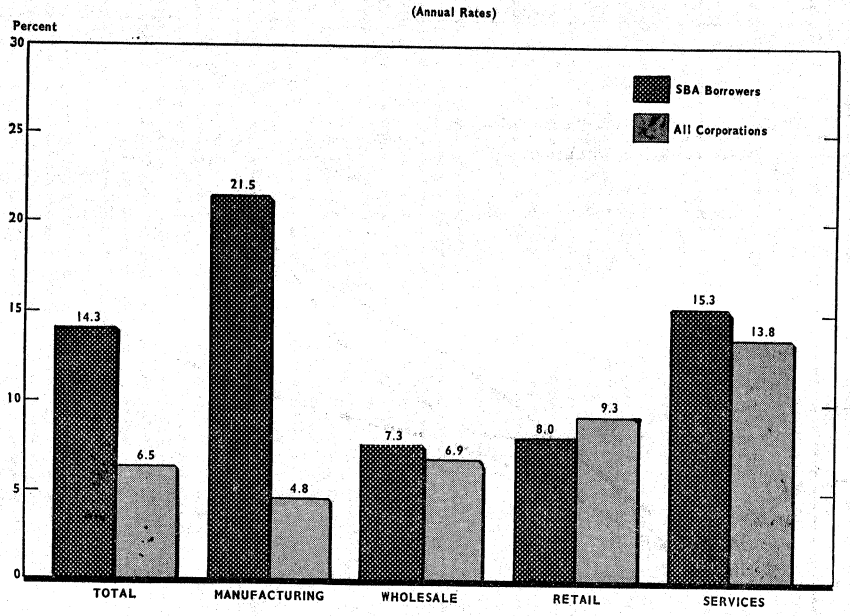

TABLE 12

SALES GROWTH COMPARISON
SBA Borrowers and Total Industry
(Annual Rates)

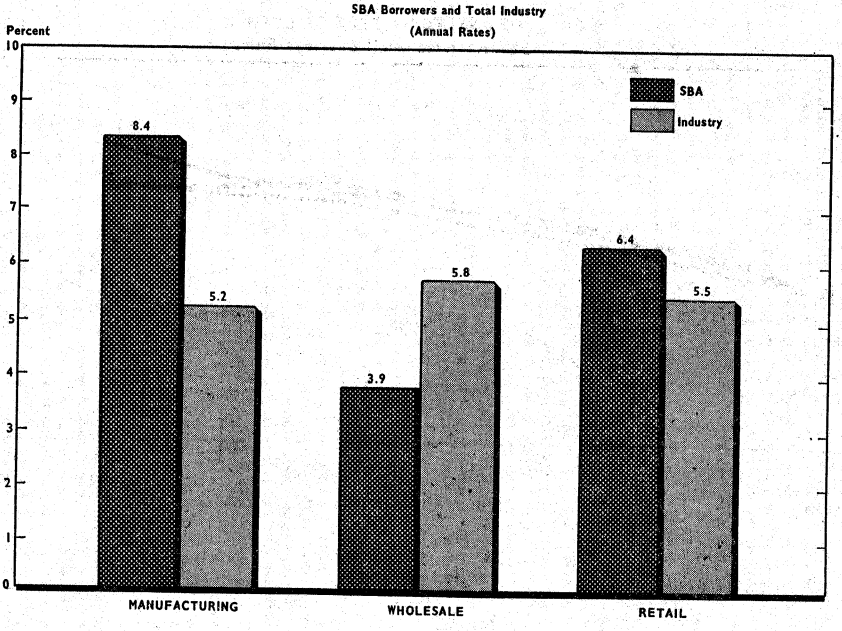

TABLE 13

NET PROFITS BY TYPE OF LOAN
SBA Assisted Small Business Firms

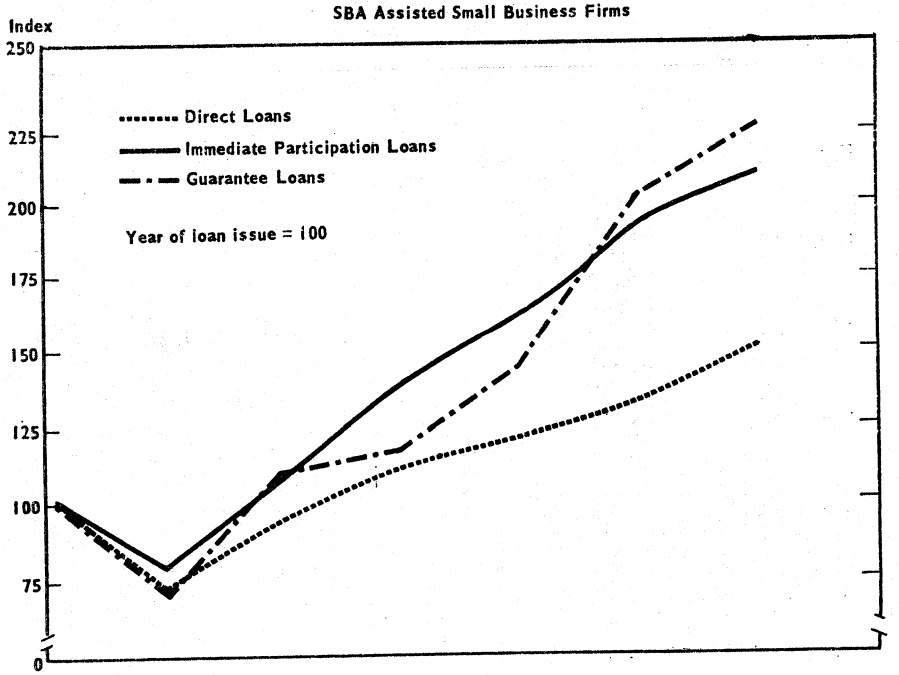

TABLE 14

NET SALES BY TYPE OF LOAN
SBA Assisted Small Business Firms

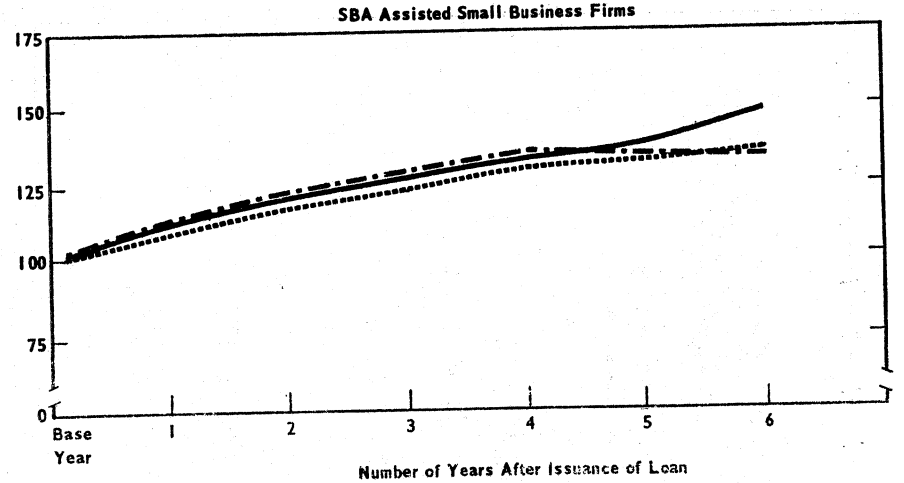

TABLE 15.—DISPLACED BUSINESS LOAN ACTIVITY, FISCAL YEAR 1962 THROUGH DEC. 31, 1967, BY FISCAL YEAR

[Dollar amounts in thousands]

Fiscal year	Applications						Loans approved				
	Received		Withdrawn		Declined		Amount			Average size	
	Number	Amount	Number	Amount	Number	Amount	Number	Total	SBA share	Total	SBA share
1962	154	$10,154	16	$1,588	24	$1,972	90	$4,996	$4,877	$55.5	$54.2
1963	147	11,148	12	727	46	2,845	93	5,662	5,448	60.9	58.6
1964	132	10,751	7	535	30	2,788	95	6,874	6,817	72.4	71.8
1965	289	22,172	16	969	47	4,302	199	12,504	12,152	62.8	61.1
1966	377	32,129	36	2,455	60	4,624	276	18,341	17,918	66.5	65.1
1967	490	47,521	44	4,529	53	7,842	385	32,676	31,440	84.9	81.7
1968, to Dec. 31, 1967	238	25,102	22	2,321	33	2,867	170	15,848	15,255	93.2	89.7
Total	1,827	158,977	153	13,124	293	27,240	1,308	96,901	93,907	74.1	71.8

PERCENTAGE OF NUMBER AND AMOUNT OF LOANS APPROVED AND AVERAGE SIZE BY TYPE

Type of loan	Number		Amount				Average size	
	Number	Percent of number	Total	Percent of amount	SBA share	Percent of amount	Total	SBA share
Direct	1,179	90.1	$81,746	84.4	$81,746	87.0	$69.3	$69.3
Immediate participation	125	9.6	14,858	15.3	11,900	12.7	118.8	95.3
Guaranty	4	.3	297	.3	261	.3	74.2	65.2
Total	1,308	100.0	96,901	100.0	93,907	100.0	74.1	71.8

TABLE 16.—ECONOMIC OPPORTUNITY (I) LOAN ACTIVITY, FISCAL YEAR 1965 THROUGH DEC. 31, 1967, BY FISCAL YEAR

[Dollar amounts in thousands]

Fiscal year	Applications						Loans approved				
	Received		Withdrawn		Declined		Amount			Average size	
	Number	Amount	Number	Amount	Number	Amount	Number	Total	SBA share	Total	SBA share
1965	307	$3,847	5	$30	47	$629	159	$1,766	$1,731	$11.1	$10.9
1966	2,617	29,836	143	1,722	672	8,547	1,689	17,625	17,157	10.4	10.4
1967	3,211	30,821	162	1,546	1,045	10,780	1,968	17,360	17,165	8.8	8.7
1968 to Dec. 31, 1967	1,008	8,919	77	662	320	2,995	689	5,297	5,217	7.7	7.6
Total	7,143	73,423	387	3,960	2,084	22,951	4,505	42,048	41,630	9.3	9.2

PERCENTAGE OF NUMBER AND AMOUNT OF LOANS APPROVED AND AVERAGE SIZE BY TYPE

Type of loan	Number		Amount				Average size	
	Number	Percent of number	Total	Percent of amount	SBA share	Percent of amount	Total	SBA share
Direct	4,283	95.1	$39,425	93.8	$39,425	94.7	$9.2	$9.2
Immediate participation	75	1.6	1,112	2.6	860	2.1	14.8	11.5
Guarantee	147	3.3	1,511	3.6	1,345	3.2	10.3	9.1
Total	4,505	100.0	42,048	100.0	41,630	100.0	9.3	9.2

TABLE 17.—ECONOMIC OPPORTUNITY (II) LOAN ACTIVITY, FISCAL YEAR 1967 THROUGH DEC. 31, 1967, BY FISCAL YEAR

[Dollar amounts in thousands]

Fiscal year	Applications						Loans approved				
	Received		Withdrawn		Declined		Amount			Average size	
	Number	Amount	Number	Amount	Number	Amount	Number	Total	SBA share	Total	SBA share
1967	1,756	$25,132	90	$1,298	359	$5,619	1,066	$14,543	$14,192	$13.6	$13.3
1968 to date	992	13,599	87	1,288	262	3,935	726	9,305	9,138	12.8	12.6
Total	2,748	38,731	177	2,586	621	9,554	1,792	23,848	23,330	13.3	13.0

PERCENTAGE OF NUMBER AND AMOUNT OF LOANS APPROVED AND AVERAGE SIZE

Type of loan	Number	Percent of Number	Amount				Average size	
			Total	Percent of amount	SBA share	Percent of amount	Total	SBA share
Direct	1,566	87.4	$20,453	85.8	$20,453	87.7	$13.1	$13.1
Immediate participation	80	4.5	1,403	5.9	1,075	4.6	17.5	13.4
Guaranty	146	8.1	1,992	8.3	1,802	7.7	13.6	12.3
Total	1,792	100.0	23,848	100.0	23,330	100.0	13.3	13.0

TABLE 18.—STATE DEVELOPMENT COMPANY (SEC. 501) LOAN ACTIVITY, FISCAL YEAR 1959 THROUGH DEC. 31 1967, BY YEAR, BY AREA, BY STATE

[Dollar amounts in thousands]

Fiscal year	Applications						Loans approved				
	Received		Withdrawn		Declined		Amount			Average size	
	Number	Amount	Number	Amount	Number	Amount	Number	Total	SBA share	Total	SBA share
1959	1	$628					1	$314	$314	$314.0	$314.0
1960	2	1,300					2	1,300	1,300	650.0	650.0
1961	4	2,490					4	2,490	2,490	622.5	622.5
1962	6	5,330			1	$200	5	4,630	4,630	926.0	926.0
1963	1	500						500	500	500.0	500.0
1964	1	1,000						1,000	1,000	1,000.0	1,000.0
1965	1	200									
1966	4	2,320					5	2,120	2,120	424.0	424.0
1967	4	2,522	1	$272			3	2,000	2,000	666.7	666.7
1968 to date	1	160					1	160	160	160.0	160.0
Total	25	16,450	1	272	1	200	23	14,514	14,514	631.0	631.0

Note: All State development loans are direct loans.

TABLE 19.—LOCAL DEVELOPMENT COMPANY (SECTION 502) LOAN ACTIVITY, FISCAL YEAR 1959 THROUGH DEC. 31, 1967, BY FISCAL YEAR

[Dollar amounts in thousands]

Fiscal year	Applications						Loans approved				
	Received		Withdrawn		Declined		Amount			Average size	
	Number	Amount	Number	Amount	Number	Amount	Number	Total	SBA share	Total	SBA share
1959	24	$2,502	2	$125	1	$22	14	$1,671	$1,540	$119.4	$110.0
1960	47	5,177	3	492	5	400	35	3,773	3,296	107.8	94.2
1961	75	9,194	3	176	5	485	69	8,385	7,545	121.5	109.3
1962	138	19,336	12	1,265	18	1,985	75	10,175	9,280	135.7	123.7
1963	124	19,836	14	2,897	12	1,862	115	17,458	15,599	151.8	135.6
1964	176	26,519	11	1,075	8	1,297	153	21,969	19,724	143.6	128.9
1965	305	53,278	14	3,224	19	4,251	256	40,205	37,843	157.0	147.8
1966	423	73,871	36	7,075	41	9,426	312	51,966	48,241	166.6	154.6
1967	383	59,601	35	6,062	35	6,853	338	52,654	50,220	155.8	148.6
1968 to Dec. 31, 1967	227	37,382	16	1,292	4	868	189	27,500	25,700	145.5	136.0
Total	1,922	306,696	146	23,683	148	27,449	1,556	235,756	218,988	151.5	140.7

PERCENTAGE OF NUMBER AND AMOUNT OF LOANS APPROVED AND AVERAGE SIZE BY TYPE

Type of loan	Number		Amount				Average size	
	Number	Percent of number	Total	Percent of amount	SBA share	Percent of amount	Total	SBA share
Direct	757	48.6	$117,056	49.7	$117,056	53.5	$154.6	$154.6
Immediate participation	779	49.4	116,306	49.3	100,102	45.7	151.2	130.2
Guarantee	30	2.0	2,394	1.0	1,830	.8	79.8	61.0
Total	1,556	100.0	235,756	100.0	218,988	100.0	151.5	140.7

TABLE 20

LOCAL DEVELOPMENT COMPANY LOAN PROGRAM

JULY 1, 1958 - DECEMBER 31, 1967

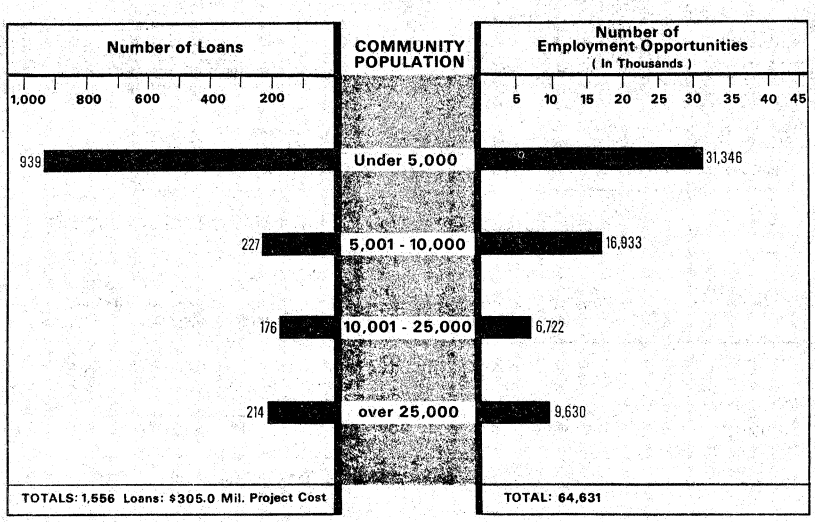

TABLE 21.—SMALL BUSINESS INVESTMENT COMPANY ACTIVITY, FISCAL YEAR 1959 THROUGH DEC. 31, 1967, BY FISCAL YEAR

[Dollar amounts in thousands]

Fiscal year	Proposals received	Proposals terminated or withdrawn	Number of companies licensed	Subordinated debentures (sec. 302)				Loans (sec. 303)			
				Applications received		Debentures approved		Applications received		Loans approved	
				Number	Amount	Number	Amount	Number	Amount	Number	Amount
1959	92	2	16	51	$7,651	9	$1,319				
1960	125	10	93	111	16,470	66	9,871	11	$2,391	8	$1,870
1961	356	33	194	323	48,137	172	25,517	50	11,946	37	10,118
1962	412	102	298	343	53,380	259	38,969	105	24,762	63	11,612
1963	58	50	101	192	36,886	213	40,768	196	45,610	196	42,574
1964	71	14	64	189	29,991	170	27,015	181	38,607	164	31,804
1965	19	125	15	122	19,884	104	17,059	142	29,522	117	29,967
1966	16	12	10	108	23,198	79	15,741	139	45,612	99	34,128
1967	15	14	7	92	13,580	35	6,580	192	41,808	37	8,856
1968 to Dec. 31, 1968	11	2	7	26	3,076	12	1,954	36	5,453	14	2,545
Total	1,175	364	805	1,557	252,163	1,119	184,793	1,052	245,711	735	173,474

Note: There were 568 licenses outstanding at Dec. 31, 1967.

TABLE 22.—DISASTER LOAN ACTIVITY, FISCAL YEAR 1954 THROUGH DEC. 31, 1967, BY FISCAL YEAR

[Dollar amounts in thousands]

Fiscal year	Applications						Loans approved				
	Received		Withdrawn		Declined		Number	Amount		Average size	
	Number	Amount	Number	Amount	Number	Amount		Total	SBA share	Total	SBA share
1954	247	$1,743	19	$75	38	$295	157	$742	$742	$4.7	$4.7
1955	1,330	12,203	102	1,097	153	2,237	1,086	7,873	7,799	7.2	7.2
1956	4,006	69,230	294	4,180	346	8,995	[1]3,309	44,402	42,423	13.4	12.8
1957	1,944	18,468	119	1,385	203	2,340	1,597	12,992	12,244	8.1	7.7
1958	2,021	32,409	94	2,139	350	7,826	1,559	17,305	16,771	11.1	10.7
1959	1,122	15,034	72	1,424	233	5,715	908	9,202	9,013	10.1	9.9
1960	760	8,012	46	262	79	1,653	625	4,515	4,379	7.2	7.0
1961	3,304	40,209	127	1,122	361	8,641	2,778	25,736	24,727	9.3	8.9
1962	6,947	56,755	197	2,286	523	8,876	6,106	39,680	38,917	6.5	6.4
1963	2,717	35,480	151	2,649	374	9,415	2,305	20,230	19,482	8.8	8.4
1964	2,937	67,500	91	1,678	265	4,314	2,509	48,874	47,315	19.5	18.9
1965	4,782	123,990	273	8,577	381	15,616	4,008	81,035	78,008	20.2	19.5
1966	35,707	251,989	702	7,789	4,103	28,959	30,920	199,172	197,418	6.4	6.4
1967	2,402	39,789	113	3,908	306	10,077	2,037	25,112	24,193	12.3	11.9
1968 to Dec. 31, 1967	10,396	138,389	190	2,980	809	7,021	9,049	79,093	78,856	8.7	8.7
Total	80,622	911,200	2,590	41,551	8,524	121,980	68,953	615,963	602,287	8.9	8.7

PERCENTAGE OF NUMBER AND AMOUNT OF LOANS APPROVED AND AVERAGE SIZE BY TYPE

Type of loan	Number		Amount				Average size	
	Number	Percent of number	Total	Percent of amount	SBA share	Percent of amount	Total	SBA share
Direct	66,162	96.0	$517,822	84.1	$517,822	86.6	$7.8	$7.8
Immediate participation	1,035	1.5	78,600	12.7	67,518	11.2	75.9	65.2
Guarantee	1,756	2.5	19,541	3.2	16,947	2.8	11.1	9.7
Total	68,953	100.0	615,963	100.0	602,287	100.0	8.9	8.7

[1] Excludes 7 loans for $4,306 processed by SBA and approved by the Treasury Department under sec. 302, DPA.

TABLE 23.—SMALL BUSINESS SHARE OF FEDERAL PROCUREMENT AWARDS

Fiscal year	Total prime contracts awarded (millions)	Total small business prime contracts awarded		Subcontracts awarded to small business, DOD, NASA, and AEC contracts only (millions)	Total small business		Awards to small business resulting from—	
		Amount (millions)	Percent of total		Amount, col. 2 plus col. 4 (millions)	Percent of all prime contracts awarded, (percent of col. 1)	Small business set-aside awards [1] (millions)	COC's issued (thousands)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1967	$49,807	$10,232	20.5	$7,308	$17,540	35.2	$1,828	$19,221
1966	44,249	9,409	21.3	5,872	15,281	34.5	1,595	54,427
1965	34,765	6,976	20.1	4,263	11,239	32.3	2,384	41,817
1964	34,985	6,453	18.4	4,481	10,934	31.3	2,154	23,239
1963	34,426	5,959	17.3	4,908	10,867	31.6	1,893	31,595
1962	31,549	6,093	19.3	4,445	10,538	33.4	1,774	70,879
1961	27,664	4,876	17.7	3,799	8,675	31.4	1,217	68,507
1960	25,916	4,735	18.3	3,850	8,585	33.1	878	19,979

[1] Fiscal year 1966 and 1967 DOD only. 1960 through 1965 DOD and civilian.

TABLE 24.—INSTALLATIONS COVERED BY 18 EXISTING PCR POSITIONS

Installation	City	Type of coverage	Total awards, fiscal year 1967	Small business awards, fiscal year 1967
New York area: Fort Monmouth (USAEMA)	Fort Monmouth, N.J.	Resident	$960,419,000	$166,744,000
Middle Atlantic area:				
Veterans' Administration	Washington, D.C.	Liaison	260,063,000	120,866,000
Post Office Department	do	do	189,211,000	37,348,000
U.S. Coast Guard	do	do	137,351,000	64,184,996
Federal Aviation Administration	do	do	181,600,000	8,000,000
Navy Ship Systems Command	do	Resident	2,266,004,000	243,219,000
Navy Electronic Systems Command	do	do		
GSA (central office and region III)	do	do	320,900,000	121,043,000
Defense General Supply Center	Richmond, Va	do	523,072,000	268,413,000
Aviation Supply Office	Philadelphia, Pa	do	736,998,000	92,125,000
Frankford Arsenal	do	do	286,100,000	80,700,000
Ships Parts Control Center	Mechanicsburg, Pa	do	688,953,000	205,997,000
DCASR	Philadelphia, Pa	do	[1]	[1]
Defense Supply Agency:				
DC & TSC	do	do	1,151,835,000	668,305,000
DMSC	do	do	226,052,000	63,185,000
DSSC	do	do		
U.S. Army Electronics Command	do	do	[2]	[2]
Aberdeen Proving Ground	Aberdeen, Md	Liaison	16,685,000	8,508,000
Edgewood Arsenal	Edgewood, Md	do	96,900,000	21,950,000
Marine Corps Supply Activity	Philadelhpia, Pa	do	7,561,000	3,818,000
Naval Air Engineering Center	do	do	141,624,000	60,049,000
Philadelphia Naval Shipyard	do	do	41,521,000	22,920,000
Wright-Patterson AFB: ASD, R. & D., base procurement.	Dayton, Ohio	Resident	2,906,700,000	88,644,000
Defense Electronic Supply Center	do	Liaison	222,734,000	63,604,000
Southeast area: U.S. Army Missile Command	Huntsville, Ala	Resident	610,819,000	42,516,000
Midwestern area:				
U.S. Army Mobility Equipment Command	St. Louis, Mo	do	456,000,000	122,700,000
U.S. Army Aviation Materiel Command	do	do	1,191,800,000	67,800,000
Army Tank-Automotive Command	Detroit, Mich	do	1,337,500,000	179,900,000
Southwestern area:				
San Antonio AMA	San Antonio, Tex	do	374,153,000	118,416,000
Lackland AFB	do	Liaison	14,998,000	9,298,000
Fort Sam Houston	do	do	13,231,000	6,028,000
Randolph AFB	do	do	12,670,000	4,380,000
Brooks AFB	do	do	6,715,000	1,911,000
Manned Spacecraft Center (NASA)	Houston, Tex	Resident	1,397,815,000	28,901,000
Oklahoma City AMA	Oklahoma City, Okla	do	609,377,000	50,611,000

[1] No purchasing.
[2] Included in Fort Monmouth.

Note: Most up-to-date statistics available used in this compilation. Some fiscal year 1966 and 1965 figures are included.

TABLE 25.—GEOGRAPHIC DISTRIBUTION AND DENSITY OF DOD AND GSA PRIME CONTRACT AWARDS, FISCAL YEAR 1967

[Dollar amounts in thousands]

Area/SBA region	Contract awards				Index of contract density
	DOD [1]	GSA [2]	Total	Percent of total	
U.S. total	$38,160,052	$2,012,332	$40,172,384	100.0	
Northeastern area	3,887,475	109,342	3,996,817	9.9	162
Augusta, Maine	57,884	7,140	65,024	.2	50
Boston, Mass	1,424,975	60,898	1,485,873	3.6	124
Concord, N.H	162,658	2,584	165,242	.4	133
Hartford, Conn	1,943,107	31,578	1,974,685	4.9	258
Montpelier, Vt	100,247	2,692	102,939	.3	150
Providence, R.I	198,604	4,450	203,054	.5	125
New York area	4,507,032	608,946	5,115,978	12.7	91
Newark, N.J	1,236,931	107,867	1,344,798	3.3	70
New York, N.Y	2,580,013	224,969	2,804,982	7.0	115
Syracuse, N.Y	690,088	276,110	966,198	2.4	75
Mid-Atlantic area	5,580,975	332,093	5,913,068	14.7	72
Baltimore, Md	658,284	16,491	674,775	1.8	129
Clarksburg, W. Va	165,775	13,547	179,322	.4	50
Cleveland, Ohio	620,976	64,861	685,837	1.7	40
Columbus, Ohio	994,059	76,275	1,070,334	2.6	74
Louisville, Ky	145,995	15,767	161,762	.4	29
Philadelphia, Pa	1,504,190	96,612	1,600,802	4.0	82
Pittsburgh, Pa	246,991	13,255	260,246	.6	26
Richmond, Va	546,700	21,388	568,088	1.4	93
Washington, D.C	698,005	13,897	711,902	1.8	900
Southeastern area	3,627,444	96,914	3,724,358	9.3	86
Atlanta, Ga	1,157,745	11,015	1,168,760	2.9	138
Birmingham, Ala	315,506	6,968	322,474	.8	62
Charlotte, N.C	451,142	20,076	471,218	1.2	44
Columbia, S.C	183,348	8,503	191,851	.5	42
Jackson, Miss	133,100	17,748	150,848	.4	67
Jacksonville, Fla	371,622	3,660	375,282	.9	180
Nashville, Tenn	552,264	17,787	570,051	1.4	78
Miami, Fla	462,717	11,157	473,874	1.2	200
Midwestern area	6,857,004	456,953	7,313,957	18.2	64
Chicago, Ill	979,501	111,448	1,090,949	2.7	39
Des Moines, Iowa	293,906	5,614	299,520	.7	47
Detroit, Mich	1,044,621	107,473	1,152,094	2.9	37
Indianapolis, Ind	916,299	37,910	954,209	2.4	60
Kansas City, Mo	446,285	28,668	474,953	1.2	50
Madison, Wis	347,311	22,937	370,248	.9	33
Minneapolis, Minn	695,899	135,154	831,053	2.1	124
St. Louis, Mo	2,133,182	7,749	2,140,931	5.3	379
Southwestern area	4,773,314	75,571	4,848,885	12.1	178
Albuquerque, N. Mex	86,427	3,476	89,903	.2	200
Dallas, Tex	2,673,991	19,095	2,693,086	6.7	447
Houston, Tex	323,494	23,173	346,667	.9	47
Little Rock, Ark	180,360	5,529	185,888	.5	83
Lubbock, Tex	85,072	2,596	87,668	.2	100
Marshall, Tex	432,415	1,270	433,686	1.1	275
New Orleans, La	571,713	9,416	581,129	1.4	127
Oklahoma City, Okla	206,123	6,298	212,421	.5	83
San Antonio, Tex	213,719	4,718	218,437	.6	150
Rocky Mountain area	906,128	30,639	936,767	2.33	101
Casper, Wyo	32,868	873	33,741	.08	80
Denver, Colo	211,948	17,427	229,375	.60	120
Fargo, N. Dak	18,880	860	19,740	.04	40
Helena, Mont	100,292	1,285	101,577	.20	100
Omaha, Nebr	109,634	1,866	111,500	.30	50
Salt Lake City, Utah	178,850	3,866	182,716	.50	167
Sioux Falls, S. Dak	11,735	112	11,847	.02	20
Wichita, Kans	241,921	4,350	246,271	.60	150

See footnotes at end of table, p. 59.

TABLE 25.—GEOGRAPHIC DISTRIBUTION AND DENSITY OF DOD AND GSA PRIME CONTRACT AWARDS, FISCAL YEAR 1967—Continued

[Dollar amounts in thousands]

Area/SBA region	Contract awards				Index of contract density
	DOD [1]	GSA [2]	Total	Percent of total	
Pacific coast area	8,020,680	301,874	8,322,554	20.71	187
Anchorage, Alaska	88,466	1,185	89,651	.2	200
Boise, Idaho	17,081	397	17,478	.04	20
Honolulu, Hawaii	65,689	1,818	67,507	.2	200
Los Angeles, Calif	4,224,895	106,108	4,331,003	10.8	212
Phoenix, Ariz	252,301	13,028	265,329	.6	200
Portland, Oreg	158,048	29,708	187,756	.5	50
San Diego, Calif	664,125	1,933	666,058	1.7	567
San Francisco, Calif	1,882,115	113,941	1,996,056	4.97	191
Seattle, Wash	583,965	31,801	615,766	1.5	136
Spokane, Wash	83,995	1,955	85,950	.2	67

[1] Includes procurement, construction, R. & D., and services, contracts over $10,000. Excludes work at classified locations.
[2] Federal Supply Service.

Sources: Office of Secretary of Defense, Directorate for Statistical Services, military prime contract awards, fiscal year 1967; summary of Federal programs, fiscal year 1967, Office of Economic Opportunity. The contract density index is the percent of the national total of fiscal year 1967 prime contracts awarded to each SBA area or region divided by the percent of the national total of manufacturers value of shipments in each SBA area or region expressed in terms of 100.

The CHAIRMAN. Mr. Administrator, I think before we go into the regular loan program we might have a few general questions.

What is the status of the revolving fund? S.B.A. cannot operate without adequate funds, and the legislative provisions in this regard have to be amended from time to time. I think the committee would like to document basically the condition of the revolving fund.

Mr. MOOT. Yes, sir.

As you mentioned in your opening statement, Mr. Chairman, we have two funds. We have authority granted by the Congress in our business loan and investment fund of $2,650 million, and we have an unlimited authority granted in our disaster fund.

In terms of the operation of the fund, as you know, we receive collections and interest payments deposited into the fund, plus fees, and we make loans from these funds. At the present time, we have sufficient dollars to finance our program as included in the President's budget through fiscal year 1969.

We had planned and do plan, as shown in the President's budget, to make certain participation certificate sales during the year, which would allow us to have an ending cash position at the end of fiscal 1969 to enable us to operate for at least the interim period while Congress was considering our 1970 budget.

In summary, therefore, we are in a good position at the present time, and we can operate through fiscal year 1969 at the program level contemplated by the Administration's budget.

The CHAIRMAN. You say you are in a good position, and you state that the fund is liquid. Will you describe to the committee the condition in general terms?

Mr. MOOT. No, sir; I would give you a specific figure if you would like.

At the end of March, on March 31——

The CHAIRMAN. Round figures.

Mr. MOOT (continuing). 1968, our business loan and investment fund had an uncommitted balance of $347 million. Our disaster loan fund had an uncommitted balance of $107 million. These are funds to which we add collections and from which we make loans.

The CHAIRMAN. You have a round figure balance for your regular business loan program of about $340 million. How long does the Administrator think these funds will last, based upon recent experiences?

Of course you have not told us how much is returning into the revolving fund monthly or quarterly from payments on SBA loans outstanding.

Mr. MOOT. Yes, sir; we are making loans of about $50 million a month from our business loan and investment fund, and we are collecting because we are increasing our program. We are collecting somewhat less than that. However, we have sufficient funds as of March 31 to carry us with our collections through the next fiscal year, sir.

The CHAIRMAN. Mr. Moot, you mentioned the participation certificates. Have the sales of these small business loan participation certificates been used exclusively for SBA or have the funds been returned into the Treasury for other programs?

Mr. MOOT. The certificates that have been sold based on the paper of SBA have been returned exclusively for SBA use, Mr. Chairman.

The CHAIRMAN. Other agencies have a different policy.

For instance, the Veterans' Administration, I understand, is not using its funds from participation sales solely for direct loans or guaranteed loans, but some is going into the Treasury for other purposes. But in the SBA's case, your participation sales are being used for small business loans exclusively?

Mr. MOOT. Exclusively, sir.

The CHAIRMAN. Very good.

Mr. Administrator, you mentioned in your statement about a special study on crime in the cities as it affects small business. Again, what is the status of this study? How long has it been under way, and what are you determining? What are you learning?

Mr. MOOT. Yes, sir. Mr. Chairman, the Small Business Act amendments of 1967 authorized a study to be undertaken by the Small Business Administration, and to be completed and reported to the Congress by October of 1968. So, therefore, we are in midstream on the particular study.

We are taking this in several phases. We are undertaking a questionnaire, which has been designed and with the participation of the Social Security Administration, and with the Census Bureau we have done a sampling of cross section of small business throughout the country in both rural and urban areas, and they are filling out questionnaires with our assistance, so that we will know the status of the impact of crime on small business.

This study is going on at the present time, as I mentioned before, in connection with the U.S. Bureau of the Census as well as the help of the Social Security Agency.

The second step we are taking on this is an evaluation of existing detection devised systems available to businessmen and the development of improved systems which will be within the economic reach of small business, and yet effective in signaling as a sensoring device for the calling of protection.

The cost benefits of alternative systems will be considered in this evaluation.

Along with this, and as a further step, we are studying the effect of architectural changes, that is in building construction, so that it is not as simple as entering a shopping center and tunneling right through every one of the stores on the inner walls, which are of course, as you know, not of sufficient strength to withstand determined assault.

The approach on this is going to be an interagency approach. As a matter of fact, the work that we are doing on this study is probably a landmark effort in that very little, if anything, has been done in an organized way. We think that perhaps this will be one of the finest studies that Congress has ordered, and that we will be able to provide it. The cooperation is fine from the other Federal agencies.

The only outside work we are doing by contract will be the evaluation of the protective devices, because the industry we understand is about on the verge of a technological breakthrough on low cost, yet highly effective, protective devices.

Again as far as I know, there is nothing that would lead me to say other than that we are on target and we will be writing up our results late in the summer for reporting to the Congress early in the fall, sir.

The CHAIRMAN. We will place in the record title III of Public Law 90–104 which directs SBA to make this study of shoplifting, vandalism, and other criminal activities with a view to determining ways in which such concerns may best protect themselves against such activity. I am not speaking for the committee, but speaking for one individual. I think I can give you some off-the-cuff advice right quick as to how to have some law enforcement in this country, in the ghettos and in the cities.

The police should be supported and law enforcement should be upheld. The Attorney General should proceed more vigorously.

I think I could give you some one-man advice as to how to protect small business, and the public generally. But we will await with interest your report [1] and we hope that it will be helpful, with all of the agencies submitting their views.

You indicated your study was going so far as to improve structures of buildings. It is basically law enforcement that we must have.

(The information follows:)

PUBLIC LAW 90–104

TITLE III

SEC. 301. This title may be cited as the "Small Business Protection Act of 1967".

SEC. 302. The Administrator of the Small Business Administration shall conduct a special study of the impact on small business concerns of robbery, burg- shoplifting, vandalism, and other criminal activities, with a view to determining ways in which such concerns may best protect themselves against such activities.

SEC. 303. The Administrator shall report to the President and to the Congress the results of the study conducted pursuant to this title, including such recommendations as he may deem appropriate for administrative and legislative action, within one year after the date of enactment of this title.

The CHAIRMAN. I do not want to consume all of the Administrator's time. I might, however, go back through this statement with a few additional questions.

You referred to the SBIC program. We will look into this later, but briefly—how many SBIC's have been chartered to date, how many

[1] Note: The report referred to is the final report to Congress, which is due on Oct. 11, 1968.

are problem cases, how many charters have been revoked, and how many SBIC's have merged?

Mr. MOOT. All right, sir.

The CHAIRMAN. Just in summary.

Mr. MOOT. We have at the present time, and I would like to correct this, because I am talking from memory now, we have at the present time 537, of which only 495 are not in the process of dissolution or of surrendering their licenses. We have 120 of that 495 that——

The CHAIRMAN. You have less than 500?

Mr. MOOT. Yes, sir.

The CHAIRMAN. You have 495 operating. What was the maximum numbered chartered?

Mr. MOOT. We had 687.

The CHAIRMAN. You had about 187 over the years to go by the boards?

Mr. MOOT. That is right, sir.

The CHAIRMAN. Mr. Administrator, on page 3 of your statement you refer to the economic opportunity loans for disadvantaged persons in urban and rural areas. You try to apply this rule equally and fairly in both areas of unemployment—urban and rural—in economically depressed situations?

Mr. MOOT. Yes, sir; we do.

The CHAIRMAN. You referred to the about 600 declarations of disaster—and we never know when they will occur. Some years there are few, other years there are many. But have there been any changes instituted in the SBA program since the disaster program was started?

Mr. MOOT. Yes, sir.

You have provided us from the Congress with certain new legislative authority over the years, and we have, of course, been trying to make the program more effective and more responsive.

Mr. Hendricks in his statement will cover the most recent changes, in terms of our program approach. But aside from that, the program is working and we are finding that it is responsive.

The CHAIRMAN. Mr. Conte?

Mr. CONTE. At the outset, Mr. Chairman, I would like to associate myself with your opening remarks.

As the second ranking Republican, and now that our ranking minority Republican has been nominated for Governor of West Virginia, as, I hope, the ranking Republican, I want to assure you of my full cooperation, as Mr. Moore has given to this committee and to the chairman who has done such an outstanding job.

You mentioned, Mr. Moot, that you had unlimited authority in disaster funds. Do you think it is realistic to set a ceiling of $100,000 on these loans? We had a very terrible experience in my congressional district only recently, where we had a flash flood which destroyed an industry that employed some 185 employees, A $100,000 disaster loan to that industry, one of the major sources of employment for the entire community, is not sufficient to put that little industry back on its feet. Do you think this is realistic?

Mr. MOOT. Yes, sir.

Under the overall circumstances, we do. As a matter of fact, I still think it is realistic. I understand exactly what you are saying, Congressman. I think in the particular case you did have reference to, with your help and with Mr. Hendricks' help, we have provided that financial assistance from the private sector.

Let me put it this way: It is true——

Mr. CONTE. May I interrupt?

Mr. MOOT. Surely.

Mr. CONTE. Mr. Hendricks certainly has been most helpful in that particular instance. Thanks to him, the doors of that industry will be open again.

Mr. MOOT. Yes. I understand, and we have watched that very carefully. The problem is this: Early last fall we were faced with the necessity of making sure that we were not creating an adverse impact on Treasury dollars, in all of our programs, any more than was necessary to get our basic job done.

The general trend of prices and such with creeping inflation indicated that there needed to be as much fiscal restraint as possible.

We undertook to look at all of our programs.

We found that 98 out of every 100 of our loan programs for homes, and 95 out of every 100 of our business loan programs for businesses in the disaster program could be covered, could be covered by certain limitations; namely, 25,000, which is a combination of 20 and 10, not to exceed 25,000 for homes, and 100,000 for businesses, leaving above that the authority to provide guarantees for bank participation for the kinds of homes and kinds of businesses that had a greater loss than that.

We found that while this would cover, as I said, 95 to 98 percent of our total applicants, it would likewise save considerable dollars, because when there is a big requirement, it is a very significant one, as you well know in this particular case.

But we felt that the funds would be available in these cases from the private sector, because they are more substantial, either homes or business, and we felt that we could distribute what has to be an overall limitation of our total effort more properly if we did apply these limitations.

Now they are obviously not the most desirable from the Administration point of view, from our Administration's point of view, because it is easier not to have a limitation but we felt in good conscience in order to make the SBA more responsive to the total economic needs and distribute its total resources where it could do the most economic good, that the cost was worth the benefit, really.

Mr. CONTE. It was really a question of money. If you did not have a limitation, the money could be exhausted very quickly.

Mr. MOOT. It could be more readily exhausted; that is right, sir.

The CHAIRMAN. Mr. Kluczynski, any general questions?

Mr. KLUCZYNSKI. Mr. Chairman, I have no questions at this time. These are extensive hearings and I am sure the members of this fine committee are anxious to be here and to know more about the administration of small business. However, I want to compliment the Administrator for the wonderful job he is doing, and the fine staff you have.

We have one of the greatest chairmen, as you know, of any committee. We have a very good staff.

Every member of this committee wants to be helpful to the small businessman, the small fellow who needs help, the small fellow who has built the communities—I am chairman of the Urban Affairs subcommittee; we had hearings all over the country in big cities. Now we are making the smaller cities, and I am very happy that we are able to do something for the man who needs help.

Are you aware of the situation in New York just a couple of years ago, where Federal urban renewal came and cleaned out 250 or 300 small businesses?

The Federal Government also comes in to build the highways. We want to take care of those people—the papa and mama stores, the people who have been in business within the family for 50 or 60 years.

Some of them, 25 or 30 percent, were willing to get out of business, but many of them, or most of them, wanted to stay in business, and I am very happy with the splendid cooperation we get from you and your men and your staff.

I know I have called your people several times for information, and in no time I got whatever I wanted, and I know that you are going to continue that. We are all working for the man who needs help, the small businessman.

Mr. Chairman, I will have some questions perhaps tomorrow or the day after as the hearings go on, but again I want to say it is a pleasure to have Mr. Moot, one of the great men, in this agency.

The CHAIRMAN. Thank you, Congressman Kluczynski. Congressman Neal Smith, any questions of the Administrator?

Mr. SMITH. Not at this time, Mr. Chairman.

The CHAIRMAN. Mr. Irwin?

Mr. IRWIN. No, thank you, Mr. Chairman.

The CHAIRMAN. Mr. Horton, of New York.

Mr. HORTON. Mr. Chairman, I would also like to say a word in behalf of our chairman. I have a great deal of respect for him and for his leadership on this very important committee.

Principally through his efforts we have been able to preserve the integrity of the Small Business Administration.

I do not think I ever saw a committee of Congress work so unanimously to preserve the integrity of an agency of the Federal Government as this committee did not too long ago. It has been a very important step forward to focus this attention on small business.

I also want to add a word or two to the comments made by Chairman Kluczynski. I serve on that subcommittee as the ranking Republican, and I have attended the sessions held in the 89th Congress in the large cities on the problem of the small businessman in the urban area, problems we have seen firsthand in Chicago, Rochester, New York, and Atlanta.

Under the leadership of Mr. Kluczynski, in the 90th Congress, we have been concerned about these problems in the rural areas. We went to Kansas and Utah, and just a couple of weeks ago we were in my district, in Wayne County, N.Y. I understand we are going to go to more areas to look at this particular problem.

I note, also, that some of your comments refer to the difficulties experienced by small businessmen in rural areas. You indicate that this is a problem we are trying to concentrate on with regard to specific programs in these areas. I want to stress the importance, in my judgment, of this emphasis. With our urban areas so crowded, with small businesses having to compete, as they do, in the urban area, and with the impossibility in some instances for small business to hold its head up and keep going, it seems to me that the future for many of our small businesses is in the rural area or the nonurban area, if you will.

I hope that the programs that you have mentioned here briefly, and which I am sure we will go into, can be expanded so that they can help small business.

My congressional district includes about half of the city of Rochester, in Monroe County, and Wayne County, a rural area. We have in my district the unusual situation of Rochester having one of the lowest unemployment rates in the country, and Wayne County, on the other hand, having a classification as a distressed, persistent unemployment area. It has been so classified by the Economic Development Administration. They are trying to attract industry and business out into the rural areas. This is why many of these programs are so important.

The thrust of the programs that you have for the rural areas is very important, and I want to emphasize my support and the support of this committee for this type of program, the encouraging of business and industry into the rural areas.

I do want to ask you a few questions about the business loan program. The matters that come across my desk would indicate that the business loan program is depending principally upon private sector financing. Many cases, I thought, were meritorious business loan applications that should have been approved. They have been turned down, however, because of the risk involved.

Basically, the risk was the risk that a bank would not assume. I thought that the business loan program was directed to take some of these small businesses that conceivably did have a higher risk and help them, so that they could get back on their feet.

I do not want to go into specific cases, because I am sure you are not familiar with them, but I would like to ask you to comment on the business loan program.

The CHAIRMAN. We are going to have a full presentation by Mr. Hendricks on that. If you want to ask the Administrator to testify as to policy——

Mr. HORTON. Let's talk about the policy and not specifics. What is the policy with regard to the small business loan program?

Mr. MOOT. Congressman, it is a very important area, and I would like to make one or two points. First of all, in our business loan program, forgetting the other parts of the program that are funded in our business loan and investment fund—namely, displaced business loans, and economic opportunity loans, the business loan program—we are under a mandate from the Congress to secure participation to the maximum practical extent from the private financial sector, financial institutions. This enables us to make our funding go much further, and enables us to build with the private banking institutions the credit of small business, so that follow-on loans can be made through banks, without our assistance, and allows us to move our assistance over to newer, or to, as you say, higher risk concerns.

It is true, generally speaking, that the concerns that we deal with are those concerns that are of somewhat higher risk, because there is a problem of securing loans completely from the private sector. On the other hand, generally speaking, what we are offering is not a loan completely different, a business loan completely different from a bank. but for a longer term primarily; and, secondly, at a rate of interest which, as you know, is set by statute, at 5.5 percent.

Actually, we have progressively increased the private sector in our business loan program from an opening of about 20 percent of approved loan dollars back in 1960—this means either participation, part bank money, part Treasury money, or up to a 90-percent guarantee by the Government—from 20 percent to what we had in 1967, of 47 percent. This means that of the business loan program, 53 percent of the dollars were Treasury dollars, and 47 percent were private sector dollars. We hope we will get to be about a 60-percent private sector funding and a 40-percent Treasury dollar funding, which we think, if we can properly manage our program, will allow us to provide more loans of Treasury dollars to the higher risk spectrum of innovation loans, new product development, where we need to encourage the development. At the same time, there will be built credit know-how and credit experience for our small business constituents with the banking fraternity.

So that we think we have a right balance at the present time. Now the higher risk loan, very high risk loan programs we are capable of covering in our other programs, other than our straight business loan program.

Mr. HORTON. I would also like to know about the various programs that you have relating to urban areas.

What is your policy with regard to assistance to business in the inner city?

Are you trying to have or do you have any special programs to reach out and help initiate new business enterprises, particularly in the urban areas? I am talking about minority group ownership of businesses in what you might call the inner city or hard-core areas.

Mr. MOOT. Yes, sir. We have several specific programs aimed at that objective. I wonder if you would like me to go into them now? We do have a special——

Mr. HORTON. I was referring to the general policies.

Mr. MOOT. Yes, sir; we do have.

We recognize, just as you said, that at both ends of the spectrum—the inner city problem and the rural problem—we need to keep our programs in balance to prevent the outmigration——

The CHAIRMAN. This is one of the several new programs that have been added to SBA by mandate of Congress.

Mr. MOOT. That is right, sir.

The CHAIRMAN. And Mr. Hendricks will speak in detail regarding that. Basically, are you moving ahead?

Mr. MOOT. We are moving ahead, sir.

Mr. HORTON. Now, one further question. I recently had a number of small businessmen get in touch with me with regard to a questionnaire that was sent out by the Census Bureau. It asks a lot of detailed information. These small businessmen were very upset by the amount of detail that was required of them by the Census Bureau. In many instances they indicated that it was going to cost them considerable money in order to accumulate this information.

What are we doing about trying to help the small businessman with regard to these questionnaires and all of the extra effort that he is having to make with regard to reports to the Federal Government? Many of them told me, "I have a little business here and I do not run a bookkeeping firm. I just do not have the techniques to provide the information."

What is your general policy with regard to that?

Mr. MOOT. We are quite alert to that problem, Congressman Horton. We have an interagency group within SBA among which responsibilities it has is to constantly review the reporting requirements placed by the Federal Government on the business community, and particularly with impact on the small business community.

We have run studies. We have made progress.

Generally speaking, we have found that about a little less than 1 percent of the worktime effort of the small business concerns that we work with goes toward reporting requirements, Federal forms, and so forth.

We are making progress. We have not really licked the problem yet. But we are very alert to the subject.

Mr. HORTON. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Administrator. Some time ago you inaugurated a reorganization program within the structure of SBA. Has that been finalized?

Mr. MOOT. Yes, sir.

The CHAIRMAN. Do you want to tell the committee for the record some of the major reorganization changes?

Mr. MOOT. Yes; I will. Associate Administrator Hendricks covers the financial assistance aspects of what we call our team approach in his statement, which was the most significant of our operations, to get a consolidated approach to our financial assistance, including management assistance as a part of it.

Generally speaking, we have completed all of the reorganization that we have in mind.

The only thing that we have done since the last time you looked at this situation of any significance at all is to move the local development company program down one step closer to the operations.

We have put it down, decentralized or it will be as of July 1, down at the regional level, so that the regional directors themselves will be responsible for the operations of the local development company program.

Other than that, we are satisfied that we have a good organization, well organized and with good people, and we think that now is the time to capitalize on our improvements.

The CHAIRMAN. Under the previous system, loan applications had to be initiated on the local level, reviewed at a regional level, and sent to Washington for final approval, but now under the reorganization, loans are made within the region. The decision is made, as I understand it, by the regional office itself.

Mr. MOOT. That is right, sir.

The CHAIRMAN. Is this up to a certain limit or are all loans handled that way?

Mr. MOOT. Well, in terms of our normal, of our regular programs, we are completely decentralized. There are one or two qualifications where we are watching the program development of displaced business loans, for example, where Mr. Hendricks likes to look at the final approval of the larger amounts of loans.

The other programs, except for our small business investment company program, which is still centralized, as you know, because we feel from the Washington level with the individual companies——

The CHAIRMAN. The SBIC loan program supervision is centralized. What about the economic opportunity loan, the poverty loans in the ghetto areas? Is that localized or is it centralized?

Mr. MOOT. The economic opportunity loan program is completely decentralized, Mr. Chairman.

The CHAIRMAN. The business loan programs are decentralized, the economic opportunity loan programs are decentralized. The decisions are made at the local level by the local regional offices.

Mr. MOOT. That is right sir.

The CHAIRMAN. How many associate administrators do you have under your reorganization plan?

Mr. MOOT. We have three associate administrators, one for financial assistance.

The CHAIRMAN. Mr. Hendricks?

Mr. MOOT. Administrator Irving Maness for procurement and management assistance and Glenn Brown for the Investment Division. Then, of course, we have our assistant administrators, one for administration, which is the controller, accounting, and personnel operations, one for planning and research, Dr. Wilford Garvin, who is behind me here, and one for congressional and public relations. So we have three assistant administrators, three associate administrators and a general counsel.

They are the top organizations of the agency.

The CHAIRMAN. Personnelwise, how many branch offices do you have all over the country and what is your total personnel picture?

Mr. MOOT. We have 62 regional offices, and below that 13 branch offices in certain sectors of the country, eight area supervisory offices, and we have at the present time 4,197 permanent employees.

The CHAIRMAN. Do you have a regional office or branch office in each of the 50 States?

Mr. MOOT. We do, sir.

The CHAIRMAN. Puerto Rico and the District of Columbia?

Mr. MOOT. We do, sir.

The CHAIRMAN. One further question, and then we will suspend on this subject: Under your old system, there was a complaint of a timelag, taking a lot of redtape and consuming a lot of time. I believe that has been cut down and reduced. What is your average processing time now? Perhaps that should be confined to Mr. Hendricks, but generally under your reorganization and your decentralization, you have speeded up the time on loan applications that are considered.

Mr. MOOT. Yes, sir.

From the receipt of an application to its approval or declination is now taking an average of 19 days for our business loan programs. It takes a little longer for our economic opportunity loan programs, 20 days, and generally speaking our disaster loan programs have been averaging, through this heavy period this year, 8 days.

So we are more responsive in terms of our disaster program.

The CHAIRMAN. Our general counsel, Mr. Mitchell. Do you have any questions of the Administrator?

Mr. MITCHELL. I have one, Mr. Chairman.

Mr. Moot, at the hearings of this committee in 1966 the agency reported that in conjunction with the Bureau of the Budget it entered into a contract with, I believe, a company called Operations Research Inc., for an improvement management contract or study for improving SBA's administrative management.

The recommendation of this committee, in its report 2339, recommendation No. 11, stated:

Following the report of the special study being conducted under the management improvement contract, the report and recommendations should be submitted to the Congress for consideration.

Could you tell the committee what has happened on that management improvement contract?

Mr. MOOT. Yes, sir. The contract was terminated at the conclusion of phase 1, so that the greater portion of the contract was never consumated.

Phase 1 of what was a two-phased contract was an exploration of the various objectives and emphases that we should be in SBA placing on various programs. Phase 2 was how we should structure our operation in the agency, in order to implement those objectives.

We felt that as phase 1 developed, that we could probably do this better in-house, in terms of improving our operations, so that with the approval and agreement with the Bureau of the Budget, which was a joint participant with us on the program, we terminated that contract at the end of phase 1.

Mr. MITCHELL. Then you have arrived at no recommendations that would require legislation or the attention of Congress?

Mr. MOOT. No, sir, we have not.

Mr. MITCHELL. That is all, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Administrator.

We understand you are going to be available as time goes on for other questions as they may develop. We thank you and we will now hear from your Associate Administrator, Mr. Logan Hendricks, who is well and favorably known to this committee.

Mr. HENDRICKS. Thank you, Mr. Chairman and members of the committee.

I welcome this opportunity to appear before the committee to discuss several of the programs within my area of responsibility. Specifically, I would like to report on our regular business loan program, our displaced business loan program, our development company assistance program, the new lease guarantee program, and our disaster loan assistance programs. If it is your preference, I will stop as I complete my remarks on each of the programs mentioned in the event that committee members have questions at that point.

The CHAIRMAN. Very good. I think that is in the interests of good order.

REGULAR BUSINESS LOANS—SECTION 7(a) SMALL BUSINESS ACT

Mr. HENDRICKS. The Small Business Administration's regular business lending program continues to be of vital importance to the small business community and our national economy and is essential to help assure a healthy, competitive, free enterprise system—the objectives of the Congress in authorizing the business loan program in 1953.

Since the inception of this program through December 31, 1967, over 80,000 loans have been approved, for a total of $3.6 billion. Of this amount $2.6 billion has been approved during the unprecedented period of continued national economic growth which began in 1961. The industry distribution of these loans has been wide and varied:

[Dollar amounts in millions]

Industry	Number	Percent	Amount	Percent
Manufacturing	19,331	24	$1,355	38
Wholesale	6,706	8	327	9
Retail	29,005	36	780	22
Services	15,243	19	597	17
Others	10,497	13	544	14
Total	80,782	100	3,603	100

The CHAIRMAN. Concerning these 80,782 loans, again tell us for what period does this embrace?

Mr. HENDRICKS. This would be from the inception of the program back in 1954 through December 31, 1967.

The CHAIRMAN. Since the beginning of the SBA program, you have made nearly 81,000 loans?

Mr. HENDRKCKS. That is correct, sir.

The Administrator has called to my attention that this is in the category of 7(a) business loans as opposed to the other categories that I have already mentioned in my first paragraph.

The CHAIRMAN. All of these are small business loans and the highest percentage is in the retail field and the next highest percentage is in the manufacturing field.

Mr. HENDRICKS. The "other" category, incidentally, Mr. Chairman, would include such industries as construction, recreational, and various others that individually do not add up to a large percentage.

The $385.3 million of regular business loans approved in fiscal year 1967 was exceeded only once in the history of this agency, fiscal year 1965. The estimate for the current 1968 fiscal year, if achieved, will set a new agency record which in turn is expected to be substantially exceeded in fiscal year 1969. This indicates that as the national economy grows, generating new business entries as well as business modernization and expansion, the financial assistance provided through the Small Business Administration's lending program also expands. Such expansion not only is in Government dollars but also involves private sector dollars in keeping with our legislation that "no loan shall be made unless it is shown that participation is not available."

Over the years, we have maintained close liaison with members of the American Bankers Association and the Independent Bankers Association.

In accordance with this committee's recommendation, arising from the 1966 hearings, conferences have been arranged between top SBA officials and representatives of banking and financial institutions throughout the country for the purpose of fully apprising the local banking communities of the advantages in participating in loans with SBA.

In addition, the primary purpose of our bank relations officers, currently consisting of 24 retired bankers, is to contact banks in order to promote our loan guarantee and participation programs. These experienced men also have been a contributing factor to wider acceptance of SBA lending programs by the banking community.

The CHAIRMAN. I think it might be well to point out at this point in the record that several years ago there was little or no banking

participation, and with this agreement with the American Bankers Association, and the dissemination of news to the banking community, that today you are able to inject more financing into the overall economy by the cooperation arranged with banks.

Mr. HENDRICKS. Yes, sir.

The CHAIRMAN. And that SBA was unable to supply all the needs but now the private sector is supplying I believe, as Mr. Moot said, about 50 percent.

Mr. HENDRICKS. And we find, Mr. Chairman, an increasing interest on the part of the banking industry to get into this type of lending.

The CHAIRMAN. Is it rather well accepted today, is it popularly accepted, is it approved by the great majority of the financial community?

Mr. HENDRICKS. It is becoming very much accepted, I would say, Mr. Chairman, but there is still a considerable amount of missionary work that must be done. It may make the point a little more clear to say that we have participated with approximately 7,000 to 8,000 of the 14,500 banks. This would indicate we still have a considerable distance to go, but the improvement is very marked.

The CHAIRMAN. Very good.

Mr. HENDRICKS. In the latter part of fiscal year 1967 we implemented the simplified bank guarantee plan —SBLG— which has been well accepted by the banking community. This plan streamlines procedures and reduces paperwork to the mutual benefit of banks and SBA. The bank and SBA execute one blanket or master guaranty agreement against which all subsequent transactions are written.

We continue to exercise surveillance over lending policies, size standards and credit with the same care used in our other plans, but on an expedited basis. Improvements include:

(1) a one-page application form that the bank executes for the guarantee,

(2) use of the bank's loan instruments, thus eliminating the SBA forms,

(3) action on the application by SBA within 10 work days,

(4) simplified repayment and reporting procedures,

(5) servicing actions are handled almost entirely by the lender, which is the bank,

(6) reduction from 90 to 60 days in the default period required before the lender can make demand on SBA, and

(7) a commitment by SBA to purchase its guaranteed percentage within 20 days after receipt of lender's demand.

By December 31, 1967, there were 614 SBLG agreements signed with banks, many of them the largest in the country, and 340 loans approved for $26 million under the agreements.

I might ad lib, Mr. Chairman, that actually this figure stands closer to 800 today, because there have been approximately 140 agreements which were in the process of being signed since the preparation of this statement.

This committee's report on the 1966 hearings urged that "extreme caution should be exercised in imposing any fiscal restraints that will limit financial assistance to the small business community."

I believe that the record loan level anticipated for fiscal years 1968 and 1969, as previously stated, should allay the committee's fear in

this regard. And I would hasten to say it is not contemplated that our guarantee and participation programs can ever substitute completely for our direct loan program.

However, the greater emphasis being given to guaranteed and participation loans not only enables us to expand our assistance to the small business community in consonance with the desire of this committee and the Congress, but it is to the advantage of the small businessman. A bank guaranty or participation loan, as Mr. Moot has already suggested, provides the small business borrower the opportunity of building up a satisfactory credit record with the bank so that after the loan is repaid the bank has a firmer basis for extending necessary credit without enlisting the aid of the Government. Thus, the bank participation type loan, if obtainable, is of more assistance to the small businessman than a direct loan.

By statute, of course, we have already said we may not make a direct loan if participation is available.

Although loan resources available to SBA for fiscal years 1968 and 1969 represent very substantial increases, they will still fall short of demand. It therefore will be necessary to continue the administrative limitations of $100,000 for direct loans and $150,000 as the SBA share of immediate participation bans.

As the chairman may remember, these are increased amounts from our report some 18 months ago, when they stood at $50,000 for direct loans and $100,000 on the SBA share of an immediate participation. The maximum of $350,000 will continue for guaranteed loans. However, these amounts will adequately meet the requirements of the vast majority of demand.

At the time of the 1966 hearings a rather stringent loan priority system was in effect. As Administrator Moot has indicated, we are convinced that a rigid priority system is neither feasible nor desirable.

We are equally convinced that we can maximize the returns from our loan dollars if they are applied in the right areas, in the right industries, and within the framework of well-developed plans designed to improve the economy of a given area. These are the guidelines under which we are operating today.

Loan applications are being accepted from all eligible small businessmen and loan approvals are made keeping in mind the need for maximizing returns to the Nation and the economy.

The CHAIRMAN. Mr. Hendricks, I think the record should at this point emphasize that what SBA is trying to do is to maximize the loan dollar that is available to the small businessman. You are doing it through your various programs, through participation with the banks—the financial institutions. I assume it is absolutely impossible to satisfy all the demands.

Mr. HENDRICKS. This is correct, sir, and it may be brought out perhaps a bit more forcibly if we understand that in the current fiscal year to date, the amount of dollars that are going into the businessman's pocket, a very healthy segment, very nearly 50 percent, comes from the private sector participation.

The CHAIRMAN. Two years ago when we had hearings you had set up a priority system concerning which this committee was rather critical since it was not written into the statute and was not directly authorized by Congress. It was an administrative procedure that was made necessary because of the demand, but Administrator Moot has

said that this is neither desirable nor feasible now and you are not using a priority system now, but you have by administrative regulation set a maximum limitation of $100,000 for direct loans, or $150,000 for SBA's share of participation loans, whereas the statute sets $350,000 as the maximum loan that SBA may make.

Mr. HENDRICKS. This is correct, sir.

The CHAIRMAN. You make the $350,000 loan today, provided there is participation?

Mr. HENDRICKS. This is correct. We make this under the guarantee program, Mr. Chairman.

Perhaps the reason for this is that again, just as the Administrator has indicated earlier this morning, the greatest share of demand which came to our door can be satisfied by these limitations.

The CHAIRMAN. Experience has shown that the great volume, the great number percentagewise of requests are under or within the $100,000 limitation?

Mr. HENDRICKS. This is correct, sir.

By number, the majority of loans can be accommodated by these limitations. We did find, of course, in studying the past history of the agency in lending, that the very few number of loans that desired a larger amount of money did of course constitute in the aggregate a very healthy segment of our yearend budget, meaning by this that it practically took one-third of our money to accommodate a very few loans.

It naturally would appeal to the committee that a lot of these larger loans may be very productive, and therefore should be accommodated.

Generally they represent the larger small businesses, which are more sophiticated. They have more sophisticated records. And very readily adapt themselves to the guaranteed program. They will have almost immediate access to private credit in the entirety, or, because of maturity features, with the assistance of our guaranty program, they can be accommodated.

I would venture to say that very few viable small businesses that need the larger amount of money are denied.

The CHAIRMAN. Well, as a matter of policy, and to maximize the dollars available, it appears that it is the policy or feeling of SBA that you would rather accommodate 100 loans with a lesser amount than 50 loans for the full amount?

Mr. MOOT. I might add, Mr. Chairman, that we have other programs that Mr. Hendricks will cover.

The CHAIRMAN. Yes.

Mr. MOOT. Where we do go up to $350,000 of SBA's money, in a different configuration.

The CHAIRMAN. You may proceed.

Mr. BROYHILL. Mr. Chairman, I have a question.

The CHAIRMAN. Mr. Broyhill of North Carolina.

Mr. BROYHILL of North Carolina. If you do not mind, I would just like to ask a question, Mr. Chairman, of Mr. Hendricks.

You indicate in this paragraph on page 5 that you are convinced that a rigid priority system is neither feasible nor desirable. It leaves the implication in my mind that you still have a priority system of one kind or another. Is this correct?

Mr. MOOT. Perhaps I can answer that, Mr. Broyhill.

We have decided, for our administrative purposes, that out best approach is what we call a balanced economic growth concept, which means to us that we take each region, each economic entity of the country, and determine through working with the local officials and our local office what is the best economic development plan for that particular area, and therefore it is impossible for us to set national priorities as to whether we should be providing loan assistance across the country on one particular segment of industry.

We are designing the use of our resources to maximize the balanced economic growth of all areas of the country, and to the extent that the economic requirements of each area of the country differ, then our priorities differ.

Mr. BROYHILL. Does this also apply to the allotment of money to each area?

Mr. MOOT. Yes, sir; it will become more and more sophisticated as we become more and more capable of handling the techniques that develop the economic planning of each area, but we allocate our funds to meet, within our capability of resources to meet the economic development needs of the various regions of the country.

Mr. BROYHILL. Does this mean then that under this system that you presently have in effect you would favor a loan from an individual who wants to set up a manufacturing company as opposed to a retail company?

Mr. MOOT. It depends upon the economy of the region we were looking at.

If the manufacturing proposal was a competitive market favorable proposal for that particular area, and it had the greatest employment potential, the answer is "Yes."

On the other hand, a manufacturing operation may be completely infeasible in a particular region. It may be that a recreation attraction or a concessionaire for a national park operation would be better. It depends upon what the economic needs of the region are.

As you well know, in North Carolina we have used a good part of our resources in development of local development companies, small manufacturing operations; because this is the kind of an economic growth potential that North Carolina has done so well with in the industrial development.

Mr. BROYHILL. You state that these are the guidelines under which we are operating today. Are these guidelines available to the members of the committee and to the committee on a written basis, staff instruction or instruction to the various offices?

Mr. MOOT. We can give you, Congressman, our general directive instructions to the field, and we will so provide for the record.

Generally speaking, we are still evolving what we are calling our balanced economic growth, as you will hear as we go through the rest of these hearings.

Mr. BROYHILL. Thank you, Mr. Chairman. I just thought we ought to have a little more understanding.

The CHAIRMAN. Without objection, the response to the request may be received for the record.

(The directive instructions follow:)

Promoting Balanced Economic Growth

PART I—THE CONCEPT

A. Overall agency objectives

Embodied in SBA basic legislative authorities:

The Small Business Act,
The Small Business Investment Company Act of 1958,
The Economic Opportunity Act of 1964.

The authorities and responsibilities conveyed upon the SBA by these congressional mandates may be translated into the following basic objectives of SBA:

First: Assist in maintaining balanced economic growth on a national basis.
Second: Assist in maintaining a healthy competitive environment.
Third: Provide opportunity to *ALL* qualified individuals.
Fourth: Assist in the creation of new jobs.
Fifth: Achieve the foregoing at the State and local levels.

The foregoing five objectives which have been adopted by the Administrator are in keeping with various statements by the President and the Congress—three of which are quoted below:

The Small Business Investment Company Act of 1958, in its statement of policy, states that the purpose is—"to improve and stimulate the national economy in general and the small business segment thereof in particular."

In speaking of community development ,the President has stated:

"* * * the sources of poverty vary from family to family, city to city, region to region * * * we urgently need to bring together the many existing programs—Federal, State, and local and private—and focus them more effectively in a frontal assault on the sources of poverty. * * * Most important, we shall encourage and assist communities and regions to develop their own plans of action; to mobilize their own resources as well as those available under Federal programs." (1964 Economic Message.)

In speaking of rural America, President Johnson has said:

"Local leadership and initiative are necessary if rural development is to keep pace with the needs of the people. But government can and should provide information as well as technical and financial assistance which will speed progress." (Labor: Smaller Communities Program booklet.)

B. Achieving the objectives

To assure accomplishment of the foregoing objectives in a manner which makes maximum contribution to associated Presidential national goals, SBA must align its assistance programs—financial, procurement and management—to the carefully defined economic needs of the local communities and regional areas. *In short*—SBA should encourage economic development planning at the local level and offer its program resources as complementary assets in the resulting economic balance sheet which lists community assets and liabilities in relation to needs or requirements.

Accomplishment of our objectives must, of course, be achieved through the small business community operating at the local levels. However, our assistance to the small business community should, to the maximum extent possible, be dovetailed with—

Organized economic development programs—state and local, and
Programs of other Federal agencies having the same economic growth objectives.

This "dovetailing" is essential because:

1. SBA must have a sound basis for planning and distribution of $1 billion in financial assistance throughout the nation.

2. There is a need to balance economic growth in accordance with the requirements and potential of all areas—rural, urban, and metropolitan. Only through balanced application of resources can maximum accomplishment of objectives be achieved. Only by looking at total needs vs. assets of a community can best use of SBA financial, management and procurement assistance be made.

3. Utilization of SBA resources to meet defined and outlined economic programs of the community minimizes possible duplication of effort and resources among SBA programs and among separate Federal agency programs. The role of each is known in advance. The multiplication effect of programs working in concert is enhanced.

4. We must recognize that there is varying economic potential from community to community and from region to region. The strengths of each area must

be exploited if we are to secure maximum use of national resources and varying approaches to economic growth must be recognized. We must be flexible in our approach.

5. SBA and the communities must have a means of projecting resource requirements into future years in order that requirements can be justified and long-range, dovetailed plans accomplished.

6. Community and regional involvement builds pride in progress, strength in numbers, participation by local financial institutions and minimum losses to the Government.

7. Balanced community-wide economic growth builds economic stability which best protects the small business community which is normally very sensitive to adverse shifts in business activities.

8. There is already significant progress in state and local economic development planning. Similarly, there are several Federal agencies such as EDA, Agriculture, Labor, HUD, Regional Development Commissions, etc. which are stimulating local development planning and allocating resources to develop and execute plans. Unless SBA aligns its programs with these economic development planning efforts, we may well be out of step with progress and the current momentum for maintenance of a vibrant national economy.

C. Economic rationale

Exhibit I, attached, discusses the relationship of SBA programs to the Balanced Economic Growth objective from an economic standpoint. The paper provides additional background on the economic need for orderly programming of SBA resources and clarifies some mistaken impressions concerning the application of resources under the Balanced Growth Concept.

PART II—THE STRATEGY

A. Background

The balanced economic growth concept has been in the evolutionary stage since early in Calendar Year 1967. A cautious but well planned strategy was adopted to assure—

First, that there would *not* be a major upheaval of agency policies or practices in favor of an untried and untested concept, and

Second, that SBA staff would have ample time to re-orient their thinking to the new concept and be trained to operate effectively under whatever new programming system was adopted.

The strategy contemplated a series of events and actions, described below, each of which was designed to test the validity and acceptability of the concept on a progressive basis.

B. Regional/economic development/balanced growth conferences

Planning for SBA sponsored regional economic development conferences began early in 1967. The first such conference was held in May in New England. The attendance from three states consisted of Governors, members of Congress, business and community leaders, state and local development planning officials and representatives of other Federal agencies. The success of the conference and the interest shown by local officials in balanced growth and community planning led the Administrator to adopt a program for additional conferences.

The recent issue of the SBA Enterprise contained a run-down on the conferences held in Utah, Nebraska, and Colorado.

In each conference, the Administrator's message was woven around the eight points made under "The Concept" on pages 3, 4, and 5. He stressed the need for local initiative, local planning, and local financing. He emphasized that we were not economic planners and could not do the planning for the individual community, state, or region. He pointed out how SBA assistance programs could contribute to successful execution of locally developed plans.

C. Operation Impact

To test the validity of integrated programming of SBA assistance programs, Operation Impact was launched in July 1967. It is an effort to make maximum contribution to upgrading selected local economics by marshaling all SBA program resources in a closely coordinated and controlled manner. In addition, where the local situation required, SBA would attempt to supplement its resources with those of other Federal agencies having the same broad economic development objectives and who could legally allocate resources to uplift the community. Five "PILOT" projects were activated: Greensburg, Kentucky; Pikeville, Kentucky; Warsaw-St. Lawrence (Cincinnati), Ohio; Gila River Indian Reservation; and ARVAC, Dardanelle (Russellville), Arkansas.

To assure proper coordination and control, the Administrator designated an "Operation Impact Project Officer" to be responsible for the entire effort. In addition, one man on the Washington staff was named to monitor each project. The five pilot projects are in varying degrees of development and operation. Documented time-phased project plans have been developed; actions are under way to provide all with SBA assistance and get other agencies to cooperate where appropriate. State and Local development officials are working closely with SBA staff. Project monitors are submitting bi-weekly progress reports on activity in each community.

D. Education and orientation of SBA staff

In June 1967, the "National Change Team" was established. The basic mission of the Team was to develop a mechanism for orienting SBA staff to the new balanced economic growth concept. Essentially, the "change" to be effected was one of attitude and approach of SBA staff to achieving SBA missions and objectives—centered around community economic development with SBA participation and assistance.

The "National Change Team" arranged with the Department of Agriculture Graduate School to develop an "Economic Development Workship". Many conference participants are graduates of the workshops or have staff members who participated in the workshops conducted thus far. The feedback from workshop participants indicates that the course material and presentations by the speakers have given them a broader perspective of economic development and identified the potential role of SBA assistance programs in achieving locally developed plans.

At the National level, a series of seminars and workshops on the Planning-programming-budgeting System was recently completed to orient SBA staff on the PPB System concepts and the progress made in implementing the system. The curriculum included discussion of SBA's role in the national economic environment, regional economic trends, distribution of past year SBA resources, and the concept of balanced economic growth and its relationship to the PPB System.

E. Program category structure

PPB System—SBA officially enters the governmentwide PPB System on January 1, 1968. The preliminary work accomplished during the past year will assist considerably in SBA efforts to comply with Budget Bureau regulations on the System. The first attempt at developing a Program Memorandum using the Present Program Category Structure indicated that significant changes must be made. Exhibit II is a new Program Category Structure which has the approval of the Administrator. It will be presented to the Bureau of the Budget for its approval in the near future.

The new structure will be supported by pre-determined factors for (1) evaluation of *performance* (workload units, staffing, costs, and unit costs) and (2) evaluation of *effectiveness* (or benefits)—What benefits accured to the Government, the nation, and the economy as a result of SBA's having utilized its resources to assist the small business community?

The cost-benefit analysis discussion paper and the national and regional business growth patterns distributed to the conference participants discuss the major *effectiveness* factors to be used for the loan programs.

F. Regional economic information system

All Area Administrators were advised of the activation of the Regional Economic Information System by PRA memorandum dated December 12, 1967:

SBA Annual Economic Review—The Outlook for Small Business will be published and distributed by the end of the month.

Action will be started on other elements of the system as soon as all replies to the PRA memorandum are received.

While the material assembled and published by the Central Office will be useful to regional staff, it must be emphasized that true knowledge of local economic conditions can only be gained at the local level. It behooves all senior field officials to ferret out more current data and become knowledgeable on current local economic needs, the status of local economic planning, and the operations of other Federal agencies in their geographic areas. It is hoped that the combination of data furnished by the Central Office and that collected locally, will permit regional staff to stimulate development of local plans and to develop recommended action programs to the Central Office concerning their areas.

G. Regional programming system

As indicated previously under "The Concept" (page 3)—it is essential that SBA assistance programs be "dovetailed" with organized state and local economic development plans, and with programs of other Federal agencies having the same economic growth objectives—*Because:* SBA must have a sound basis for planning and distributing $1 billion annually in financial assistance throughout the nation.

Stated another way, the Administrator must have some means of weighing the annual (and supplemental) resource allocation requests of the eight areas and sixty-two regions. On what basis would he approve, reduce or increase a request? Should his actions or decisions be based solely on the economic needs of the area? The unavailability of capital in the area? The performance capability of the SBA staff in the area? The return to the Government or the national economy without regard to local economic needs? To what extent, if any, should he consider the input of other Federal agencies into each area? The successful achievement of the agency overall objectives (page 1), the orderly implementation of the balanced growth concept, and the evaluation of the *effectiveness* of SBA assistance programs will depend in large part on the decisions made by the Administrator in allocating SBA resources among the several area and regional offices. To provide a mechanism for informed and intelligent decision making, the Administrator has directed development of a Regional Programming System and established a Task Force to study the matter and submit recommendations to him.

By letter dated December 22, 1967, all area administrators whose staff had participated in the Economic Development Workshops were requested to submit their ideas and concepts of how the Regional Programming System might operate and the factors to be considered by the Administrator in making resource allocation decisions.

To further assure that a true regional flavor be incorporated in development of the system, three senior officials from area and regional offices have been invited to participate in the Task Force efforts.

U.S. GOVERNMENT MEMORANDUM

To: All area administrators.
From: Robert C. Moot, Administrator.
Subject: *502 policy.*

I have been made aware that the present 502 Policy-Guidelines have been very confusing indeed. I believe the attached revision should correct this situation.

This revision should not be interpreted as the opening of a "Pandora's Box" but it should first, clarify our position and, second encourage more outside money.

The basic assumption, in determining the minimum LDC injection and the allowable first mortgage money requirement, is that the size of the community relates directly to the availability of private resources. I shall expect, regardless of the size of the community, that our Economic Development staff make every effort to obtain the maximum outside participation.

There shall be no more "Low Impact" businesses; however, I shall expect that each 502 loan approved provide the very highest overall economic impact in that particular community possible. All small businesses eligible under the SBA Act of 1953 and the SBA Investment Act of 1958, as amended, shall be eligible for 502 loans.

Since we are working with the TAPS of FHA we have revised our community size provision for 10% minimum LDC injection with that of FHA insofar as rural areas are concerned.

The minimum 25 membership rule in LDC's is still in effect as well as the restrictions on membership and ownership in the LDC by the SBC, its principals and those having a pecuniary interest in the project.

The attached, revised policy shall take effect immediately, except in those projects where SBA has made certain commitments during the development stages of the project. If there is any question in this regard, the Area Administrators shall make the appropriate determination in writing and place it on file. Area Coordinators shall make note of this on Form #603.

502 POLICY

LDC's injection

A. Minimum LDC's injection per project

(1) Size of community:	*Percent*
0 to 5,500	10
5,501 to 10,000	15
10,001 and over	20

(2) The LDC's area of operation and the location of the SBC must be the same for the purposes of determining the minimum LDC's percentage of injection: (a) If we have had one or more loans with the LDC, then the location of the SBC shall be the determining factor as to the percent of LDC's injection.

(3) If the SBC to be assisted is located in, or is to be established in a so-called "Ghetto Area" or in a "Target Area", or in a "High Unemployment Area", then the minimum 10% LDC injection may be allowed regardless of the size of the community and of the LDC's Area of Operation. The Area Administrator shall make this determination in writing and placed in the file. Area Coordinator shall make note of this on Form #603.

Allowed first mortgage money

B. First mortgage plan

(1) Size of community:	*Percent*
0 to 10,000	20
10,001 to 25,000	25
25,001 to 50,000	30
50,000 or over	40

(2) The location of the SBC shall determine the percentage of allowable First Mortgage money.

(3) It is very hard to believe with the liberal policy above, and with our Guarantee and regular participation plans that we should have any direct 502 loans at all. Before any direct 502 loans are approved, the Area Administrator shall carefully review same to determine:

(*a*) That our Bank Relations Office has been contacted to encourage either participation or First Mortgage money, and

(*b*) That he (the Area Administrator) is completely satisfied that this loan should be approved on a direct basis.

NOTE.—The above should be in writing, placed in the file and Form #603 noted as such.

C. No community may receive SBA loan funds in excess of $1,000,000 in any one Fiscal Year, unless project is located in those areas described in paragraph A–(3), above. This limitation applies to SBA funds only and does not apply to obligations of SBA under the Guarantee Loan Program.

The CHAIRMAN. Mr. Horton, do you have a question at this point?

Mr. HORTON. The gentleman from North Carolina covered my question, thank you.

The CHAIRMAN. Very good.

Proceed, Mr. Hendricks.

Mr. HENDRICKS. At this time I would like to briefly report on another of this committee's recommendations arising from the 1966 hearing.

The reorganization under the team concept has been fully implemented. Under this organization, all field specialists have been assigned to teams and each team is assigned a specific geographical area. Each team is a self-contained unit and each member through cross-training develops capability of performing all functions of the lending program. Within its assigned territory, each team handles loan inquiries, processes loan applications, provides counseling and management assistance, closes and disburses loans, and services them.

In each regional office an accounting, clerical, and training—ACT—division has been established which provides support to the teams and relieves them of time-consuming but necessary routine operations and clerical functions. This structure provides these major improvements and benefits:

(1) It gives small businessmen better and more comprehensive service from the time of initial interview until the loan is paid, sold, or otherwise removed from our portfolio.

(2) It clearly defines areas of responsibility and accountability.

(3) It provides for closer control of operations and creates standardization in application of procedures.

(4) By freeing our technical personnel of routine duties, it assures more effective utilization of personnel.

With regard to the committee's concern about operating uniformity existing throughout all our regional offices, trained central office specialists conduct in-depth surveys of each regional office to insure that a loan applicant at one regional office receives the same consideration and application of policies, regulations, and procedures as he would in any other regional office.

The CHAIRMAN. Mr. Hendricks, from time to time there is called to the attention of this committee by our various colleagues that there appear to be more loans going into one area than another, or you are not making any loans in one area, or are not making loans in another area. I think it should be emphasized at this point that it is your policy, as you just pointed out here, that there is no discrimination as to area or in the administration of loans.

Mr. HENDRICKS. This is correct.

Mr. CHAIRMAN. One region receives the same consideration on applications, some policies and regulations on loans as other regional offices?

Mr. HENDRICKS. Yes, sir.

The CHAIRMAN. If there are any charges to the contrary, they should bring them forth to this committee, but this is the policy of the Administration.

Proceed.

Mr. HENDRICKS. Thank you.

With regard to cotton gins, I would like to report that by arrangement with the National Cotton Council of America and several ginners' associations, we met with their top representatives, and individual cotton ginners, on March 1 in Memphis, Tenn., for an all-day meeting to discuss the cotton ginners' problems, the financial assistance available from the Small Business Administration to assist the ginners and otherwise develop a better understanding of their needs.

Our southeastern and southwestern area administrators, as well as the 13 regional directors representing the principal cotton-producing States, were in attendance at the Memphis meeting, as well as a representative of the Department of Agriculture.

The cotton gin associations have advised their members of the assistance available from SBA, our policy and eligibility requirements and procedures for requesting loan consideration.

In addition, the National Cotton Council has arranged for industry representatives to work with each of the regional offices.

In the event a cotton gin loan application is to be declined, our regional director first will discuss the situation with the industry representative. Before the file is sent to the area office for final action, the industry representative may, if he does not concur in the proposed declination, submit for the file a report of his evaluation. We anticipate that this cooperative effort will prove to be mutually beneficial.

One additional matter I would like to report on relates to the alleged financial gap for certain enterprises that cannot be clearly defined as either "agricultural" or "commercial."

The Chairman will remember that this has caused some question in the past. This would be a situation where the applicant is not considered eligible by either SBA or the agricultural credit agencies. We have established with the Farm Credit Administration a mutually satisfactory procedure to resolve this problem. Under the procedure our regional office will furnish the essential information to the appropriate Federal intermediate credit bank.

If the bank determines that the operation primarily is agricultural and thereby eligible for production credit association financing, it will advise our regional office of the name and address of the PCA to which application should be made.

On the other hand, if the bank determines that the operation is not primarily agricultural, it will refer the case back to our regional office for consideration under SBA financial assistance programs.

The CHAIRMAN. Mr. Hendricks, again before you move into other areas, if a matter is identifiable as an agricultural loan, it is referred to the Production Credit Association or to the Department of Agriculture. If it is a commercial loan, then it is referred to the Small Business Administration?

Mr. HENDRICKS. This is correct.

The CHAIRMAN. So this liaison has been worked out. Each matter is identified and referred to the appropriate agency for consideration?

Mr. HENDRICKS. Yes, sir.

The CHAIRMAN. Very well.

Mr. HENDRICKS. Our 7(a) business loan loss experience through June 30, 1967, reflects actual losses of $31.4 million and estimated losses of $34.7 million. Thus, total actual and estimated losses are $66.1 million, which represents 2.86 percent of total disbursements, up slightly from 2.58 percent as of June 30, 1966.

Our 7(a) business loan delinquency rate as of March 31, 1968, was 3.6 percent, representing 1,349 loans out of our 37,037 7(a) business loan portfolio. The rate as of June 30, 1967, was 7.1 percent. This substantial reduction in delinquencies primarily results from the team-act approach I referred to earlier.

Administrator Moot, in his statement, referred to the extensive analysis made of some 22,000 firms which had received assistance through the business loan program since establishment of SBA in 1953, in order to determine benefits to the borrower, cost to the Government, and benefits to the economy. Details of this evaluation are set forth on pages 2 through 6 of appendix A to the Administrator's statement.

The CHAIRMAN. When you refer to the 22,000 that have received assistance through loans, you are only referring in this instance to the section 7(a) business-type loans?

Mr. HENDRICKS. This is correct, and it would be a portion of the total loans made from the inception of the agency.

In other words, a segment of 22,000 loans.

The CHAIRMAN. Of the 81,000?

Mr. HENDRICKS. Yes, sir.

The CHAIRMAN. Right.

Mr. HENDRICKS. For the first time we have a measurement of what our 7(a) business loan program has and is accomplishing. Not only are the results gratifying, but even more important their implications will provide guidance to us for future program direction.

That constitutes, Mr. Chairman, the portion on the 7(a) business loan part of my statement. We are ready to approach the displaced business disaster loans.

The CHAIRMAN. Mr. Hendricks, let us place in the record at this point the statutory authority for the section 7(a) business loans.

(The material referred to follows:)

SEC. 7. (a) The Administration is empowered to make loans to enable small-business concerns to finance plant construction, conversion, or expansion, including the acquisition of land; or to finance the acquisition of equipment, facilities, machinery, supplies, or materials; or to supply such concerns with working capital to be used in the manufacture of articles, equipment, supplies, or materials for war, defense, or civilian production or as may be necessary to insure a well-balanced national economy; and such loans may be made or effected either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis.[1] The foregoing powers shall be subject, however, to the following restrictions and limitations:

(1) No financial assistance shall be extended pursuant to this subsection unless the financial assistance applied for is not otherwise available on reasonable terms.

(2) No immediate participation may be purchased unless it is shown that a deferred participation is not available; and no loan may be made unless it is shown that a participation is not available.

(3) In agreements to participate in loans of a deferred basis under this subsection, such participation by the Administration shall not be in excess of 90 per centum of the balance of the loan outstanding at the time of disbursement.

(4) Except as provided in paragraph (5)(A), no loan under this subsection shall be made if the total amount outstanding and committed (by participation or otherwise) to the borrower from the revolving fund established by this Act would exceed $350,000; (B) the rate of interest for the Administration's share of any such loan shall be no more than 5½ per centum per annum; and (C) no such loan, including renewals or extensions thereof, may be made for a period or periods exceeding ten years except that such portion of a loan made for the purpose of constructing facilities may have a maturity of fifteen years plus such additional period as is estimated may be required to complete such construction.[2]

(5) In the case of any loan made under this subsection to a corporation formed and capitalized by a group of small-business concerns with resources provided by them for the purpose of obtaining for the use of such concerns raw materials, equipment, inventories, supplies or the benefits of research and development, or for establishing facilities for such purpose, (A) the limitation of $350,000 prescribed in paragraph (4) shall not apply, but the limit of such loan shall be $250,000 multiplied by the number of separate small businesses which formed and capitalized such corporation; (B) the rate of interest for the Administration's share of such loan shall be no less than 3 nor more than 5 per centum per annum; and (C) such loan, including renewals and extensions thereof, may not be made for a period or periods exceeding ten years except that if such loan is made for the purpose of constructing facilities it may have a maturity of twenty years plus such additional time as is required to complete such construction.

(6) The Administrator is authorized to consult with representatives of small-business concerns with a view to encouraging the formation by such

[1] Public Law 89-794 gives the SBA direct responsibility for the economic opportunity loan program (EOL) under title IV of the Economic Opportunity Act of 1964 as amended.

[2] The maximum term on the portion of a loan made for constructing facilities was increased from ten to fifteen years by section 103 of PL 90-104.

concerns of the corporation referred to in paragraph (5). No act or omission to act, if requested by the Administrator pursuant to this paragraph, and if found and approved by the Administration as contributing to the needs of small business, shall be construed to be within the prohibitions of the antitrust laws of the Federal Trade Commission Act of the United States. A copy of the statement of any such finding and approval intended to be within the coverage of this section, and any modification or withdrawal thereof, shall be furnished to the Attorney General and the Chairman of the Federal Trade Commission when made, and it shall be published in the Federal Register. The authority granted in this paragraph shall be exercised only (A) by the Administrator, (B) upon the condition that the Administrator consult with the Attorney General and with the Chairman of the Federal Trade Commission, and (C) upon the condition that the Administrator obtain the approval of the Attorney General before exercising such authority. Upon withdrawal of any request or finding hereunder or upon withdrawal by the Attorney General of his approval granted under the preceding sentence, the provisions of this paragraph shall not apply to any subsequent act or omission to act by reason of such finding or request.

(7) All loans made under this subsection shall be of such sound value or so secured as reasonably to assure repayment.

The CHAIRMAN. You have identified the maximum loan and the authority, and Mr. Moot has testified as to revolving fund, and your administrative ceilings. These 7(a) business loans, are they all at the same uniform interest rate throughout the Nation?

Mr. HENDRICKS. They are all on the SBA portion at the same interest rate, 5½ percent, which is set up by statute.

The CHAIRMAN. At one time the statute used to provide whatever was the going rate in the State?

Mr. HENDRICKS. Yes, sir.

The CHAIRMAN. And the States had varying interest rates, so the Congress specified 5½ percent, and this is tied down.

Mr. HENDRICKS. Yes, sir.

The CHAIRMAN. By statute.

Mr. HENDRICKS. That was tied down in 1958 when the investment amendment came into being.

The CHAIRMAN. What is the maximum term of these SBA business loans, section 7(a) loans?

Mr. HENDRICKS. They average about six and a quarter years to maturity. The maximum permitted by statute would be 10 years for a regular business loan, but if construction is involved, then a 15-year loan is permitted. This was accomplished, as the chairman knows, through a recent amendment to the act. The maturity may be, of course, as short as needed. We seldom see any maturity——

The CHAIRMAN. Five and one-half percent is the statutory interest. Ten years is the maximum by statute.

Mr. HENDRICKS. Yes, sir; except where construction is involved, the law now provides that the maximum of 15 years may be used as a maturity.

The CHAIRMAN. What is the percentage of applications approved as compared with the numbers filed in this type of loan?

Mr. HENDRICKS. Our rate is very high at this time, Mr. Chairman. It runs about 76 percent for this fiscal year, and of those applications approved, approximately 94 percent this fiscal year are disbursed.

The CHAIRMAN. About 76 percent——

Mr. HENDRICKS. Yes, sir.

The CHAIRMAN (continuing). Of the applications filed are favorably acted upon?

Mr. HENDRICKS. Yes, sir.

The CHAIRMAN. Do you have a quota system in the allocation of available funds by SBA to the various regions?

Mr. HENDRICKS. Well, we do allocate funds, but only after a studied approach from each on the individual areas involved as to what their needs would be for the ensuing months.

Mr. MOOT. We do not have, in the sense of a quota, a resource management system, Mr. Chairman. We allocate the total resources we have based on the justified needs of the regions and the areas as they come up to us.

The CHAIRMAN. It is an administrative figure that is not firm—that may be adjusted?

Mr. MOOT. Each area can adjust within its regions, within its total resources. Of course there is an overall limitation which is a legal restriction, which we cannot exceed.

The CHAIRMAN. Gentlemen, are there any questions at this point on the regular business loan program?

Mr. Broyhill.

Mr. BROYHILL. To what extent is the SBA working with the insurance industry on the guaranteed loan program?

Mr. KLUCZYNSKI. No questions.

Mr. MOOT. We are not doing as well as we would like to, Mr. Broyhill. We have talked with the Life Insurance Association of America, which is the executive secretariat for the industry, in an effort to get closer cooperation, and we are making loans in participation with the insurance industry, particularly in our local development company program, where there are facilities involved.

The insurance industry is interested in making relatively long-term property loans, but is not interested in making short-term working capital loans. So obviously the area of interest is somewhat limited.

We are very desirous of working closely with the insurance industry in our rural development program, as well as in our urban development program.

Mr. BROYHILL. Thank you.

The CHAIRMAN. Mr. Kluczynski, any questions?

Mr. KLUCZYNSKI. No questions.

The CHAIRMAN. Mr. Irwin, any questions?

Mr. IRWIN. It is my understanding that SBA will not grant a loan to a small business concern if 50 percent of the net sales is derived from the sale of alcoholic beverages. A letter which I received recently from one of my constituents asserts that there is a need for some modification of this rule, and I ask that this letter be made a part of the record of this hearing.

To this I would like to add that I believe the regulations prohibiting the SBA from lending financial assistance to liquor stores are a little anachronistic and reminiscent of the 18th amendment which was repealed 34 years ago; and today, the drinking of alcoholic beverages is approved, and the sale of liquor is considered by many as a legitimate business. I question, Mr. Administrator, whether it is really proper—or within the responsibilities of the SBA—to discriminate against the legitimate liquor store owner. I believe that consideration should be given to changing the regulation.

The CHAIRMAN. Without objection, the letter referred to will be received into the record at this point.

(The letter referred to follows:)

THE FEDERAL LIQUOR STORE,
Bridgeport, Conn., May 16, 1968.

Hon. DONALD J. IRWIN,
Longworth Building, Washington, D.C.

DEAR CONGRESSMAN IRWIN: I am a retail liquor merchant, owning the Federal Liquor Store, 2410 Main Street, Bridgeport, Connecticut, for a period of 22 years.

Approximately seven years ago, my store was broken into and burglarized. The following year the building in which my store is leased, caught fire and caused damage resulting from heat, fire, water and smoke.

Eight months after the fire, the building had to be re-painted, repaired and partially rebuilt by my landlord. It was during this period of reconstruction which seriously reduced the volume of my business.

The loss resulting from the burglary and the fire coupled with the rebuilding, totaled about $30,000. Insurance covered about 20 per cent. This entire disaster forced me into a long period of desperate borrowing in order to remain in business. I developed one loan upon another. This pattern resulting from the State Statute whereby: All permittees must pay all purchases in thirty days. This thirty day law is workable, provided a permittee has sustained and developed a good "working capital fund" throughout the years; otherwise it is essential to work through a system of loans.

I have reached the stage where the only effective means for normal business function is to refinance completely in the amount of $65 to $70 thousand dollars. This would remove all loans of excessive interest rates, redevelop my working capital and design a promotional program. This refinancing program was submitted to three banks and refused.

Congressman Irwin, I deeply ask you to give this business problem of mine your kind consideration and submit this request to the Small Business Administration for their consideration. Thank you very much for any interest you may have in this matter.

Very truly yours,

MILTON S. COHEN.

The CHAIRMAN. Mr. Williams.

Mr. WILLIAMS. Mr. Chairman, I want to check one statistic that was given. Seventy percent of loan applications are approved?

Mr. MOOT. 76 percent.

Mr. WILLIAMS. This is not to say that 70 percent of the people who come in the door receive loans?

Mr. MOOT. No.

I think I might qualify that. That might be better. We have found through long administrative experience that it is well to do a prescreening of interviews, as they come in, in order that we do not incur costs for the applicant of getting accounting statements and so forth, and furthermore, that we do not create a psychologically wrong impression of handing out applications to everyone that comes in, and then having to decline a good many, because a good many of the interviews we conduct involve management assistance that Mr. Maness provides rather than financial assistance. So it is true that we are currently approving three out of every four applications that we provide. On the other hand, this is not a complete story because we are conducting about 400,000 [1] interviews with small businessmen or those who would like to be small businessmen each year throughout the country. As you can tell from looking at our statistics, we are making an average of about 20,000 [2] loans in total, so that actually means that we are making, about 5 percent of the inquiries are being translated into specifically approved financial assistance loans.

Mr. WILLIAMS. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Mitchell, our counsel.

[1] 305,711, fiscal year 1967, all programs. 302,886, fiscal year 1968 (10 months), all programs.
[2] 13,867, fiscal year 1967, all programs. 23,989, fiscal year 1968 (10 months), all programs.

Mr. MITCHELL. Mr. Moot, concerning the dialog had between you and the chairman pertaining to allocation of funds or what might be said to be a quota situation, does the situation ever arise wherein it is necessary toward the end of the month or toward the end of any period that you have to say to a specific regional office, "You can approve no more applications this month because you are out of your funds or have used your quota," or "you have got to slow down in this area or that area"?

Mr. MOOT. This happens frequently, Mr. Mitchell, much more frequently than I like as an Administrator. What we do is to grant the money to the areas on a monthly basis during this particular fiscal year. The area administrator in turn passes the money out to the regions, based on need as I have previously described.

Now, if we have a regional director, who has a rush of business, and makes all of his loans available, with the resources he has within the first 15 days, he suddenly finds himself without funds.

He then goes to the area and the area administrator looks at his other regions to see who is using funds at what rate, and where he might logically reallocate funds within regions. If he has no additional funds, he comes back, in the case of the program we are talking about, to headquarters, where Mr. Hendricks every other week gets a report from all of the areas, and looks in total as to where the funds are being used, and if it is possible to reallocate on a national basis.

If this is not possible, then we can anticipate against next month's funds, for example, to allow a particular region to continue operating, but we do not encourage any region to make all of his funds available in a very short period of time, rather than looking at what his month's business is going to be.

We think that in order to do the job that you have charged us with, to build the best possible economic growth throughout the country, that we need to be somewhat selective within the total requirements that are placed upon us.

Mr. MITCHELL. What is your total budget for regular business lending program for fiscal year 1968, the present fiscal year—the total amount of SBA funds budgeted for this program?

Mr. MOOT. For loans?

Mr. MITCHELL. For the 7(a) program.

Mr. MOOT. We have for 1968 a budget of $537 million in total. This is the gross amount.

Mr. MITCHELL. What is your budget, anticipated budget for fiscal year 1969, the comparable figure?

Mr. MOOT. $649,700,000.

Mr. MITCHELL. There will be an increase anticipated of over $100 million.

Mr. MOOT. Yes, sir; in fiscal year 1967, Mr. Mitchell, it was $385.3 million, so that shows a steady increase in the 3 years.

Mr. MITCHELL. Then actually in essence there is no curtailment in any aspect of your regular business loan program?

Mr. MOOT. No, sir. We were over $400 million at the end of April through 10 months on a comparable figure, so that you can see we are——

Mr. MITCHELL. Yes.

Mr. MOOT. It is true that we have greater demands than we have capability, but this will always be true if we do a good job of explaining the program availability we have.

Mr. MITCHELL. As you perhaps know, the committee has received some complaints through the years in specific areas on loans. There is one situation that has come to the committee's attention that I might let you mention on the record here. That is concerning loans in Nassau County, N.Y. You are familiar with that situation, I believe, where it has been represented to the committee that in fiscal year 1966 there were 66 loans. It dropped to 13 in fiscal year 1967. Is this a unique situation? Are there peculiar circumstances in that instance, or would you care to address yourself to that?

Mr. MOOT. Well, I will comment on it to this extent. With the previous complaint that the committee had, we did sit down with our New York regional director and asked him to put more emphasis in terms of what we call our call program, which is calling at the local level, and our circuit riding program, to make our programs more available, and he is doing so.

However, I think there is equally as much truth and merit in the fact that Nassau County is a fairly well-to-do, affluent area, and the need for our assistance isn't as great as it is in some of the other areas and boroughs of New York City, for example. So I think it is really a combination. It is logical that a regional director, faced with a good many demands and a lot of requirements in areas of great need, has a tendency to concentrate on those areas, and perhaps we weren't spending as much time in Nassau County.

We have corrected that, but I don't think really our program has stepped up very much as a result of it.

Mr. MITCHELL. Mr. Chairman, since hearings were held in 1966 by your special subcommittee on small business problems under Chairman Neal Smith, the Small Business Administration pursuant to recommendations of that committee and studies of the Small Business Administration has initiated a machine tool lending program, both for new and used tools. The committee has just received a letter from the Machine Tool Dealers National Association commending this program highly, and setting out the publicity that has been given it, and with your permission I would like to have that letter received into the record with its attachments at this time.

The CHAIRMAN. Does the letter indicate that the machine tool industry is now happy or reasonably happy?

Mr. MITCHELL. It indicates that it is very happy with what SBA has done in adopting this program.

The CHAIRMAN. Without objection this will be included in the record, Mr. Reporter.

(The letter and attachments referred to follow:)

MACHINERY DEALERS NATIONAL ASSOCIATION,
Washington, D.C., May 9, 1968.

Hon. JOE L. EVINS,
Chairman, Select Committee on Small Business,
U.S. House of Representatives,
Washington, D.C.

DEAR CHAIRMAN EVINS: With reference to the used machine tool loan program which, with the recommendation of your Committee, was adopted by the Small Business Administration last October. We want to express our sincere appreciation for your efforts on behalf of small businessmen in the metalworking industry, and

also to inform you of the steps this Association has taken to promote the new SBA program throughout the industry.

I have enclosed copies of three full-page advertisements giving details of the program which appeared in the three principal trade publications of the used machine tool industry; Industrial Machinery News (published in Detroit), The Surplus Record (published in Chicago), and Used Equipment Directory (published in Newark). Please be advised that each of the publishers of these three publications, recognizing the value of this program to our industry and to the economy, donated the space for the advertisements. They also gave considerable editorial coverage to the program.

In addition to preparing the advertisements and issuing news releases, MDNA has provided each of its members with comprehensive, printed procedures for directing a potential machinery buyer to take advantage of the SBA's low interest loan program. Many members also featured details of the loan program in their own company advertising. Copies of this material are also enclosed.

If you will recall, in our early meetings all were agreed that the success of this program would depend to a great degree on how well it was promoted throughout the metalworking industry. We feel we have done our part in making known the availability of the program throughout our membership of 300 companies as well as throughout the entire metalworking industry.

Again, we thank you for recognizing the value of such a program and recommending to the SBA that it be adopted. It remains to be seen how readily the small businessman in the metalworking industry makes use of the program. You may be sure that we will keep you advised of any information that we receive in this regard.

Very truly yours,

RICHARD L. STUDLEY, *Executive Director.*

[From The Surplus Record, January 1968]

AN OPEN LETTER TO INDUSTRY*

GOOD NEWS FOR MACHINE TOOL BUYERS!

The Small Business Administration has announced that small firms are now eligible for SBA loans covering up to 80% of the cost of a used machine tool. Here are some of the details:

The used machine tool must have been manufactured after 1949
A 20% down payment is required of the purchaser with payments extending up to 5 years
The machine tool is the sole collateral for the loan
SBA will loan
up to $100,000 on a direct loan
up to $150,000 on a bank participation loan
guarantee up to $350,000 of a bank loan
To qualify, a firm must be able to give reasonable assurance of repayment

This new program is designed to assist tool and die shops and smaller *metalworking firms who are unable to obtain financing for purchases of used equipment through normal channels at reasonable rates.*

Smaller manufacturers will now be able to expand rapidly for contracts that won't wait for delivery of a new machine—and may not be large enough to justify its purchase anyway. SBA Administrator Robert Moot says, "We believe that the extension of the program to include the purchase of good quality used machine tools will help many small producers upgrade their facilities and become more competitive."

See your local machinery dealer for more details on the program or contact the SBA regional office nearest you. Take advantage of this outstanding new program *today!*

MACHINERY DEALERS NATIONAL ASSOCIATION.

P.S.—In the event you are interested in financing an older machine or are seeking funds for some other purpose, ask your local SBA office about it. Chances are they will be able to accommodate you under another of their business loan programs.

*Especially small metalworking firms.

[From Iron Age, Philadelphia, Pa., Nov. 2, 1967]

SBA Offers New Loan Plan for Used Machinery Buyers

In conjunction with the Machinery Dealers National Assn., the Small Business Administration announces that it is now making loans available to small metalworking companies who buy used machine tools.

Details of the new plan were unveiled last week at MDNA's annual fall conference.

According to SBA administrator Robert Blewitt, loans covering up to 80% of a used machine tool will be offered under the plan providing the buyer puts 20% down with repayments not to exceed a five-year period. This, he said, applied only to the purchase of machine tools that have been manufactured during or after 1950, and which have been cleaned, painted and cycled.

He also pointed out that SBA will not authorize a loan unless the purchased machine tool can be delivered to the buyer within five months of the approval date. However, if a guaranteed loan is effected, the delivery restriction is dropped.

A guaranteed loan, Blewitt explained, is one of three types available to the buyer. Under it, SBA will guarantee up to $350,000 of a bank loan for the purchase of used machine tools. Other programs available include financing up to $100,000 on a direct loan from SBA funds, and up to $150,000 on a bank participation loan.

To be eligible for a loan, Blewitt noted that the purchasing company must show financial soundness and offer reasonable assurance of repayment under existing terms. He added that the only collateral the Administration requires is a first lien on the machinery bought, and in some cases unsecured guarantees and a lessor's agreement if the machinery is located on leased premises.

[From American Machinist Metalworking Manufacturing, New York, N.Y., Nov. 6, 1967]

Used Machine Tool Loans Available

The Small Business Administration will allow loans to firms covering up to 80% of the cost of a used machine tool. This new plan is modeled closely after the one adopted one year ago for new machine tools, the SBA said.

This program applies only to machine tools manufactured during or after 1950 and which have been cleaned, painted, and cycled. Purchasers of the machinery must provide at least 20% of the cost, and the maximum term of the SBA loan is five years, amortized on a monthly basis, according to SBA.

The agency is prepared to lend up to $100,000 on a direct loan, up to $150,000 on a bank participation loan, and will guarantee up to $350,000 of a bank loan made for the purchase of used machine tools.

Commenting on the program, Richard L Studley, executive director of the Machinery Dealers National Assn (MDNA) said, "We are most gratified by SBA's action. We feel the program will greatly assist the tool and die shops and smaller manufacturing companies who find it difficult to obtain financing through normal channels at a reasonable rate for their purchases of used equipment.

"This program could permit the smaller manufacturer to expand rapidly for contracts that often won't wait for delivery of a new machine and may not be large enough to justify its purchase anyway. The survival or failure of these shops is often dependent upon their ability to tool up with little lead time. This is one of the functions filled by used machines," Studley said.

[From Steel, The Metalworking Weekly, Nov. 20, 1967]

SBA Loans 80% on Used Machine

Loans covering up to 80% of the cost of a reconditioned machine tool are now available to small businessmen through the Small Business Administration. SBA is prepared to make direct loans up to $100,000. It will go up to $150,000 on a bank participation loan; and will guarantee up to $350,000 of a bank loan.

[From Metalworking News, New York, N.Y., Oct. 30, 1967]

MDNA, SBA Trade Views on Tool Plan

(By Ron Schneiderman)

PHILADELPHIA.—Machinery Dealers National Association members and the Small Business Administration gave each other a quick course last week in how each conducts its business.

The results may not be overwhelming, but both organizations are likely to prosper from the meeting.

It was MDNA's fall conference and their first meeting since the SBA ruled just over a week ago that small firms are now eligible for SBA loans covering 80 per cent of the cost of a used machine tool.

A previous SBA program, initiated earlier this year, covered only new machine tools.

Robert Blewitt, counsel for SBA in the Middle Atlantic region, told members he had been directed to take their questions to Washington in hopes of clearing up some local ends in the new SBA program.

The new plan, noted in these columns last week, requires a 20 per cent down payment with payments extending over a period of five years, usually made on a monthly basis.

SBA will loan up to $100,000 on a direct loan, up to $150,000 on a bank participation loan, and will guarantee up to $350,000 of a bank loan made for the purchase of used machine tools.

Harold Goldstein, Cadillac Machinery Co., Chicago, Ill., and president, MDNA, who spent the better part of the past two years developing the new loan program with the SBA, said now that it is in effect, it is up to the dealers to promote it.

This was the prevailing theme during interviews by Metalworking News.

COULD BE A BOON

Eugene Golan, MacDell Corp., Chicago, said the program could be a boom to the used machinery dealer if he got out and pushed it.

Mark Meyers, Valley Machinery Co., Pottstown, Pa., took a wait and see attitude, noting that the new machinery loan program with the SBA has produced little results.

* * * * * * *

[From the Surplus Record, December 1967]

New SBA Loan Program for Used Machinery Approved

Small firms are now eligible for Small Business Administration loans for purchasing *used* machine tools. The new plan, announced by SBA Administrator Robert C. Moot, will cover up to 80 percent of the cost of a used machine tool, which must have been manufactured during or after 1950. A 20 percent down payment is required of the purchaser with payments extending over a period of five years.

The program applies only to power-driven machines, not portable by hand, for shaping or forming metals, and which have been cleaned, painted, and cycled; and only if the machinery is to be delivered within five months.

SBA will loan up to $100,000 on a direct loan; up to $150,000 on a bank participation loan, and will guarantee up to $350,000 of a bank loan made for the purchase of used machine tools.

SBA Administrator Moot said, "We believe that the extension of the program to include the purchase of good quality used machine tools will help many samll producers upgrade their facilities and become more competitive."

Small firms seeking funds for working capital, debt payment, tools, dies, installation costs, and other purposes are not eligible under the used machine tool financing program, but may be eligible for a regular SBA business loan.

Announcement of the program culminates an intense effort by the used machine tool industry to obtain a financing program to meet the needs of small metalworking firms.

Commenting on the program, Richard L. Studley, executive director of the Machinery Dealers National Association (MDNA), said, "We are most gratified

by SBA's action. We feel the program will greatly assist the tool and die shops and smaller manufacturing companies who find it difficult to obtain financing through normal channels at a reasonable rate for their purchases of used equipment."

"This program could permit the smaller manufacturer to expand rapidly for contracts that often won't wait for delivery of a new machine—and may not be large enough to justify its purchase anyway. The survival or failure of these shops is often dependent upon their ability to tool up with little lead time. This is one of the functions filled by used machine tools," Studley said.

* * * * * * *

Machinery Dealers National Association has recently formed an Allied Membership Committee to be composed of those from associated industries with common interests to which MDNA can extend its services.

[From Used Equipment Directory, Jersey City, N.J.]

AN OPEN LETTER TO INDUSTRY

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This new program is designed to assist tool and die shops and smaller *metalworking firms who are unable to obtain financing for purchases of used equipment through normal channels at reasonable rates.*

See your local machinery dealer for more details on the program or contact the SBA regional office nearest you. Take advantage of this outstanding new program *today!*

MACHINERY DEALERS NATIONAL ASSOCIATION.

INFORMATION FOR MDNA MEMBERS ON SBA USED MACHINE TOOL LOANS

Small firms are now eligible for Small Business Administration (SBA) loans covering up to 80% of the cost of a used machine tool. Here are the details:

WHO IS ELIGIBLE?

A small business, for SBA loan purposes, is defined as independently owned and operated, not dominant in its field, which meets the size standards developed by SBA. The size standards state it is *small* business if employment does not exceed 250, including employees of any affiliates, *large* if it exceeds 1,000. If employment is between 250 and 1,000, SBA bases its determination on a specific size standard for your customer's type of business, depending on *his end product.* The nearest SBA office, as listed here, can tell you what the standards are for your customer's type of business. (See partial listing pp. 7 and 8.)[1]

MACHINE TOOLS ELIGIBLE

Financing is limited to used machine tools which:

(1) were manufactured during or after 1950;

(2) as a minimum will have been cleaned, painted, and run under power prior to disbursement on the loan. (This excludes financing of a used machine tool on an "as is" basis.)

(3) delivery of the machine tool must be made within 5 months from date of approval.

Note: Loan applications which, in addition to the purchase of used machine tools, include requests for any other purpose, such as working capital, debt pay-

[1] See pp. 95-99 of this record.

ment, tools, dies, installation costs, etc., are not eligible under this plan. If working capital is required, or if a used machine tool manufactured before 1950 is involved, apply for a *regular* SBA business loan.

TYPES OF LOANS

There are three types of SBA loans available under this program:

(1) *Guarantee.*—if a bank will make the loan under SBA's Guarantee program, the Agency can guarantee up to $350,000 for the purchase of used machine tools.

(2) *Immediate Participation.*—if a guaranteed loan is not available, but a bank will participate immediately, SBA can lend up to $150,000 in its Participation program.

(3) *Direct.*—if no bank participation is available, SBA may through its Direct program loan up to $100,000.

In each case the entire loan proceeds must be used to finance up to 80% of the delivered cost of the used machine tool, and numerical controls may be included in the financing.

TERMS

Purchasers of the machinery must provide at least 20% of the cost. An SBA appraisal report shall be required to determine reasonableness of cost.

Payments may extend for up to 5 years, amortized on a level monthly payment basis.

The only collateral required is a first lien on the machinery plus unsecured guarantees in some cases.

INTEREST RATES

Interest rates on SBA's portion of Immediate Participations, as well as Direct Loans, may not exceed 5½%. The bank sets the interest rate (not to exceed 8% simple interest) on Guaranteed loans and its portions of Immediate Participation loans.

CREDIT AVAILABILITY

One important requirement applies to all SBA loans. By law, the Agency may not make a loan if a business can obtain funds *under reasonable rates and terms,* from a bank or other private source. (The word *reasonable* is not clear cut and must be interpreted by your local SBA office based on its local banking conditions.) You therefore must first seek private financing before applying to SBA. This means that you must apply for a loan to your local bank; if you live in a larger city—one with more than 200,000 people—you must apply to two banks.

The company receiving the loan must be in sound financial condition, and there must be reasonable assurance of repayment.

HOW TO APPLY

To apply for SBA assistance, your customer must follow these steps:

1. Prepare a current Financial Statement (Balance Sheet) listing all assets and all liabilities of the business—do not include personal items.
2. Have an Earnings (Profit & Loss) Statement for the previous full year and for the current period to the date of the Balance Sheet referred to above.
3. Prepare a current personal Financial Statement of the owner or each partner, or each stockholder owning 20% or more of the corporate stock in the business.
4. State amount of loan requested, and explain exact purposes for which it will be used.
5. Take the above material to his banker and ask for a direct loan. If declined, ask the bank to have the loan guaranteed under SBA's Loan Guarantee Plan or to participate with SBA in a loan. If the bank is interested, ask the banker to contact SBA for discussion of the application. In most cases, SBA will deal directly with the bank.
6. Have available a complete description of the machine tool including year of manufacture, serial, condition and other pertinent data.

WHERE TO APPLY

1. First, have your customer apply to his bank. If his bank is interested, they will provide the necessary loan forms.
2. If a Guarantee or a Participation loan is not available through your bank, write or visit the nearest SBA office.

SBA has 73 field offices (listed herein) and in addition sends many loan officers to visit smaller cities on a regularly scheduled basis or as the need is indicated. To speed matters, make your financial information available when you first write to or visit SBA.

SBA FIELD OFFICES

Agana, Guam
Albuquerque, N. Mex.
Anchorage, Alaska
Atlanta, Ga.
Augusta, Maine
Baltimore, Md.
Birmingham, Ala.
Boise, Idaho
Boston, Mass.
Buffalo, N.Y.
Casper, Wyo.
Charleston, W. Va.
Charlotte, N. C.
Chicago, Ill.
Cincinnati, Ohio
Clarksburg, W. Va.
Cleveland, Ohio
Columbia, S. C.
Columbus, Ohio
Concord, N. H.
Dallas, Tex.
Denver, Colo.
Des Moines, Iowa
Detroit, Mich.
Dover, Del.
Fargo, N. Dak.
Hartford, Conn.
Hato Rey, P. R.
Helena, Mont.
Honolulu, Hawaii
Houston, Tex.
Indianapolis, Ind.
Jackson, Miss.
Jacksonville, Fla.
Kansas City, Mo.
Knoxville, Tenn.
Las Vegas, Nev.
Little Rock, Ark.
Los Angeles, Calif.
Louisville, Ky.
Lubbock, Tex.
Madison, Wis.
Marquette, Mich.
Marshall, Tex.
Miami, Fla.
Milwaukee, Wis.
Minneapolis, Minn.
Montpelier, Vt.
Nashville, Tenn.
Newark, N. J.
New Orleans, La.
New York, N. Y.
Oklahoma City, Okla.
Omaha, Nebr.
Philadelphia, Pa.
Phoenix, Ariz.
Pittsburgh, Pa.
Portland, Oreg.
Providence, R. I.
Richmond, Va.
St. Louis, Mo.
St. Thomas, V. I.
Salt Lake City, Utah
San Antonio, Tex.
San Diego, Calif.
San Francisco, Calif.
Seattle, Wash.
Sioux Falls, S. Dak.
Spokane, Wash.
Syracuse, N. Y.
Toledo, Ohio
Washington, D. C.
Wichita, Kans.

SBA LOAN—QUESTIONS AND ANSWERS

The following questions and answers are excerpts from a presentation at the 1967 Fall Conference by Mr. Robert Blewitt, Philadelphia Area Conusel for SBA. They should answer many of the questions that each of you may have regarding the SBA program for financing used machine tools.

Q. Will the restriction on machine age move up to 1951 next year?

A. No, next year we hope it will remain 1950 unless we (MDNA) can manage to get yet older machines included in which case it may go down into the 1940's.

Q. From the early part of your talk I got the impression that the government was anxious to quicken the times from the application to the granting of the loan. Is there any rule of thumb or any target date it would take to get the normal machine tool loan through. How long do you think it should take in time?

A. I was asked that before and I do not mean to defend the government. There is some difference between the government and a private lender. If you were to come in and apply to us and it was the first time that we had ever seen you, it would be different than with your bank. We have to start sort from of scratch. They hope to speed up the used machine tool program by limiting the collateral to the machine itself, without going into the borrowers remaining assets and going out and appraising plant and equipment. It is hoped that the applications can be processed and the authorization issued well within a 30-day period. And I would say that is generous. But one more thing on that point.

It really is not only the government alone that determines the speed with which an application is to be handled. Mr. Studley has asked me to talk to you about what you can do to speed the handling of this sort of financing. We are going to take a lien under the used machine tool program on the machine itself and one of the things we are going to want to know is, an accurate description of that machine. We would want to be assured that the delivery of that machine can be accomplished within the time set here. If you make sure that your customer has this information before he leaves the shop, you will aid materially in speeding these things through. In a good many cases a man will come in who has no real idea of what he wants to do and since the machine he wants to buy will be the collateral for our loan we are not in a position to say that we will agree to loan you so much money on some unknown machine. The sooner he knows what he wants to buy and can come and tell us, the faster he is going to get his loan. These are not "shopper" loans as the directive indicated. He should know what he wants to buy before he comes to us.

Q. You talked about reasonable interest rates; our customer may be quoted a figure of 6% but it normally is add-on. In other words it figures out to 11.5% or 11-¾% and in view of tight money situations with the banks, I question how often this small purchaser can borrow money from the bank on a piece of equipment at a simple 6%.

A. Add-on interest may bring it up. Our's is 5-½% simple interest and 11 or 12% may, under the circumstances of this particular borrower (and he is the man we judge, not small businesses as a whole) for him that may be an unreasonable rate of interest. And he might qualify for our 5-½% rate of interest.

Q. If your interest rate is only 5-½% simple, what's going to happen to the banks? I don't think anybody is going to want to visit the bank anymore.

A. The first basic eligibility requirement that we have is that your customer establish that the bank won't give it to him and we will have a couple of letters and our people will talk to the banks before we will make him his loan.

Q. Maybe the reason the bank's wouldn't give it to him is he has already borrowed $30,000 and that's as much as he can borrow with his capital. Does that still entitle him to come to you and get another $30,000?

A. Well, we are no different. These are public monies that we lend and it is a business institution and not a charitable organization. We have to have reasonable assurance that that loan can be repaid from earnings.

Q. How about those who are willing to start a business? They don't have a previous record of earnings, yet they are or were capable employees with a firm who decided to start a little business of their own.

A. We have a great many small businessmen who come to us and want to form a company and have no background at all. In that case we have a rule of thumb in regular business loans that the SBA would like to see them invest about 50% of what is needed. If they have half, we will give them half of what is needed. As far as their background goes, if they have no earnings and the business hasn't started, the only thing a lender can do is look at the capacity of management and their training and the reasonableness of their projection—what inquiries and evidence have they established that they are going to have the business.

Q. What policing is this borrower subject to? May he borrow in the future without going back to you to get permission and does he have to give you a profit and loss report?

A. Oh yes. Like any lender we want to see their balance sheet and operating statements, maybe annually. We have some pretty good financial men. The rendering of the examination of that is often as helpful to the businessman as it is to the lender. We do not, as a rule, impose limitations that prevent further borrowing. But we do do this. A great many small business concerns get into trouble because of going overboard on capital assets. And we may very well, and frequently do, put a limitation in the loan saying, "This borrower will not buy new machinery or equipment in excess of (well, let's say $20,000 in any one year) without the prior written consent of SBA." And the only reason we would withhold that consent would be if we didn't think he could handle it. If he can, fine, but that is the only restriction. To answer your first question again, we do not generally restrict borrowing.

Q. Is there any pre-payment penalty?

A. No. On any SBA loan there can be pre-payment without penalty.

Q. How about the bank?

A. Any bank that participates with us has to accept pre-payment without any penalty.

Q. You have said there is a time restriction of five months on delivery of the machine tool. This will be ample in most cases. However, there will be instances where machines will be sold that will have to be rebuilt and retooled. And in this case it could well exceed the five month period. Is this an inflexible rule?

A. I think it reasonable to assume that if peculiar circumstances arise our people will waive the particular contents of a directive. Now they will not waive them automatically because if they were to do that, there would be no point in writing them. But when a man comes in with a particular circumstance that would justify waiver, our people will consider it.

Q. Are there any limitations as to domestic or imported machines?

A. This applies to *all* machinery which you gentlemen would have for sale.

Q. Does your office have technical men that can go out and appraise these machines?

A. Yes, we do. We have engineers and we have some very able men. The question came up before lunch. Our people (appraisers) are going to look at this piece of machinery because it is the sole collateral for our loan in most cases. But

their knowledge here is going to be derived generally from other dealers in the trade such as members of your Association. We are not competent to go out and look at a piece of machinery and decide what a reasonable price for it is. We are going to have to depend upon you for this information.

There is one thing you might answer for me. I said at the beginning that we would help finance the "basic machine." Well, I don't know what the basic machine is, and I don't think our own people know. We are going to have to depend on you to describe what is the basic machine. On this decision the SBA is going to have to go to your Association and others for these definitions because we do not have the expertise and because we cannot, as a government agency, define every particular transaction and every type of machine. It would be ridiculous. We are going to have to depend upon you because this is a technical field, at least for us.

I have enjoyed this very much. It is a new field for SBA and our expertise such as we eventually accomplish is entirely yet to be developed. The assistance which you give us in our problems is going to be a major factor in depending on how successful this program is.

PARTIAL LISTING OF SBA INDUSTRY SIZE STANDARDS

SCHEDULE A—EMPLOYMENT SIZE STANDARDS FOR CONCERNS PRIMARILY ENGAGED IN MANUFACTURING

Census classification code	Industry or class of products	Employment size standard (number of employees) [1]
	Major group 36:	
3631	Household cooking equipment	750
3633	Household laundry equipment	1,000
3632	Household refrigerators and home and farm freezers	1,000
3635	Household vacuum cleaners	750
3622	Industrial controls	750
3642	Lighting fixtures	250
3621	Motors and generators	1,000
3644	Noncurrent carrying wiring devices	500
3652	Phonograph records	750
3612	Power, distribution, and specialty transformers	750
3692	Primary batteries, dry and wet	1,000
3651	Radio and television receiving sets, except communication types	750
3671	Radio and television receiving type electron tubes, except cathode ray	1,000
3662	Radio and television transmitting—signaling, and detection equipment, and apparatus [2]	750
3693	Radiographic X-ray, fluoroscopic X-ray, therapeutic X-ray, and other X-ray apparatus and tubes	500
3636	Sewing machines	750
3691	Storage batteries	500
3613	Switchgear and switchboard apparatus	750
3661	Telephone and telegraph apparatus	1,000
3673	Transmitting, industrial, and special purpose electron tubes	750
3623	Welding apparatus	250
	Major group 34—Fabricated metal products, except ordinance, machinery, and transportation equipment:	
3449	Architectural and miscellaneous metalwork	250
3452	Bolts, nuts, screws, rivets, and washers	500
3479	Coating, engraving, and allied services, not elsewhere classified	250
3496	Collapsible tubes	250
3421	Cutlery	500
3471	Electroplating, plating, polishing, anodizing, and coloring	250
3431	Enameled iron and metal sanitary ware	750
3499	Fabricated metal products, not elsewhere classified	250
3498	Fabricated pipe and fabricated pipe fittings	250
3443	Fabricated platework (boiler shops)	250
3441	Fabricated structural steel	250
3423	Hand and edge tools, except machine tools and hand saws	250
3425	Hand saws and saw blades	250
3429	Hardware, not elsewhere classified	250
3433	Heating equipment, except electric	500
3411	Metal cans	1,000
3442	Metal doors, sash, frames, molding, and trim	250
3497	Metal foil and leaf	500
3491	Metal shipping barrels, drums, kegs, and pails	500
3461	Metal stampings	250
3481	Miscellaneous fabricated wire products	250
3432	Plumbing fixture fittings and trim (brass goods)	500
3492	Safes and vaults	500
3451	Screw machine products	250
3444	Sheet metal work	250
3493	Steel springs	500
3494	Valves and pipe fittings, except plumbers' brass goods	500

See footnotes at end of table, p. 99.

SCHEDULE A—EMPLOYMENT SIZE STANDARDS FOR CONCERNS PRIMARILY ENGAGED IN MANUFACTURING—Con.

Census classification code	Industry or class of products	Employment size standard (number of employees) [1]
	Major group 20—Food and kindred products:	
2095	Animal and marine fats and oils, except grease and tallow	250
2063	Beet sugar	750
2052	Biscuit, crackers, and pretzels	750
2045	Blended and prepared flour	500
2086	Bottled and canned soft drinks and carbonated waters	250
2051	Bread and other bakery products, except biscuit, crackers, and pretzels	250
2071	Candy and other confectionery products	250
2061	Cane sugar, except refining only	250
2062	Cane sugar refining	750
2031	Canned and cured seafoods	250
2033	Canned fruits, vegetables, preserves, jams, and jellies	500
2032	Canned specialties	1,000
2043	Cereal preparations	1,000
2073	Chewing gum	500
2072	Chocolate and cocoa products	500
2023	Condensed and evaporated milk	500
2091	Cottonseed oil mills	250
2021	Creamery butter	250
2085	Distilled, rectified, and blended liquors	750
2034	Dried and dehydrated fruits and vegetables	500
2087	Flavoring extracts and flavoring sirups, not elsewhere classind	500
2041	Flour and other grain mill products	500
2026	Fluid milk	500
2099	Food preparations, not elsewhere classified	250
20991	Desserts (ready-to-mix)	500
20994	Baking powder and yeast	500
2036	Fresh or frozen packaged fish	250
2037	Frozen fruits, fruit juices, vegetables, and specialities	500
2094	Grease and tallow	250
2024	Ice cream and frozen desserts	500
2098	Macaroni, spaghetti, vermicelli, and noodles	250
2083	Malt	250
2082	Malt liquors	500
2097	Manufactured ice	250
2011	Meatpacking plants	500
2022	Natural cheese	250
2035	Pickled fruits and vegetables, vegetable sauces and seasonings, salad dressings	250
2015	Poultry and small game dressing and packing, wholesale	250
2042	Prepared feeds for animals and fowls	250
2044	Rice milling	250
2013	Sausage and other prepared meat products	500
2096	Shortening, table oils, margarine, and other edible fats and oils, not elsewhere classified	750
2092	Soybean oil mills	500
2025	Special dairy products	250
2093	Vegetable oil mills, except cottonseed and soybean	1,000
2046	Wet corn milling	750
2084	Wines, brandy, and brandy spirits	250
	Major group 25—Furniture and fixtures:	
2599	Furniture and fixtures, not elsewhere classified	250
2519	Household furniture, not elsewhere classified	250
2515	Mattresses and bedsprings	250
2514	Metal household furniture	250
2522	Metal office furniture	500
2542	Metal partitions, shelving, lockers, and office and store fixtures	250
2531	Public building and related furniture	250
2591	Venetian blinds and shades	250
2511	Wood household furniture, except upholstered	250
2512	Wood household furniture, upholstered	250
2521	Wood office furniture	250
2541	Wood partitions, shelving, lockers, and office and store fixtures	250
	Major group 31—Leather and products:	
3131	Boot and shoe cut stock and findings	250
3141	Footwear, except house slippers and rubber footwear	500
3142	House slippers	250
3121	Industrial leather belting and packing	250
3151	Leather dress, semidress, and work gloves	250
3199	Leather goods, not elsewhere classified	250
3111	Leather tanning and finishing	250
3161	Luggage	250
3172	Personal leather goods, except handbags and purses	250
3171	Women's handbags and purses	250
	Major group 24—Lumber and products, except furniture	250
	Major group 35—Machinery, except electrical:	
3581	Automatic merchandising machines	250
3562	Ball and roller bearings	750
3564	Blowers, exhaust and ventilating fans	250
3582	Commercial laundry, dry-cleaning, and pressing machines	250
3571	Computing and accounting machines, including cash registers	1,000

See footnotes at end of table, p. 99.

SCHEDULE A—EMPLOYMENT SIZE STANDARDS FOR CONCERNS PRIMARILY ENGAGED IN MANUFACTURING—Con.

Census classification code	Industry or class of products	Employment size standard (number of employees)[1]
	Major group 35—Machinery, except electrical—Continued	
3531	Construction machinery and equipment	750
3535	Conveyors and conveying equipment	250
3534	Elevators and moving stairways	500
3522	Farm machinery and equipment	500
3551	Food products machinery	250
3569	General industrial machinery and equipment not elsewhere classified	250
3536	Hoists, industrial cranes, and monorail systems	500
3565	Industrial patterns	250
3567	Industrial process furnaces and ovens	250
3537	Industrial trucks, tractors, trailers, and stackers	250
3519	Internal combustion engines, not elsewhere classified	1,000
3591	Machine shops, jobbing and repair	250
3545	Machine tool accessories and measuring devices	250
35452	Precision-measuring tools	500
3541	Machine tools, metal cutting types	500
3542	Machine tools, metal forming types	500
3599	Machinery and parts, except electrical, not elsewhere classified	250
3586	Measuring and dispensing pumps	500
3566	Mechanical power transmission equipment, except ball and roller bearings	500
3548	Metalworking machinery, except machine tools	500
3532	Mining machinery and equipment, except oilfield machinery and equipment	500
3579	Office machines, not elsewhere classified	500
3533	Oilfield machinery and equipment	500
3554	Paper industries machinery	250
3555	Printing trades machinery and equipment	500
3561	Pumps, air and gas compressors, and pumping equipment	500
3585	Refrigerators; refrigeration machinery, except household; and complete air-condition units	750
3576	Scales and balances, except laboratory	250
3589	Service industry machines, not elsewhere classified	250
3544	Special dies and tools, die sets, jigs, and fixtures	250
3559	Special industry machinery, not elsewhere classified	250
3511	Steam engines; steam, gas, and hydraulic turbines; and steam, gas, and hydraulic turbine generator set units	1,000
3552	Textile machinery	250
3572	Typewriters	1,000
3584	Vacuum cleaners, industrial	250
3553	Woodworking machinery	250
	Major group 39—Miscellaneous manufacturing industries:	
3981	Brooms and brushes	250
3963	Buttons	250
3984	Candles	250
3955	Carbon paper and inked robbons	250
3943	Children's vehicles, except bicycles	250
3961	Costume jewelry and costume novelties, except precious metal	250
3942	Dolls	250
3962	Feathers, plumes, and artificial flowers	250
3992	Furs, dressed and dyed	250
3941	Games and toys, except dolls and children's vehicles	250
3912	Jewelers' findings and materials	250
3911	Jewelry, precious metal	250
3987	Lamp shades	250
3913	Lapidary work and cutting and polishing diamonds	250
3952	Lead pencils, crayons, and artists' materials	250
3982	Linoleum, asphalted-felt base, and other hard surface floor coverings, not elsewhare classified	750
3999	Manufacturing industries, not elsewhere classified	250
3953	Marking devices	250
3983	Matches	500
3988	Morticians' goods	250
3931	Musical instruments and parts	500
3964	Needles, pins, hooks and eyes, and similar notions	250
3951	Pens, pen points, fountain pens, ball point pens, mechanical pencils and parts	500
3993	Signs and advertising displays	250
3914	Silverware and plated ware	500
3949	Sporting and athletic goods, not elsewhere classified	250
3995	Umbrellas, parasols, and canes	250
	Major group 19—Ordnance and accessories:	
1922	Ammunition loading and assembling	250
1929	Ammunition, not elsewhere classified	250
1921	Artillery ammunition	250
1911	Guns, howitzers, mortars, and related equipment	250
1999	Ordnance and accessories, not elsewhere classified	250
1941	Sighting and fire-control equipment	250
1951	Small arms	1,000
1961	Small arms ammunition	1,000
1931	Tanks and tank components	1,000

See footnotes at end of table, p. 99.

SCHEDULE A—EMPLOYMENT SIZE STANDARDS FOR CONCERNS PRIMARILY ENGAGED IN MANUFACTURING—Con.

Census classification code	Industry or class of products	Employment size standard (number of employees)[1]
	Major group 26—Paper and allied products:	
2643	Bags, except textile bags	500
2661	Building paper and building board mills	750
2649	Converted paper and paperboard products, not elsewhere classified	500
2653	Corrugated and solid-fiber boxes	250
2645	Die cut paper and paperboard; and cardboard	250
2642	Envelopes	250
2655	Fiber cans, tubes, drums, and similar products	250
2651	Folding paperboard boxes	250
2641	Paper coating and glazing	500
2621	Paper mills, except building-paper mills	750
2631	Paperboard mills	750
2646	Pressed and molded pulp goods	750
2611	Pulpmills	750
2654	Sanitary food containers	750
2652	Set-up paperboard boxes	250
2644	Wallpaper	250
	Major group 29—Petroleum refining and related industries:	
2952	Asphalt felts and coatings	750
2992	Lubricating oils and greases	500
2951	Paving mixtures and blocks	250
2911	Petroleum refining[3]	1,000
2999	Products of petroleum and coal, not elsewhere classified	250
	Major group 33—Primary metal industries:	
3361	Aluminum castings	250
3312	Blast furnaces (including coke ovens), steel works, and rolling mills	1,000
3362	Brass, bronze, copper, copper base alloy castings	250
3316	Cold rolled sheet, strip and bars	1,000
3357	Drawing and insulating of nonferrous wire	1,000
3313	Electrometallurgical products	750
3321	Gray iron foundries	500
3391	Iron and steel forgings	500
3322	Malleable iron foundries	500
3369	Nonferrous castings, not elsewhere classified	250
3392	Nonferrous forgings	250
3399	Primary metal industries, not elsewhere classified	750
3334	Primary production of aluminum	1,000
3331	Primary smelting and refining of copper	1,000
3332	Primary smelting and refining of lead	1,000
3339	Primary smelting and refining of nonferrous metals, not elsewhere classified	750
3333	Primary smelting and refining of zinc	750
3352	Rolling, drawing, and extruding of aluminum	750
3351	Rolling, drawing, and extruding of copper	750
3356	Rolling, drawing, and extruding of nonferrous metals, except copper and aluminum	750
3341	Secondary smelting, refining, and alloying of nonferrous metals and aloys	250
3323	Steel foundries	500
3317	Steel pipe and tubes	1,000
3315	Steel wire drawing and steel nails and spikes	1,000
	Major group 27—Printing and publishing industries:	250
	Major group 38—Professional, scientific, and controlling instruments; photographic and optical goods; watches and clocks:	
3822	Automatic temperature controls	500
3843	Dental equipment and supplies	250
3811	Engineering, laboratory, and scientific and research instruments and associated equipment	500
3821	Mechanical measuring and controlling instruments, except automatic temperature controls	500
3851	Opthalmic goods	250
3831	Optical instruments and lenses	250
3842	Orthopedic, prosthetic, and surgical appliances and supplies	250
3861	Photographic equipment and supplies	500
3841	Surgical and medical instruments and apparatus	250
3872	Watchcases	250
3871	Watches, clocks, and parts except watchcases	500
	Major group 30—Rubber and miscellaneous plastics products:	
3069	Fabricated rubber products, not elsewhere classified	500
3079	Miscellaneous plastics products	250
3031	Reclaimed rubber	750
3021	Rubber footwear	1,000
3011	Tires and inner tubes	1,000
	Major group 32—Stone, clay, and glass products:	
3291	Abrasive products	250
3292	Asbestos products	750
3251	Brick and structural clay tile	250
3241	Cement, hydraulic	750
3253	Ceramic wall and floor tile	500
3255	Clay refractories	250
3271	Concrete brick and block	250
3272	Concrete products, except block and brick	250
3281	Cut stone and stone products	250

See footnotes at end of table, p. 99.

SCHEDULE A—EMPLOYMENT SIZE STANDARDS FOR CONCERNS PRIMARILY ENGAGED IN MANUFACTURING—Con.

Census classification code	Industry or class of products	Employment size standard (number of employees) [1]
	Major group 32—Stone, clay, and glass products—Continued	
3263	Fine earthenware (whiteware), table and kitchen articles	500
3211	Flat glass	1,000
3221	Glass containers	750
3231	Glass products, made of purchased glass	250
3275	Gypsum products	1,000
3274	Lime	500
3296	Mineral wool	750
3295	Mineral and earths, ground or otherwise treated	250
3297	Nonclay refractories	750
3299	Nonmetallic mineral products, not elsewhere classified	250
3264	Porcelain electrical supplies	500
3269	Pottery products, not elsewhere classified	250
3229	Pressed and blown glass and glassware, not elsewhere classified	750
3273	Ready-mixed concrete	250
3293	Steam and other packing, and pipe and boiler covering	500
3259	Structural clay products, not elsewhere classified	250
3261	Vitreous china plumbing fixtures and china and earthenware fittings and bathroom accessories	750
3262	Vitreous china table and kitchen articles	500
	Major group 22—Textile mill products:	
2295	Artificial leather, oilcloth, and other impregnated and coated fabrics except rubberized	250
2211	Broad-woven fabric mills, cotton	1,000
2221	Broad-woven fabric mills, manmade fiber and silk	500
2231	Broad-woven fabric mills, wool: including dyeing and finishing	250
2279	Carpets, rugs, and mats, not elsewhere classified	500
2298	Cordage and twine	250
2269	Dyeing and finishing textiles, not elsewhere classified	250
2291	Felt goods; except woven felts and hats	250
2261	Finishers of broad-woven fabrics of cotton	500
2262	Finishers of broad-woven fabrics of manmade fiber and silk	500
2251	Full-fashioned hosiery mills	250
2256	Knit fabric mills	250
2253	Knit outerwear mills	250
2254	Knit underwear mills	250
2259	Knitting mills, not elsewhere classified	250
2292	Lace goods	250
2241	Narrow fabrics and other small-wares mills: cotton, wool, silk, and manmade fiber	250
2293	Paddings and upholstery filling	250
2294	Processed waste and recovered fibers and flock	250
2252	Seamless hosiery mills	250
2299	Textile goods, not elsewhere classified	250
2284	Thread mills	500
2296	Tire cord and fabric	1,000
2272	Tufted carpets and rugs	500
2297	Wool scouring, worsted combing, and tow to top mills	250
2271	Woven carpets and rugs	750
2283	Yarn mills, wool, including carpet and rug yarn	250
2281	Yarn spinning mills, cotton, man made fibers and silk	500
2282	Yarn throwing, twisting, and winding mills, cotton, manmade fibers and silk	250
	Major group 21—Tobacco manufactures:	
2111	Cigarettes	1,000
2121	Cigars	500
2131	Tobacco (chewing and smoking) and snuff	500
2141	Tobacco stamming and redrying	500
	Major group 37—Transportation equipment:	
3721	Aircraft [4]	1,500
3722	Aircraft engines and engine parts [2]	1,000
3729	Aircraft parts and auxiliary equipment, not elsewhere classified [3]	1,000
3723	Aircraft propellers and propeller parts	1,000
3732	Boat building and repairing	250
3741	Locomotives and parts	1,000
3717	Motor vehicles and parts [1]	1,000
3751	Motorcycles, bicycles, and parts	500
3742	Railroad and street cars	750
3731	Shipbuilding and repairing	1,000
3791	Trailer coaches	250
3799	Transportation equipment, not elsewhere classified	250
3713	Truck and bus bodies	250
3715	Truck trailers	500

[1] The "number of employees" means the average employment of any concern and its affiliates based on the number of persons employed during the pay period ending nearest the last day of the 3rd month in each calendar quarter for the preceeding 4 quarters.

[2] Guided missile engines and engine parts are classified in SIC 3722. Missile control systems are classified in SIC 3662.

[3] Together with its affiliates does not employ more than 1,000 persons and does not have more than 30,000 barrels-per day capacity from owned and leased facilities.

[4] Includes maintenance as defined in the Federal Aviation Regulations (14 CFR 1.1) but excludes contracts solely for preventive maintenance as defined in 14 CFR 1.1. As defined in the Federal Aviation Regulations.

The CHAIRMAN. Let us now take up displaced business disaster loans, Mr. Hendricks.

(The legislative authority for displaced business disaster loans was received into the record at this point:)

SECTION 7(b)(3) OF SMALL BUSINESS ACT

DISPLACED BUSINESS DISASTER LOANS

(3) to make such loans (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis) as the Administration may determine to be necessary or appropriate to assist any small business concern in reestablishing its business, if the Administration determines that such concern has suffered substantial economic injury as a result of its displacement by a federally aided urban renewal or highway construction program or by any other construction conducted by or with funds provided by the Federal Government; and the purpose of a loan made pursuant to this paragraph may, in the discretion of this Administrator, include the purchase or construction of other premises whether or not the borrower owned the premises from which it was displaced;

Mr. HENDRICKS. Yes, sir. Displaced business disaster loans—section 7(b)(3) Small Business Act.

Section 7(b)(3) was added to the Small Business Act in 1961. This legislation authorizes loans to assist small business concerns in reestablishing their businesses if they suffered substantial economic injury as a result of physical displacement by a federally aided urban renewal or highway construction program or by any other construction program conducted by or with funds provided by the Federal Government.

This authority was expanded by the 1964 legislation which provided for the purchase or construction of other premises "* * * whether or not the borrower owned the premises from which it was displaced."

This displaced business disaster loan authority provides for: (1) no limit on the maximum amount of a loan: (2) a formula for annually computing the interest rate on the Government's share of the loan—currently 4-¼ percent for fiscal year 1968; (3) a maximum maturity of up to 30 years; and (4) no specific collateral requirements.

As required by our legislation, we establish early contact with small businesses that are to be displaced. Close liaison is maintained with Housing and Urban Development's Office of Relocation assistance and the Department of Transportation's Bureau of Public Roads, as well as State highway departments.

Business displacement is basically a small business problem, particularly in urban areas. Its greatest impact is expected to be felt in the next few years when it is estimated that some 13,000 businesses will be displaced annually by Federal and federally assisted programs.

Our regulations permit displaced business disaster loans to be made for: (1) purchase of land, (2) purchase of buildings and cost of necessary improvements, (3) new building construction, (4) purchase of machinery, equipment, and fixtures, (5) moving expenses, (6) increased rental costs or fixed charges in lease quarters in the new location, and (7) working capital. Up to 33⅓ percent upgrading or expansion is permitted on equipment and square footage of building space in the new location. Because of local codes and ordinances, primarily relating to parking space, a 50-percent expansion is permitted in land area.

Displaced business loan approvals have increased substantially. The $32.7 million of approvals in fiscal year 1967 represents a 78-percent increase over the previous fiscal year of 1966. During the

current 1968 fiscal year, through March, approvals totaled $32.9 million. The program for fiscal year 1969 calls for $56 million, including private sector participation. We are concentrating our efforts on increasing private participation in order to better meet the demand.

As of June 30, 1967, actual and estimated losses totaled 1.52 percent of disbursements since the 1961 inception of the program.

As of March 31, 1968, there were 22 loans delinquent out of the portfolio of 1,031 loans, which represents a delinquency rate of 2.1 percent.

That concludes the remarks on the displacement loan program.

The CHAIRMAN. Very good, Mr. Hendricks. That again is a special legislative authority for displaced business disaster loans as referred to by our colleague Mr. Kluczynski, where interstate highways are built or there is urban renewal. The law as we understand it, as the committee understands it, provides that where a business is displaced, if it is a disaster, a loan may be made to reinstate such a business. The law does not go so far as to provide for loans for damaged business.

Suppose that the small business is just off the interstate. The interstate doesn't take his property but the traiffic is diverted another way and his business hurts although he is not displaced. What is the situation with respect to that condition?

Mr. HENDRICKS. I understand that there is legislation that is either pending or has been or will be considered that takes this problem into consideration. I think that the Housing and Urban Development people probably have an interest in this type of victim or this type of person that is hurt, when they are beyond the confines of the urban renewal area.

The CHAIRMAN. You indicate that there are estimated to be some 13,000 businesses which will be displaced annually. How do you arrive at that figure?

Mr. HENDRICKS. It is not an easy figure to arrive at, Mr. Chairman, but working together with the Housing and Urban Development people, whose job it is, of course, to pass on these various projects, we have elicited this figure, which they feel is a rather sound projection.

The CHAIRMAN. Is the majority of this displacement to be through urban renewal? The interstate highway is more than 50 percent completed. Is it the interstate, or is it urban renewal, or both.

Mr. HENDRICKS. It is both, of course, but urban renewal will probably receive added emphasis in the next 2 or 3 years, particularly in view of the current innercity problems we are facing.

The CHAIRMAN. There is no maximum per loan limit on this type of loans?

Mr. HENDRICKS. No, sir.

The CHAIRMAN. And the interest rate is the cost to the Treasury at the time plus one-fourth of 1 percent?

Mr. HENDRICKS. This is correct. It is by formula, sir, but it is based ultimately or actually on the cost of money to Government.

The CHAIRMAN. And what is the maximum term for these loans?

Mr. HENDRICKS. Thirty years, sir.

The CHAIRMAN. And again dollarwise how much in amount has been loaned through this type of loan?

Mr. HENDRICKS. Well, to recount, in 1967, $32.7 million, which was a 78-percent increase over the prior year.

Mr. MOOT. We could put on the record, Mr. Chairman, that since the inception of the program in 1961, through December of 1967, a total of 1,308 loans for $96.9 million have been approved. This year we have available to us, for this particular program, $54 million, and next year we will have available $56 million.

The CHAIRMAN. A very good summary.

Mr. Reporter, place in the record just prior to Mr. Hendricks' statement on the displaced business disaster loan the statutory authority pertaining to those loans.

Mr. KLUCZYNSKI. Mr. Chairman, while we are on the subject, we had a disaster area just outside of Chicago only a year ago last week, and I was very happy to be a member of this committee and member of Congress, because the Small Business Administration was in the vicinity before the Red Cross got there. I want you to know that, Mr. Moot, that you have a wonderful office in Chicago, and they did their share and I was very happy to see that this agency was very active at this time.

Mr. MOOT. Thank you, Congressman Kluczynski.

The CHAIRMAN. Very good. Now, the development loan assistance program.

(The legislative authority for State and local development company loans was received into the record at this point.)

SMALL BUSINESS INVESTMENT ACT OF 1958, AS AMENDED

TITLE V—LOANS TO STATE AND LOCAL DEVELOPMENT COMPANIES

SEC. 501. (a) The Administration is authorized to make loans to State development companies to assist in carrying out the purposes of this Act. Any funds advanced under this subsection shall be in exchange for obligations of the development company which bear interest at such rate, and contain such other terms, as the Administration may fix, and funds may be so advanced without regard to the use and investment by the development company of funds secured by it from other sources.

(b) The total amount of obligations purchased and outstanding at any one time by the Administration under this section from any one State development company shall not exceed the total amount borrowed by it from all other sources. Funds advanced to a State development company under this section shall be treated on an equal basis with those funds borrowed by such company after the date of the enactment of this Act, regardless of source, which have the highest priority, except when this requirement is waived by the Administrator.

SEC. 502. The Administration may, in addition to its authority under section 501, make loans for plant construction, conversion or expansion, including the acquisition of land, to State and local development companies, and such loans may be made or effected either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis: *Provided, however,* That the foregoing powers shall be subject to the following restrictions and limitations:

(1) All loans made shall be so secured as reasonably to assure repayment. In agreements to participate in loans on a deferred basis under this subsection, such participation by the Administration shall not be in excess of 90 per centum of the balance of the loan outstanding at the time of disbursement.

(2) The proceeds of any such loan shall be used solely by such borrower to assist an identifiable small-business concern and for a sound business purpose approved by the Administration.

(3) Loans made by the Administration under this section shall be limited to $350,000 for each such identifiable small-business concern.

(4) Any development company assisted under this section must meet criteria established by the Administration, including the extent of participation

to be required or amount of paid-in capital to be used in each instance as is determined to be reasonable by the Administration.

(5) No loans, including extensions or renewals thereof, shall be made by the Administration for a period or periods exceeding twenty-five years plus such additional period as is estimated may be required to complete construction, conversion, or expansion, but the Administration may extend the maturity of or renew any loan made pursuant to this section beyond the period stated for additional periods, not to exceed ten years, if such extension or renewal will aid in the orderly liquidation of such loan. Any such loan shall bear interest at a rate fixed by the Administration.

Mr. HENDRICKS. Development company assistance programs—sections 501–502, Small Business Investment Act of 1958.

SBA is authorized to make loans to State and local development companies to assist in promoting economic development of communities or areas on condition that they use the proceeds of the loans to assist eligible small businesses. The intent of the programs is to increase the flow of private equity capital and long-term loans to small business concerns to finance their operations, growth, expansion, and modernization.

State development corporations (sec. 501)—these corporations are authorized by special acts of the State legislatures, privately organized, owned, and operated, and initially financed from private sources.

While the progress of this program might appear to be slow, an analysis of the activities of State development companies is encouraging.

Because borrowings from SBA are limited to an amount equal to the borrowings from other sources, these companies do not come to us until they have committed their own corporate funds and those funds that they have been able to borrow from other sources.

The following 39 States have enacted legislation authorizing the establishing of State development corporations:

Alaska, Arkansas,[1] Arizona, Colorado,[1] Connecticut, Florida,[1] Hawaii, Illinois, Indiana, Kansas,[1] Kentucky,[1] Louisiana, Maine,[1] Maryland,[1] Massachusetts,[1] Michigan, Minnesota, Mississippi,[1] Missouri, Nebraska, New Hampshire,[1] New Jersey,[1] New Mexico, New York,[1] North Carolina,[1] North Dakota, Ohio, Oregon, Pennsylvania,[1] Rhode Island,[1] South Carolina,[1] South Dakota, Tennessee, Vermont,[1] Virginia,[1] Washington,[1] West Virginia, Wisconsin,[1] and Wyoming.

Twenty-one of these companies are still active and the 18 others are in various stages of organization and funding.

The CHAIRMAN. In other words, some 39 States have enacted enabling legislation through their general assemblies to form a State development corporation for development programs?

Mr HENDRICKS. Yes, sir.

The CHAIRMAN. And of the 39 authorized, 21 are active and have development associations.

Mr. HENDRICKS. Yes, sir.

The CHAIRMAN. When you say they are active, this means that they are sharing in a loan?

Mr. HENDRICKS. They may not all have shared with us. I have a list, Mr. Chairman, of the companies that have shared in loans, and I think it numbers seven companies of the 21.

[1] Active companies.

The CHAIRMAN. The purpose of these development associations is to stimulate the private economy, to stimulate local initiative, and to have private capital injected into them to provide jobs and employment. SBA makes loans to assist them where applications are presented. How many applications have been presented and how many have been acted upon?

Mr. HENDRICKS. The number of applications——

The CHAIRMAN. These are the State development corporations. These may be included in the record.

Mr. HENDRICKS. Yes—23 loans for $14.5 million have been made to seven of these companies:

First Arkansas Development Finance Corp., Industrial Development Corp. of Florida, Development Credit Corp. of Maryland, New York Business Development Corp., the Business Development Corp. of North Carolina, Business Development Corp. of Rhode Island, Wisconsin Development Credit Corp.

The CHAIRMAN. It had been my understanding several years ago in a prior review that the States of North Carolina and Minnesota were the two leading States utilizing the State development association. What is the situation? Which is the most active? Which is the most successful? Which is the pioneer? Which is setting the pattern by being the most successful?

Mr. HENDRICKS. Do you perhaps have reference to the 502 programs when you mention Minnesota?

The CHAIRMAN. I may have been referring to the 502, but now I would like to address myself to the 501. Perhaps Mr. Hendricks doesn't wish to state which is leading.

Mr. HENDRICKS. If the chairman will note from my statement——

The CHAIRMAN. My question is concerning the numbers of jobs and the growth. Perhaps that would be the best indicator.

Mr. HENDRICKS. I am not sure that——

The CHAIRMAN. You could supply some additional information for the record on this.

Mr. HENDRICKS. Very well. I will do that, Mr. Chairman.

(The information referred to follows:)

LOANS (22) APPROVED BY SBA UNDER SEC. 501 BY STATES, BY FISCAL YEARS

Fiscal year	Rhode Island	New York	Maryland	North Carolina	Florida	Wisconsin	Arkansas	Net loan amounts for all States
1959	$313,750							$313,750
1960	300,000			$1,000,000				1,300,000
1961	160,000	$1,000,000		1,000,000		$330,000		2,490,000
1962	130,000	[1] 2,000,000		500,000			[2] $750,000	2,380,000
		1,000,000						
1963	500,000							500,000
1964		[3] 1,000,000						
1965	200,000							200,000
1966		1,000,000				[4] 90,000	350,000	1,840,000
							400,000	
1967			$500,000	750,000	$750,000			2,000,000
Total net loan amounts	1,603,750	3,000,000	500,000	3,250,000	750,000	420,000	1,500,000	11,023,750

[1] Not drawn down, canceled after 3 months.
[2] Originally for $1,000,000. After 12 months $250,000 not drawn down was canceled.
[3] Not drawn down, canceled after 4 months.
[4] Originally for $170,000. After 12 months $80,000 not drawn down was canceled.

The CHAIRMAN. Proceed.

Mr. HENDRICKS. Nineteen companies have formed the National Association of State Development Corporations. As of September 30, 1967, the association reports that members have made 836 loans for a total of $76.4 million and that 90 percent of these loans have gone to small businesses. It is evident then that approximately $68.7 million has been made available to small businesses with an investment of Government funds of only $14.5 million or 21 percent.

We require that the State development companies maintain outstanding balances in loans to or investments in small businesses in a amount equal to 133⅓ percent of the amount due SBA. In this way we are assured of private sector participation in a substantial degree.

The 501 program has the advantage of being extremely flexible. They can put together a financial package to accommodate the requirements of almost any kind of a business situation including direct equity investments.

We have no delinquent 501 loans and no indication that there will be any in the foreseeable future.

We expect this program to grow. Through the efforts of the National Association of State Development Corporations the program should become better known and recognized as a source of funds by businesses requiring financing and by communities desiring to develop their economies.

The willingness of member banks to finance operations of these companies has resulted in a minimum demand for SBA funds. We expect this healthy condition to continue through fiscal year 1969 and, accordingly, our budget calls for a modest $5 million for this program in fiscal year 1969.

The program of loans to local development companies is preeminently a local, self-help program. While a State development company, as provided for under section 501 of the Small Business Investment Act, may perform the function of a local development company, its interest is statewide. The local development company as provided for under section 502 normally confines its activity to a given local community, a town, city, a township or a county. While communities may overlap political boundaries, the average local development confines its operation to a single well-defined community. Each company must be principally composed of and controlled by persons residing in the community.

Loans are made to local development companies for the benefit of identifiable small businesses. Maximum SBA exposure is $350,000 for each such business assisted. A development company may have more than one project and indeed many of them do. The use of proceeds of the loans are restricted to land, building, machinery, and equipment. Section 502 loan funds may not be used for working capital.

In identifying a small business concern for the purposes of this program, we may use the regular small business size standards as established for the business loan program, or the more flexible standards generally used for small business investment companies. A business is therefore considered to be small if its total assets do not exceed $5 million, its net worth $2½ million and net profits $250,000 averaged over the past 2 years.

The CHAIRMAN. Mr. Hendricks, for emphasis and review at this point, I think it is well to emphasize this. Many times the question

arises as to what is a small business. What is the definition of small business. Of course this committee has previously explored this problem at hearings SBA has held hearings trying to arrive at definitions. The size standard depends upon the industry. But generally your definition is as you have stated it here, that the total assets of the company do not exceed $5 million, that the net worth of the company does not exceed $2.5 million, and the net profit does not exceed $250,000 per year for a period of 2 years.

Mr. HENDRICKS. Averaged over the 2-year period; yes, sir.

The CHAIRMAN. This is a definition that is arrived at through SBIC's, through SBA and is the general broad definition.

Mr. HENDRICKS. Yes, sir.

The CHAIRMAN. Very good. Proceed.

Mr. HENDRICKS. From a modest beginning in 1959, when only 14 loans were made for $1,671,000, the program has financed through December 31, 1967, a total of 1,556 loans for projects costing $305 million. Of this amount the local development companies raised $69 million and private lending agency participation totaled $17 million, thus leaving the SBA share at $219 million.

The small businesses financed under this program have provided about 65,000 employment opportunities which means that for every $3,400 in SBA seed money, a job opportunity was created or sustained. This is a most remarkable record. Furthermore, if we assume the average wage to be $4,000 annually, these payrolls would run to over $250 million a year, thus generating local economic growth and added tax revenues.

The majority of these development company loans are made in small communities. To illustrate this, I would like to cite a few statistics on our fiscal year 1967 activity:

Community population	Loan projects		Job opportunities	
	Number	Percent	Number	Percent
Under 2,500	146	43.1	6,199	53.0
2,501 to 5,000	48	14.1	1,566	13.4
5,001 to 10,000	44	13.0	1,211	10.4
10,000 to 25,000	28	8.2	930	7.9
Over 25,000	72	21.6	1,778	15.3
Total	338	100.0	11,684	100.0

The CHAIRMAN. I think it is well to allude to this table. Communities with a population under 2,500 have received 43.1 percent of the loans.

Mr. HENDRICKS. Yes, sir.

The CHAIRMAN. This is really helping the smaller communities.

Mr. BROYHILL. And 53 percent of the job opportunities, Mr. Chairman.

The CHAIRMAN. And 53 percent of the job opportunities, as my colleague has indicated. And your earlier figure pointed out that local funds raised were $69 million. This is by the company. And you say that private lenders have loaned to these companies an additional $17 million, and the total of these two, if my figures are correct, is $86 million raised locally.

Mr. HENDRICKS. Yes, sir.

The CHAIRMAN. The amount of local funds that have been raised for these local development companies, $86 million locally, added to SBA funds amounts to a total of $305 million.

Mr. MOOT. That is right, sir.

The CHAIRMAN. I think these hold great promise.

Proceed.

Mr. HENDRICKS. During 1967, 23.4 percent of these loans were placed in depressed areas such as Appalachia. Some were used to assist communities in diversification of their industries. Others were used to expand businesses to stimulate economic growth in the community. Forty-one percent of the funds loaned in 1967 went into new business.

The 338 projects financed in 1967 covered a wide range of industries: Manufacturing, 189; transportation, 12; wholesale-retail, 45; services, 83; construction, recreation and other, nine.

Among the domestic problems that confront us today are the mass exodus of young people from the small rural communities of our Nation and the plight of ghetto area residents of our big cities. Realizing this, our local development company policy is more lenient in these two cases. For example, in communities having a population of 5,500 or less and in a ghetto or depressed target area of a big city, all the local development company needs to raise toward the total cost of the project is 10 percent of its cost.

Because of the involvement of the community in these 502 loans, we have a very low rate of delinquency. If a small business concern that benefits from a loan to a local development company should fail, the community usually goes into prompt action to find a substitute small business concern. The soundness of these loans can best be illustrated by the fact that losses as of December 31, 1967, were one-fifth percent of funds advanced, and that projected losses including those actually taken are only ninety-three one-hundredths of 1 percent.

With its proven capacity to stimulate economic growth at the local level, this program will continue to be given a high priority in our operations. We have recently revised our criteria to encourage greater private participation in the program. A new flexible first mortgage plan has been instituted which permits a bank to participate with as little as 20 percent and up to 40 percent (depending upon the size of the community) in our loans and obtain a first mortgage position on the property. This new plan has stimulated active participation: In 1967 only 16 first mortgage loans were made; in the first half of 1968 we have already approved 34 such loans.

Our program goal for fiscal year 1968 is to approve 413 projects with a total cost of $79 million exclusive of local development company contributions. For fiscal year 1969 the comparable goals are: 479 projects costing $84.7 million.

The CHAIRMAN. Thank you, Mr. Hendricks. The committee has always been impressed with the 502 local development company program as a means of stimulating the local economy, providing for local capital and participation, and I notice in your statement here that you state that less than one-fifth of 1 percent of the funds advanced have represented a loss. That is probably the lowest ration of any of your programs.

Mr. HENDRICKS. This is correct, sir. That is against the total funds disbursed. One reason that we think accounts for this is the active community interest in the particular project.

The CHAIRMAN. If a local development company begins to look a little bit shaky, the local community pride in it will sometimes cause the community to inject new management or new capital to keep the industry surviving.

Mr. HENDRICKS. Yes, sir.

The CHAIRMAN. You have been having some growth in this area, but how widespread is it acknowledged? How well known? What is the demand? What is the pressure on the agency for loans in this area?

Mr. HENDRICKS. Currently, Mr. Chairman, we are trying to carry the word on that program to a great many more sources which we feel could use it to good advanatage, through what we call economic development conferences. I think there was one in Nashville held some 2 months ago. There was widespread interest. It was well attended, and from all reports, there was a very good cross section of the surrounding communities that attended and hoped to be able to implement this program with others to their advantage.

These conferences have been held at various geographic spots throughout the country, just as one means to convey the word on this program. Our field offices are constantly conducting smaller seminars and carrying the word on this program. We feel that the word is getting around very substantially on the program.

The CHAIRMAN. The legislative authority for the 501 and 502 local development company will be placed at the beginning of Mr. Hendricks' testimony with respect to this program.

The CHAIRMAN. The revolving fund authorized is $300 million?

Mr. MOOT. Yes, sir. It was just increased $100 million this past session.

The CHAIRMAN. The maximum amount for each loan of this type is $350,000.

Mr. MOOT. That is right, sir.

The CHAIRMAN. And the maximum term is 25 years.

Mr. MOOT. That is right, sir.

The CHAIRMAN. Is that correct?

Mr. HENDRICKS. Correct.

The CHAIRMAN. And what is the interest rate?

Mr. HENDRICKS. Five and one-half percent, sir.

The CHAIRMAN. Has there been any attempt to correlate statistics pertaining to the economic growth in those areas which have local development companies as against those areas which do not have local development companies?

Mr. MOOT. We haven't actually correlated it yet. We have what we call a local economic planning system under development, Mr. Chairman, which is aimed at, among other things, that very purpose of determining the value of our programs as they equate to the economic growth of the community, and this, as you mentioned earlier, is a program that we think very highly of, and in our budget allocations we are allocating even more funds to the next year rather than the increasing level that we have been continuing over the past several years.

The CHAIRMAN. Does the SBA have a local development company specialist in each of the regions of the Nation?

Mr. MOOT. Yes, sir. As I mentioned earlier, we have recently decentralized this program to get it down closer to the operational level among the 62 regions, and we will have in each of the regions a 502 or local development company expert, so that we can actually add impetus and stimulus to this program.

The CHAIRMAN. How many of your personnel are assigned exclusively to this purpose?

Mr. HENDRICKS. Approximately 104, Mr. Chairman.

The CHAIRMAN. Has SBA declined any local development company loans because of insufficient funds? I assume that there would be declination if the corporate structure wasn't set up properly, or it wasn't sound, but have you declined any for lack of funds?

Mr. MOOT. We haven't declined any because of lack of our resources. We have declined projects that did not look viable to us because of various aspects of the proposal.

The CHAIRMAN. Gentlemen, we have two other programs, the lease guarantee and the disaster loan program, and if it is the wish of the Administrator and his associates, we will proceed. We do have permission to sit this afternoon. We have been in session more than 2 hours. Would you like to continue?

Mr. MOOT. We are at your pleasure, sir.

The CHAIRMAN. Proceed with the Lease Guarantee Program, Mr. Hendricks.

Mr. HENDRICKS. Thank you, sir.

The Lease Guarantee Program. In 1965 Congress authorized the original lease guarantee program. The initial legislation was limited to small firms that had been forced to relocate because of federally financed urban renewal, highway, or other construction programs, or to small firms that would qualify for assistance under SBA's economic opportunity loan program.

New legislation which became effective on January 9 of this year extended this program to all small businesses eligible under SBA's business and economic development loan programs. The program was designed to assist small businesses in obtaining leases of prime commercial and industrial property. Specifically:

The lease guarantee program enables the qualified small business to be selective in its choice of a site. It increases the number of possible selections, thus improving the small firm's chances of success in the new location.

All types of eligible small businesses stand to benefit from the program—manufacturers, wholesalers, retailers, and service trades.

The program is designed to preserve and promote competition. In particular, it enables small businesses to compete with large firms and thus helps to strengthen the position of small business and to open up new avenues of expansion for the seasoned smaller enterprise.

The various safeguards written into the program are assurance that losses should be small and covered by the premiums.

We expect the program will result in both the lending institutions and the landlords becoming more interested in accommodating small business. This will come about because the small businessman armed with a lease guarantee represents even greater security than a triple A rated tenant.

We believe that as this new program gathers momentum the insurance companies and perhaps other financial institutions will develop supplemental programs of their own.

The program enables the small businessman to compete without having to finance heavy real estate purchases or be handicapped by crippling construction costs.

These are the chief reasons that make lease guarantee an important factor in the future growth of the small business sector of the economy.

SBA can issue a lease guarantee only when "there exists a reasonable expectation that the small business concern, in behalf of which the guarantee is issued, will perform the covenants and conditions of the lease." In other words, we are not to take undue risks.

The legislation also requires that the SBA share of the fee for the lease guarantee protection cannot exceed 2½ percent per annum of the minimum annual guaranteed rental.

As a result of this legislation, the rates established from actuarial studies in effect limit SBA to direct lease guarantee protection for periods of 15 years or longer, since the higher risks in the early years of a lease require a larger premium.

To underwrite leases for a shorter period—5 to 15 years—SBA must participate with a private insurance company, with SBA as reinsurer.

The legislation also provides that the program must be self-sustaining—the fees or premiums that SBA charges must cover the costs of the program.

Some of the basic conditions under which the lease guarantee program operates are:

There must be a lessor-lessee relationship; that is, there must be a bona fide lease involved.

The lessee applicant must show that it cannot obtain the lease without a guarantee and that it was unable to obtain a lease guarantee from a private source upon reasonable terms meeting the requirements of the applicant.

SBA seeks the widest possible participation with private insurance companies in this program. In such participations, leases may be guaranteed for a minimum of 5 years up to a maximum of 20 years, with SBA as reinsurer.

Premiums are calculated as a percentage of total minimum rent guaranteed and range from 6.5 percent for a 5-year lease to 2.1 percent for a 20-year lease.

Premiums are payable in advance, and there is no refund provision.

The lessee must pay 3 months' rent in advance, to be held in escrow, repayable with 4-percent interest at lease termination unless used to pay rent defaults.

In case of default, the landlord must satisfy certain requirements, such as prompt notification of default to insurers, before he can make a claim. He must also look to the escrow first to satisfy default rentals.

If private participation is not available, SBA may make direct lease guarantees. However, as I have mentioned, the legislative limitation of 2.5 percent on the SBA share of the risk prohibits our guaranteeing directly leases with terms of less than 15 years.

Since this is a self-sustaining insurance program, it became necessary to develop rate levels and premiums which would support the risks and exposures anticipated. Various actuarial studies have been completed. In these studies, expected rates of default are determined by analysis of key business characteristics, the influence of general economic conditions, and months' rent lost in default. Basic risks are related to management experience, financial structure, location factors, normal economic fluctuations, and the risk of depression and recession.

A uniform rate for all leases of the same terms was established. The gross premium includes a "load factor" of 20 percent to cover administrative costs and a fair profit to the participating company.

Lease guarantee has an impact on the redevelopment of our cities by helping to provide commercial space in urban renewal areas for desirable small businesses.

Lease guarantee also provides support for companies displaced by urban renewal projects and other federally aided projects. It has been estimated that roughly 13,000 businesses will be displaced annually by Government programs, of which 60 percent will be small businesses. Studies indicate that at least 25 percent of these small businesses do not relocate, but go out of business. Lease guarantee can help those in this group who have viable businesses but discontinue because they are unable to find adequate rental facilities.

In smaller communities and rural areas lease guarantees should attract investment in enterprises significant to the growth of local economies.

All parties in a lease guarantee transaction may benefit. For lessees the lease guarantee plan elevates the credit status of competent small-firm operators, thereby enabling them to compete with large businesses for prime space. Additional security provided by the lease guarantee allows the tenant to lease these premises on more favorable terms, which may include lower rentals.

For lessors the coverage provides a secure stream of rentals from each guaranteed space. This enables them to obtain more favorable mortgage financing from institutional mortgage investors. Since the guarantee provides these investors with additional security, landlords enjoy more latitude in choosing tenants for their rentable space. A competent small business tenant fortified with a lease guarantee may be more acceptable to a mortgage lender than a larger tenant without such a guarantee.

For mortgage investors the coverage provided by the lease guarantee insurance policy enables financial institutions to make more favorable mortgage commitments to their customers while increasing their loan security at the same time. The program makes it possible for lenders to be assured the receipt of rental income in an amount at least equal to the required mortgage payments.

The act provides: "Any such guarantee may be made or effected either directly or in cooperation with any qualified surety company or other qualified company through a participation agreement with such company." The act further provides: "The Administration shall, to the greatest extent practicable, exercise the powers conferred by this section in cooperation with qualified surety or other companies on a participation basis."

In conformity with this provision of the act, we seek participation on the part of private companies, with SBA standing in the role of reinsurer. We also urge the development of the private companies of lease guarantee programs without Government participation.

One basis for participation agreements suggested by the program is that the insurance companies take 100 percent of the losses or claims up to an amount equal to 12 months of guaranteed monthly rental, and that subsequent losses be shared 80 percent by SBA and 20 percent by the participating company.

The CHAIRMAN. That is a very good agreement for the insurance companies, a good deal for them if they can get it, isn't it?

Mr. HENDRICKS. We think so, Mr. Chairman.

The CHAIRMAN. Good for the insurance companies. Is it good for the SBA?

Mr. MOOT. Mr. Chairman, I think it is. I think it is good for the Government. What we have attempted to do is to posture ourselves so that we are taking a long-term loss and not the short-term loss. What we are really saying is that the Government will insure against an economic depression or recession situation, and the insurance industry will cover the normal vicissitudes of turnover of business.

The CHAIRMAN. Proceed, Mr. Hendricks.

Mr. HENDRICKS. Thank you.

In participating in this manner, SBA will be guaranteeing excess losses which may be associated especially with a severe economic recession. Thus, our reinsurance operates as a stabilizing influence in the insurance market by absorbing some of the impact of an economic dip which the carriers would be unable to underwrite.

We feel, however, that it is important for the insurance company to maintain a significant interest in the guarantee throughout its life.

We are prepared, however, to proceed with a direct program in the event private participation is not available.

Insurance industry reaction, to this point, has been largely that of cautious observation. As the program moves along, and after ground has been broken by smaller of innovative companies, the larger companies and groups will probably begin more seriously to consider participation. We are stressing the need for insurance industry participation, and this promotional activity has a high priority on our time and effort.

While progress in this direction has been slow, there have been some results. Three reinsurance treaties have been signed, and others are being negotiated.

The CHAIRMAN. Would you denominate them as treaties?

Mr. HENDRICKS. That is insurance company parlance, and we have become addicted to it, sir.

The CHAIRMAN. It must be a treaty with anybody doing business, I think, with some of the insurance companies.

Proceed.

Mr. HENDRICKS. It bears repeating that the law provides that no lease guarantee shall be issued directly or in participation "unless the Administration determines that there exists a reasonable expectation that the small business concern * * * will perform the covenants and conditions of the lease." This performance requires much more than a financial determination of an ability to repay the rent. To comply with this provision a grading or measurement system has been developed to evaluate the risk of default by the applicant.

After a careful examination of the principal sources of risk, there was general agreement among SBA officials and outside experts that the major sources of risk arose in four categorical designations. These were agreed upon as:

1. The ability and experience of management;
2. The financial position or structure of the organization represented by the lessee;
3. The viability of the location of the premises being leased; and
4. The appropriateness of the terms of the proposed lease.

In preparing a method or procedure for grading or measuring each of these sources of risk, consideration has been given to all the data and information which are basically taken into account in judging the character and ability of management, the soundness of the finan-

cial structure of a business, the quality of a location, and the character and appropriateness of the principal features of the lease itself. SBA specialists in each of the three fields of location, management, and finance rate each of these risks separately. A "chief underwriter" then rates the transaction in its totality and a composite rating of the risk is arrived at.

It is our feeling that this method of analysis of the prospect of business performance, when improved by experience, may prove to have a much wider use than in the guarantee of leases and may constitute a considerable contribution to business practices, especially in the extension of credit and in credit insurance.

The following is a record of our commitments and policies issued in this program through March 1968.

Mr. Chairman, I have there listed on page 27 of that statement that particular data if it may be included in the record.

The CHAIRMAN. The table may be included in the record but I think you should summarize the table.

(The table referred to follows:)

1. NUMBER OF LEASE GUARANTEE POLICIES/REINSURANCE CERTIFICATES ISSUED

	Number	Amount of guarantee	Premium	SBA share	Amount of escrow
Direct	1	$337,200.00	$9,441.60	$9,441.60	$5,620.00
Reinsurance	1	475,000.00	14,725.00	3,165.88	9,375.00
Total	2	812,200.00	24,166.60	12,607.48	14,995.00

2. NUMBER OF LEASE GUARANTEE COMMITMENTS

Direct	35	$7,521,749.40	$74,522.50	$74,522.50	$100,458.88
Reinsurance	9	3,264,367.39	101,255.75	21,820.90	65,566.05
Total	44	10,786,116.79	175,778.25	96,343.40	166,024.93

Note: An increasing number of projects are in process.

Mr. HENDRICKS, Very well, sir. We have lease guarantee policies on a direct basis. One of these has been issued. The amount of the guarantee is $337,000 in round figures, the premium is $9,000 in round figures. SBA's share of this is $9,441, and the amount of escrow is $5,600.

Reinsurance, we have one issued, and again the amount of guarantee is $475,000. The premium is $14,700. SBA's share $3,100, and the amount of escrow is $9,300.

I would like to mention along with this the number of lease guarantee commitments issued which of course is a much better figure. I can give the total, 44 for a total of $10,786,000, premiums $175,700, the SBA's share is $96,343 and the amount of escrow $166,000.

Mr. MOOT. The reason, Mr. Chairman, that commitments are important in this program is because there is usually construction involved, and we do not issue a policy. We only issue a commitment until the man is ready to occupy the premises, and that is the reason the activity is more properly reflected in the commitments than in the policies issued.

The CHAIRMAN. Do you have the figure for the total amount of the commitments and the lease guarantees?

Mr. MOOT. The grand total is the bottom line there, Mr. Chairman, 44.

The CHAIRMAN. In other words, there is a total of agreements and commitments of 44.

Mr. MOOT. That is right, sir.

The CHAIRMAN. And the amount of the guarantees to date are $10,786,000.

Mr. MOOT. That is right, sir, over the term of the lease.

The CHAIRMAN. This is the annual premium?

Mr. MOOT. No, sir, that is the lump sum premium.

The CHAIRMAN. That is the total premium?

Mr. MOOT. That is the total premium.

The CHAIRMAN. Is $175,000?

Mr. MOOT. Yes, sir.

The CHAIRMAN. $175,778.25.

Mr. MOOT. That is right, sir.

The CHAIRMAN. You have a total premium payment of $175,000 for the 44 small businesses that will receive prime space in shopping centers under the lease guarantee program, where heretofore they were not permitted to acquire space.

Mr. MOOT. That is right, sir.

The CHAIRMAN. To the insurance companies?

Mr. MOOT. That is right, sir. You can judge the effect of that total premium because on the last column over there, the amount of escrow represents 3 months' rent for those small business concerns, so that you can see that the premium is about equal to 3 months' rent.

The CHAIRMAN. Proceed, Mr. Hendricks.

Mr. HENDRICKS. We now approach the disaster loan assistance.

The CHAIRMAN. We want to ask some questions on this practice before proceeding to the disaster loans.

Orginally the lease quarantee program was written by Congress to provide limited assistance to small firms that were disrupted by urban renewal, and then later Congress extended the program to include all small businesses.

Mr. HENDRICKS. This is correct, sir.

The CHAIRMAN. So that any small businessman that may be, shall we say, discriminated against in being able to get a desirable location—top-rated location in shopping centers or other areas—now may be able to do so through the lease guarantee program.

Mr. HENDRICKS. Yes, sir.

The CHAIRMAN. This only began in January of this year, it is one of your very new programs——

Mr. HENDRICKS. It is interesting to notice. Mr. Chairman, that we have some 240 or 250 starting with the inquiry stage and progressing to something a little more final, that will, I think, increase this total that we are naming today of 44.

The CHAIRMAN. Whereas heretofore a small business concern might not be able to get into a good or desirable shopping center, now, with the Government guaranteeing the lease, he might be more attractive to the landlord than some other business concern.

Mr. MOOT. Not only that, Mr. Chairman, it is very important, We are also hopeful that we will encourage the flow of construction. long-term industrial mortgage funds, to build facilities which we can provide lease guarantees for small business, so we are hoping that we

will attract new investment funds in areas that need small business facilities.

The CHAIRMAN. What is the tenure, the term of the average lease being considered in these centers?

Mr. MOOT. Fifteen years is the average, sir; not the average, but the most popular.

The CHAIRMAN. I will have our counsel, Mr. Mitchell, ask questions at this point.

Mr. MITCHELL. Mr. Chairman, could we have inserted in the record at this point title 4 of the Small Business Investment Act of 1958, as amended, which is the legislative authority.

The CHAIRMAN. Without objection it may be included.

(The information referred to follows:)

SMALL BUSINESS INVESTMENT ACT OF 1958, AS AMENDED

TITLE IV—LEASE GUARANTEES

AUTHORITY OF THE ADMINISTRATION

SEC. 401. (a) The Administration may, whenever it determines such action to be necessary or desirable, and upon such terms and conditions as it may prescribe, guarantee the payment of rentals under leases of commercial and industrial property entered into by small business concerns to enable such concerns to obtain such leases. Any such guarantee may be made or effected either directly or in cooperation with any qualified surety company or other qualified company through a participation agreement with such company. The foregoing powers shall be subject, however, to the following restrictions and limitations:

(1) No guarantee shall be issued by the Administration (A) if a guarantee meeting the requirements of the applicant is otherwise available on reasonable terms, and (B) unless the Administration determines that there exists a reasonable expectation that the small business concern in behalf of which the guarantee is issued will perform the covenants and conditions of the lease.

(2) The Administration shall, to the greatest extent practicable, exercise the powers conferred by this section in cooperation with qualified surety or other companies on a participation basis.

(b) The Administration shall fix a uniform annual fee for its share of any guarantee under this section which shall be payable in advance at such time as may be prescribed by the Administrator. The amount of any such fee shall be determined in accordance with sound actuarial practices and procedures, to the extent practicable, but in no case shall such amount exceed, on the Administration's share of any guarantee made under this title, 2½ per centum per annum of the minimum annual guaranteed rental payable under any guaranteed lease: *Provided*, That the Administration shall fix the lowest fee that experience under the program established hereby has shown to be justified. The Administration may also fix such uniform fees for the processing of applications for guarantees under this section as the Administrator determines are reasonable and necessary to pay the administrative expenses that are incurred in connection therewith.

(c) In connection with the guarantee of rentals under any lease pursuant to authority conferred by this section, the Administrator may require, in order to minimize the financial risk assumed under such guarantee—

(1) that the lessee pay an amount, not to exceed one-fourth of the minimum guaranteed annual rental required under the lease, which shall be held in escrow and shall be available (A) to meet rental charges accruing in any month for which the lessee is in default, or (B) if no default occurs during the term of the lease, for application (with accrued interest) toward final payments of rental charges under the lease;

(2) that upon occurrence of a default under the lease, the lessor shall, as a condition precedent to enforcing any claim under the lease guarantee, utilize the entire period, for which there are funds available in escrow for payment of rentals, in reasonable diligent efforts to eliminate or minimize losses, by releasing the commercial or industrial property covered by the lease to another qualified tenant, and no claim shall be made or paid under

the guarantee until such effort has been made and such escrow funds have been exhausted;

(3) that any guarantor of the lease will become a successor of the lessor for the purpose of collecting from a lessee in default rentals which are in arrears and with respect to which the lessor has received payment under a guarantee made pursuant to this section; and

(4) such other provisions, not inconsistent with the purposes of this title, as the Administrator may in his discretion require.

POWERS

SEC. 402. Without limiting the authority conferred upon the Administrator and the Administration by section 201 of this Act, the Administrator and the Administration shall have, in the performance of and with respect to the functions, powers, and duties conferred by this title, all the authority and be subject to the same conditions prescribed in section 5(b) of the Small Business Act with respect to loans, including the authority to execute subleases, assignments of lease and new leases with any person, firm, organization, or other entity, in order to aid in the liquidation of obligations of the Administration hereunder.

FUND

SEC. 403. There is hereby established a revolving fund for use by the Administration in carrying out the provisions of this title. Initial capital for such fund shall consist of not to exceed $5,000,000 transferred from the fund established under section 4(c) of the Small Business Act: *Provided*, That the last sentence of such section 4(c) shall not apply to any amounts so transferred. Into the fund established by this section there shall be deposited all receipts from the guarantee program authorized by this title. Moneys in such fund not needed for the payment of current operating expenses or for the payment of claims arising under such program may be invested in bonds or other obligations of, or bonds or other obligations guaranteed as to principal and interest by, the United States; except that moneys provided as initial capital for such fund shall be returned to the fund established by section 4(c) of the Small Business Act, in such amounts and at such times as the Administration determines to be appropriate, whenever the level of the fund herein established is sufficiently high to permit the return of such moneys without danger to the solvency of the program under this title.

Mr. MITCHELL. Mr. Hendricks, this is concerning the premiums that will be charged to small business concerns——

Mr. HENDRICKS. Yes, sir.

Mr. MITCHELL. I believe the act provides that in no case shall such amount exceed, on the administration's share of any guarantee made under this title, 2½ percent. I understand your interpretation is that on the portion that SBA guarantees, it cannot charge a premium of more than 2.5 percent.

Mr. HENDRICKS. Yes, sir.

Mr. MITCHELL. I believe also that you have explained here that as a result of your actuarial studies, it has been determined that an adequate fee of 2½ percent would not be a large enough fee to sustain a policy of less than 15 years.

Mr. HENDRICKS. This is our finding to date.

Mr. MOOT. It is about 13 years where it breaks, Mr. Mitchell.

Mr. MITCHELL. As a result I gather from your statement that SBA will not make a direct guarantee for less than 15 years.

Mr. HENDRICKS. This is our position to date, Mr. Mitchell.

Mr. MITCHELL. And on any period under 15 years it must be either in participation with or reinsuring an insurance company.

Mr. HENDRICKS. Yes, sir.

Mr. MITCHELL. I believe you state in setting these fees that the insurance company may charge, which you reinsure, fees running from the smallest, about 2.1 percent on a 20-year lease, up to around 6.5 percent on a 5-year lease?

Mr. HENDRICKS. Yes, sir.

Mr. MITCHELL. Let us project that in just a moment to what it will cost a small businessman. Let's assume a small businessman had a 5-year lease, wants a 5-year lease in a development center—and many small businessmen do operate on 5-year leases, especially in suburban and rural areas. I believe from what you have testified that the premium would be 6.5 percent. Is that premium on the total amount of the full lease period?

Mr. MOOT. Yes, sir.

Mr. MITCHELL. A small business concern with a $300 a month lease for 5 years, would have a total lease payment of $18,000 for the full term. I believe computation would show that his premium on this insurance policy would be around $1,170. I believe you also state that that full premium must be paid in advance.

Mr. HENDRICKS. Correct.

Mr. MITCHELL. To the insurance company. Now, what is the fee that is charged for the application——

The CHAIRMAN. To the insurance company.

Mr. MITCHELL. Yes, to the insurance company. Now, what is the application fee charged for a small businessman who is applying for a lease guarantee, in addition to the premium, your application fee?

Mr. MOOT. If it is a direct application, Mr. Mitchell, and therefore the Small Business Administration is exclusively involved, there is no application fee.

Mr. MITCHELL. We are speaking of a 5-year lease where the insurance company would be participating.

Mr. MOOT. If the insurance company is involved in the loan on a participation basis or a straight insurance basis, we have allowed in our regulations up to a $50 processing fee.

Mr. MITCHELL. Then the small businessman on a 5-year lease must put up $1,170 as a premium?

Mr. MOOT. That is right, sir.

Mr. MITCHELL. He must put up a $50 application fee. Now, in addition to that, I believe that you provide that the small business concern, to get a lease guarantee, must put up 3 months rent.

Mr. MOOT. In escrow.

Mr. MITCHELL. Which he deposits. It can get it back at the end of the period but it must put it up in cash?

Mr. MOOT. That is right, sir.

Mr. MITCHELL. On the lease that I am talking about here, then they would have to put up an additional $900 in cash to apply and to get a lease?

Mr. MOOT. That is right, sir.

Mr. MITCHELL. In adding that up, we arrive at a figure of $2,120 that a small business concern must put up in cash to get a lease guarantee for 5 years, is that correct?

Mr. MOOT. You state it as a must, Mr. Mitchell. It is not either our experience or our expectation that it will be a must situation. There are several alternatives.

In the first place, the cost of the lease guarantee can be, and we are advised frequently will be a part of the rental structure, and the payment will actually be made initially by the landlord, who is looking for this kind of assurance, so that instead of a lump sum payment by

the small business concern, it will be paid by the landlord and distributed through his base rental structure.

Mr. MITCHELL. Will it be added to the original $300 a month rent?

Mr. MOOT. Yes, sir, it will be an additional cost.

Mr. MITCHELL. An additional cost to the small businessman.

Mr. MOOT. Yes, there is no question about it. Now, we have evaluated the cost of the lease quarantee versus the benefits, and there is no doubt in our mind by providing a triple A credit rating to the small business concern, thereby making him eligible for prime facilities, either little industrial or shopping center facilities, that we are enhancing his ability to increase his sales and therefore his profits much beyond the cost of the lease. This, however, is something that must be judged on the risk rating of the lease guarantee teams, which look at the liability of the location as well as the management and the financial situation of the individual.

We think that between the increase of profit potential by the space availability, the cost distribution which will largely be, we hope, through the rental structure, and not out-of-pocket cost, that this is going to be a viable situation for the small business community.

Generally speaking we think that the leases will be somewhat longer than 5 years, however. At least our experience to date has been generally that these leases are in the 15-year period.

Mr. MITCHELL. But the premium will be just degraduated gradually.

Mr. MOOT. That is right.

Mr. MITCHELL. Under a 10-year lease it would be somewhere around probably 4 percent or 5?

Mr. MOOT. That is right, but you see under the situation you can get the cost of a 15-year lease for about the same cost as you can for a 5-year lease, because, as you know, this committee knows better than I do, the high percentage of business failures are in the early years of its inception, so that the failure rate is high in the first 5 years. Therefore the exposure cost is high in the first 5 years.

Mr. MITCHELL. Mr. Administrator, I believe you also have a provision whereby the insurance company which insures one of these leases will sustain all the loss in the first 12 months, but after that 12 months, SBA will sustain 80 percent of the loss.

Mr. MOOT. That is right, sir.

Mr. MITCHELL. Now, on the breakdown that we had here, assuming they pay, as you said in the original statement, they pay the full fee at the beginning, but at any rate it is charged to them in the cost in some way or another, the total with premium and escrow funds amounts to approximately 12 percent of his total $18,000 rental, assuming that that is fully paid to the insurance company. And in addition to the 3 months' rent that is put up, the $1,170 premium is equal to more than 3 months' rent, taking administrative costs out of it. Well, there is 6 months' rent, nearly 7, that the small businessman has put up, and after a 12 months' loss period, SBA would move in and take 80 percent of the loss.

In addition to that, there are provisions that the landlord must attempt to get another renter if there is default. An insurance company could not lose one penny, according to counsel's computation, if the renter were to not be in default more than 6 months—and not then if another renter could be obtained—and then would lose only

up through the 12-month period, when SBA would then take 80 percent of the loss.

Now, how can an insurance company lose in a matter like this?

Mr. MOOT. Well, I think the answer, Mr. Mitchell, is that unless you expect, which we do not, that there are going to be periods of sharp recession or economic depression, and therefore long-term sustained vacancies, that the recurring losses will be predominantly the insurance company's loss, as will the administrative costs of the program. The complete servicing of the program is going to be the insurance company's cost, so that we are expecting actually that this will be a program which we would consider in a few years, perhaps even shorter than a few years, depending upon our experience, that we would be recommending to ourselves thar we reduce the Government's premium cost actually rather than its proportionate share. We would expect that this is going to be a very fine program for the taxpayer.

Now, we think it is also going to be very good for the small businessman or we wouldn't be advocating the program or trying to promote it as we are. He doesn't have any alternative. He can't get in the space these days. So we believe that to the extent that we can show him that he is going to gain, and that we can do a good risk rating job so that we pick viable sites that are not going to dry up or die through stagnation, that everybody is bound to gain on this program, and we would hope that we could, as we have with the private banking institutions, we can convince the insurance industry that it can do this kind of thing on its own, that it doesn't need a Government program.

Mr. MITCHELL. Then you mean your position is that a small businessman can in effect, on top of his other costs, pay 11 to 12 percent on his rental money, and do business that way successfully, and compete?

Mr. MOOT. We wouldn't give him an up-check or a go signal on this kind of a risk rating unless we thought so. As a matter of fact, when we risk-rate this man, and if the landlord does not elect to pay the premium in advance, and if it looks like a good situation, we are perfectly willing to lend the man the money to pay the premium. Now, this may look as though it is out of one pocket into the other; but if we reach the situation where we think it is good for this community, for this particular facility to be encouraged with small business properly balanced, then we are willing to invest the Government's money in the program.

Mr. MITCHELL. It would appear, would it not, that it would be better to lend him the money for his rent at 5½ percent if he is that good a credit risk.

Mr. MOOT. But Mr. Mitchell, he can't get this space today. The reason for the legislation is because the man is shut out of this space. We are providing him in effect with this guarantee. We are providing him the equivalent of triple-A credit, which he cannot get unless he was a large business.

Mr. MITCHELL. Of course the question is not concerning his need to get in the space. Congress has decided that, and you are very properly implementing it.

The question arises as to the cost, and whether a small businessman that is in that position can put up $2,000 to get a 5-year lease.

I believe the essence of my question goes also to this point. Mr. Hendricks, you stated in your statement that this program must be self-sustaining, that SBA can or must participate with an insurance company in any lease under 15 years because of this cost factor. Would it not be anticipated that in beginning a program like this, under the rules that Congress has set out, that you could take some small chances, instead of guaranteeing a 20-percent load factor for an insurance company? Are you held by that word "must"? You say it must be self-sustaining. Do you interpret the act to mean that?

Mr. MOOT. No, sir. The Congress, as you know, provided a $5 million working capital fund.

Mr. MITCHELL. Yes.

Mr. MOOT. The Congress also said that this $5 million should be paid back to the fund from which it came, the business loan investment fund, as soon as is practicable. We take that to mean that we can use it to operate and to pay early losses under the program. We did not take it to mean that you intended or Congress intended that we subsidize this program over any period of time.

Mr. MITCHELL. I believe in speaking of this fee, the act states that "sound actuarial practices procedure to the extent practicable may be used."

Mr. MOOT. That is right, sir.

Mr. MITCHELL. It states that you will participate with the insurance companies "to the greatest extent practicable."

Mr. MOOT. That is right.

Mr. MITCHELL. The question that the committee is now asking is, Do you think it is practicable for small business concerns to pay the type of premiums for the insurance companies that we have been discussing here, in order to be able to get in one of these leased places?

Mr. MOOT. Yes; we do, Mr. Mitchell. We think it is good for them. I would like to mention one thing, because I think it is well to put it on the record. The total cost, as you have derived it, I am sure you appreciate has a portion of investment as well as cost. The $1,100 figure that you mentioned, which is the escrow payment, at a 4-percent interest rate, comes back and is actually rental payments, so that it is not a total cost to the man.

Mr. MITCHELL. Excuse me. I believe the $1,170——

Mr. MOOT. Is the $900.

Mr. MITCHELL. Is the premium that is paid in full in advance. The $900 in escrow, they get 4 percent back on it.

Mr. MOOT. I am talking about the $900. I stand corrected.

Mr. MITCHELL. Does that $900 go to the insurance company in escrow?

Mr. MOOT. Well, it depends upon whether it is a direct loan or reinsurance. If it is reinsurance, the insurance company is responsible for investing it and paying the interest.

Mr. MITCHELL. Now, at the end of the period, the insurance company returns that $900.

Mr. MOOT. It is an offset against the rental cost at the end of the lease.

Mr. MITCHELL. At 4 percent interest.

Mr. MOOT. At 4 precent interest.

Mr. MITCHELL. And the insurance company can utilize that fund, making anywhere from 5½ to 6 percent interest today.

Mr. MOOT. That is right, sir. Now if we find again that the opportunity cost of money changes, as we move along, then we will renegotiate, such as we have authority to.

The CHAIRMAN. You will enter into another treaty?

Mr. MOOT. We would have to enter into another treaty, sir.

Mr. MITCHELL. I have one other question, Mr. Chairman, on this, if I might develop it. You mentioned that you have put on top of the costs involved here in arriving at this premium a 20-percent load factor that is to take care of administrative cost plus profits, plus the profit to the insurance company. Now, I don't really know too much about it, but do you have any idea how much of that 20-percent load factor is based upon what you refer to as administrative cost?

Mr. MOOT. I don't really know, Mr. Mitchell. We went into this in quite some depth, trying to understand the industry practices, and that is how we arrived at the 20 percent. But I am afraid I can't make—I could possibly try to find some data, I can't make—an intelligent separation between administrative cost and profit, if that is the thrust of your question.

Mr. MITCHELL. The thrust of my question is concerning the size of the load factor, as is the thrust of all of my questions here concerning the large, which would even be perhaps called a "windfall", to the bright insurance company if they would grab this and run with it, which we would hope they would do. Isn't 20 percent quite a large quaranteed profit and administrative cost factor in any type of business?

Mr. MOOT. No, sir. You must remember we are talking about a regulated industry here.

The CHAIRMAN. Regulated by whom, Mr. Administrator?

Mr. MOOT. By the States, Mr. Chairman; and, incidentally, I am not here to defend the insurance companies. Congress, in its wisdom, told us to work with the insurance companies.

The CHAIRMAN. Mr. Administrator, the insurance companies are the least regulated industry in this Nation. They have no Federal regulation, no Federal regulatory statute. The SEC tells you they don't have any jurisdiction, and without reference to your fine agency or the percent matter, I am saying generally that the one industry that needs to be regulated in this country is the insurance companies. They are going to own the world one of these days. You have to enter into "treaties" with them.

Mr. MITCHELL. Are many insurance companies entering into this program with you?

Mr. MOOT. We have three.

Mr. MITCHELL. Three large companies?

Mr. MOOT. We have three; and, as a matter of fact——

Mr. MITCHELL. Are any new insurance companies coming in to specialize in this? Frankly, counsel wonders why they are not running to get in——

Mr. MOOT. Quite frankly, we thought we would have much more interest from the insurance industry. We went around the country feeling that this is what Congress had directed us to do, and we held seminars with the insurance industry around the country. We found that between the casualty companies and the surety companies, that this is a program that they sort of felt didn't fit anybody's particular portfolio, so that we have had difficulty.

We have two southern companies and one midwestern company, and actually you can tell from the statistics we have to date that we haven't had much reinsurance interest.

Mr. MITCHELL. Had you thought that the SBA might move on into this field and become a type of yardstick to establish this particular phase of the industry and lead it?

Mr. MOOT. As a matter of fact, that is exactly what we are doing, because you will note that out of the 44 commitments we have 35 of them are direct. What we are hopeful of, and quite frankly we have had outstanding national consultants, with national reputations in this field, working with us. It is our hope that we can, over a short period of time, do another actuarial study, and see if we can't reduce the cost rates here.

Mr. MITCHELL. One more question, Mr. Chairman, concerning the charging of this premium fully in advance. I believe section 401(b) of the act states, "The administration shall fix a uniform annual fee for its share of any guarantee under this section." Do you think it is following the legislative mandate to charge the full premium in advance rather than a uniform annual fee?

Mr. MOOT. I think there is very good reason for it, Mr. Mitchell. No. 1, it would sharply increase the cost, if we didn't collect the lump-sum premium and put it to work in terms of invested funds.

Secondly, because of the interpretation that we placed upon this, we did, as you know, come up and informally with the staff go over this point and our entire approach to this program as well as the Senate counterpart, and we felt that we were in agreement with the committee on this approach, because it did reduce the cost of the entire program, and it was our intent to encourage the landlord to spread the base of this cost throughout his rental structure, and also, as I previously mentioned, if it was necessary we intended to provide small loans to the extent necessary in order to pay premiums.

Mr. MITCHELL. That is all I have.

The CHAIRMAN. Mr. Administrator, the Congress has responsibility in this. The goals and objectives are good. You indicate in Mr. Hendricks' testimony that very few companies are evidencing much interest. There are no companies specializing in this area. They have to be encouraged, to use a mild term, to participate. Is this program available through all the regional offices?

Mr. MOOT. It is available. We are decentralizing it. We have gone through our training period, and we are decentralizing as of July 1, so that the authority will be in the field. Mr. Chairman, I think I need to correct for the record one misunderstanding that I caused. There is one company that has formed, as a wholly owned subsidiary of a larger company, for the purpose of guaranteeing commercial leases. It was a company that was working on this program prior to this legislation, and it is one of the three companies that has signed the reinsurance agreement with us.

The CHAIRMAN. We want to commend you, Mr. Administrator, in your diligent work in this, and suggest that you sharpen your pencil when you sit down at the "treaty" table with them. Let's take up, gentlemen, if there are no further questions, the disaster loan program, and then we will suspend for awhile. We consider this lease guarantee program a major advance for small business if we can go forward with it.

Mr. Hendricks, tell us about your disaster loan program.

(The legislative authority for its disaster loan program was received into the record at this point.)

SMALL BUSINESS ACT

* * * * * * *

(b) The Administration also is empowered—[9]

(1) to make such loans (either directly or in cooperation with banks or other leading institutions through agreements to participate on an immediate or deferred basis) as the Administration may determine to be necessary or appropriate because of floods or other catastrophes; [10]

(2) to make such loans (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis) as the Administration may determine to be necessary or appropriate to any small business concern located in an area affected by a disaster, if the Administration determines that the concern has suffered a substantial economic injury as a result of such disaster and if such disaster constitutes—

(A) a major disaster, as determined by the President, under the Act entitled "An Act to authorize Federal assistance to States and local governments in major disasters, and for other purposes", approved September 30, 1950, as amended (42 U.S.C. 1855–1855g), or

(B) a natural disaster, as determined by the Secretary of Agriculture pursuant to the Consolidated Farmers Home Administration Act of 1961 (7 U.S.C. 1961); [11]

(3) to make such loans (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis) as the Administration may determine to be necessary or appropriate to assist any small business concern in reestablishing its business, if the Administration determines that such concern has suffered substantial economic injury as a result of its displacement by a federally aided urban renewal or highway construction program or by any other construction conducted by or with funds provided by the Federal Government; and the purposes of a loan made pursuant to this paragraph may, in the discretion of this Administrator, include the purchase or construction of other premises whether or not the borrower owned the premises from which it was displaced; [12]

(4) to make such loans (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis) as the Administration may determine to be necessary or appropriate to assist any small business concern in reestablishing its business if the Administration determines that such concern has suffered substantial economic injury as a result of the inability of such concern to process or market a product for human consumption because of disease or toxicity occurring in such product through natural or undetermined causes.[13]

No loan under this subsection, including renewals and extensions thereof, may be made for a period or periods exceeding thirty years: *Provided,* That the Administrator may consent to a suspension in the payment of principal and interest charges on, and to an extension in the maturity of, the Federal share of any loan under this subsection for a period of not to exceed five years, if (A) the borrower under such loan is a homeowner or a small-business concern, (B) the loan was make to enable (i) such homeowner to repair or replace his home, or (ii) such concern to repair or replace plant or equipment which was damaged or destroyed as the result of a disaster meeting the requirements of clause (A) or (B) of paragraph (2) of this subsection, and (C) the Administrator determines such action is necessary to avoid severe financial hardship: *Provided further,* That the provisions of paragraph (1) of subsection (c) of this section shall not be applicable to any such loan having a maturity in excess of twenty years. The interest rate on the Administration's

[9] P.L. 89–11 extended the maximum term of disaster loans to 30 years, and provided for suspension of repayments in certain hardship cases.

[10] Public Law 89–339 provided for partial forgiveness of Hurricane Betsy disaster loans in the States of Florida, Louisiana, and Mississippi.

[11] Public Law 88–264 extended par. (2) beyond its former scope relating solely to drought and excessive rainfall disasters.

[12] Public Law 87–70 added par. (3) and Public Law 88–560 added the phrase after the word "Government."

[13] Public Law 88–264 added par. (4).

share of any loan made under this subsection shall not exceed 3 per centum per annum, except that in the case of a loan make pursuant to paragraph (3), the rate of interest on the Administration's share of such loan shall not be more than the higher of (A) 2¾ per centum per annum; or (B) the average annual interest rate on all interest-bearing obligations of the United States then forming a part of the public debt as computed at the end of the fiscal year next preceding the date of the loan and adjusted to the nearest one-eight of 1 per centum, plus one-quarter of 1 per centum per annuj. In agreements to participate in loans on a deferred basis under this subsection, such participation by the Administration shall not be in excess of 90 per centum of the balance of the loan outstanding at the time of disbursement.

Mr. HENDRICKS. Would it be the chairman's wish that I read the entire statement of some six or seven pages?

The CHAIRMAN. You might put the entire statement in the record and highlight the disaster loan program for the committee. The entire statement may be included.

Mr. HENDRICKS. Yes, sir.

DISASTER LOAN ASSISTANCE

Sections 7(b)(1), 7(b)(2), and 7(b)(4) of the Small Business Act, as amended, empowers the Small Business Administration (1) to make loans to individuals, businesses of all sizes, churches, charitable and nonprofit organizations, private schools, colleges, universities, and hospitals which have damage to or loss of real or personal property as a result of floods or other catastrophies: (2) to make loans to small business concerns which suffered substantial economic injury as the result of a disaster in connection with which there has been a declaration by the President or the Secretary of Agriculture; and (3) to make loans to small business concerns which suffered substantial economic injury as a result of inability to process or market a product for human consumption because of a disaster or toxicity occurring in such product through natural or undertermined causes.

During the last full fiscal year 1967, 2,105 loans for a total of $25.5 million were made under these programs. In this same period, there were 43 disasters declared in 30 states. This was a very considerable reduction from the all-time high of 30,920 loans for $199.2 million made in fiscal year 1966 during which there were 46 declarations in 25 States.

In fiscal 1968 through March 31, 1968, there were 12,510 loans approved for $99 million. Of these, 8,044 loans for $30.3 million were made in the southwestern area primarily as a result of Hurricane Beulah in Texas. There were 3,393 loans for $57.6 million made in the Pacific coastal area mainly as a result of the disastrous flood in Fairbanks, Alaska. The total of these two disasters, 11,437 loans for $87.9 million, represents about 90 percent in number of loans and dollars of all disaster activity in fiscal 1968 through March 31, 1968. During this same period there were 30 disaster declarations in 24 States.

In previous fiscal years 1954 through 1966 there had been 57,867 loans approved for $511.7 million. During this period there were 534 declarations. The total activity through March 31, 1968, amounted to 72,482 loans approved for $636.2 million.

From the time SBA was created in 1953 through March 31, 1968, there have been 606 physical disaster declarations. The smallest number, 11, was declared in fiscal 1954, with the largest number, 62, declared in fiscal 1961 for an average of 41 declarations per year. These

have involved areas of various sizes in all 50 States as well as Guam, Puerto Rico, and the Virgin Islands. Every State except Vermont has had two or more declarations with the largest being 51 made in Texas. California ranked second with 44 and Kansas and Illinois third with 32 each.

Our disaster programs, by providing funds not available from any other source, have given a very substantial economic uplift to many stricken areas. SBA has received warm approval and commendations from individuals, businesses, and public officials for our disaster lending activities.

Effective for declarations made after March 19, 1968, in order to comply with the desire to improve management practices and to conserve Federal funds to the extent feasible, a number of changes were made in the operating procedures applicable to the SBA physical and economic injury disaster programs. The newly adopted procedures are as follows:

LOANS TO HOUSEHOLDERS

1. The limit of SBA share of loans to any one household group may not exceed $20,000 for repairs or replacement of structures. Up to $10,000 in addition to or separate from funds for structures may be approved for repair of replacement of household goods. The total for both purposes combined, however, cannot exceed $25,000 SBA share.

2. No refinancing of debt of any type is permitted, except on existing SBA disaster loands made as a result of a previous disaster, in order to provide better ability to repay the total debt to SBA. This requires no additional outlay of SBA funds and aids in loan administration by having only one loan to service.

3. Private credit to the extent it can be obtained on reasonable terms and costs shall be used by any householder where the gross income is in excess of $10,000 plus $600 additional allowance for each dependent other than the applicant. Procedures have been established to require use of both cash and liquidable assets held by householders to the extent it exceeds the total number of members of such household by $600 each.

LOANS TO BUSINESS

1. In no event will a loan to any firm or business-classed entity be in excess of $100,000 SBA share. Loans on a bank/SBA guarantee basis can be made for any amount with the SBA guarantee being provided for up to 90 percent of the loan.

2. Where a firm has total equity of three times total debt, privately supplied funds must be obtained for any excess over this ratio to the point the assets to liabilities fall below the 3-to-1 ratio. After such private credit is obtained to this extent, a disaster loan may be considered for additional funds needed.

3. The foregoing paragraph 2 shall not apply to any firm with a post disaster adjusted net worth of less than $10,000. None of the requirements of this section on business loans is applicable to churches, hospitals, privately owned schools and colleges or eleemosynary institutions, although loans to such entities are considered business loans.

4. Any other assets not required in the normal operation of the business, which can be liquidated for 90 percent value, must be dis-

posed of and funds used to alleviate disaster losses. Where time is needed to liquidate, the proceeds, when obtained, must be applied to reduce the principal amount of the loan made.

5. In addition to insurance recovery, cash and securities convertible to cash, owned by the business or by a firm controlled by applicant, must be used to the extent that the total available is in excess of funds needed to meet normal payroll requirements for a period of 30 days.

GENERAL—APPLY TO BOTH HOUSEHOLDS AND BUSINESS

1. No funds will be provided to repair, replace, or rebuild, which will increase the size or capacity of any structure, except as may be required by applicable ordinances.

2. No funds will be provided to repair or replace household goods or machinery and equipment which would upgrade the quality, size, or capacity of the repaired or replaced item.

3. Where a firm or individual uses its own labor to restore property, funds may be approved for materials only. Whenever a controlled or affiliated contractor is used, funds shall be approved only for the actual labor and materials used for the work. No profit or overhead costs shall be allowed.

4. Disbursements will be made only based on submission to SBA of bills and cost records covering work completed and/or materials and equipment delivered except, up to $1,000 can be disbursed in advance of purchase, to householders to buy items of replacement furnishings and equipment costing not more than $50 each.

ECONOMIC INJURY LOANS

Loans to small firms for economic injury where there is an agriculture, Presidential, or SBA disaster products declaration will be made on the same basis as previously, except that the use of available resources and credit shall apply and the loans shall be limited to $100,000 to any one firm or group of affiliated firms for combined injury under any one disaster.

This concludes my formal statement. If there are further questions, I will try to answer them.

The CHAIRMAN. Mr. Hendricks, maybe we can get at this by a few pointed questions.

The disaster loan program is available to businesses and to individuals who have been damaged by a disaster, a flood, or a tornado. Is this basically the statutory authority?

Mr. HENDRICKS. This is basically true.

The CHAIRMAN. And we can never predetermine the number or the extent. What is the maximum amount that can be loaned on a disaster loan?

Mr. HENDRICKS. The maximum amount of loan that may be made to a business is $100,000, as was indicated earlier this morning. The maximum amount to a homeowner or a householder would be either $20,000 or $10,000, respectively, but not more than $25,000. In other words, $10,000 would be for personal property, for a loss by a householder.

The CHAIRMAN. You say for a business the maximum loan that may be made resulting from a disaster is $100,000?

Mr. MOOT. This is an administrative restriction, Mr. Chairman.

The CHAIRMAN. Yes. Now, the maximum to a homeowner is——

Mr. MOOT. Is $25,000, sir.

Mr. HENDRICKS. That would be $25,000.

The CHAIRMAN. In certain areas it is $10,000 and in other areas it is $25,000. Where is the line of differentiation?

Mr. MOOT. There is $25,000 for the real property damage limitation for a home and $10,000 for the household furnishings, for the contents. The combination, however, under no circumstances can exceed $25,000 under our current administrative limitation.

The CHAIRMAN. And these are term loans of how many years?

Mr. MOOT. These can be up to 30 years, sir.

The CHAIRMAN. What is the interest rate?

Mr. MOOT. The interest rate is 3 percent, sir.

The CHAIRMAN. Would a riot such as occurred in the District of Columbia be considered a disaster?

Mr. MOOT. It could be, sir.

The CHAIRMAN. In the definition of the law or interpretation by SBA?

Mr. MOOT. Yes, sir. The law, as you know, reads certain specific natural disasters or other disasters.

The CHAIRMAN. The Office of Emergency Planning, in testifying before another subcommittee on which I serve, said that they only make loans and grants for natural disasters, and they say a flood or tornado is a natural disaster, and they don't state that their jurisdiction runs to riots and violence. The SBA has a different definition, a different interpretation?

Mr. MOOT. Under 781, Mr. Chairman, we have a definition which has been legally ruled, and this is the physical disaster, as to include a manmade disaster. Under 782, which is economic injury type of disaster, which is declared in the case the President declares it——

(Discussion off the record.)

The CHAIRMAN. Read the definition into the record.

Mr. MOOT. (reading):

> The administration is also empowered to make such loans, either directly or in cooperation with banks or other lending institutions through agreement to participate on an immediate or deferred basis, as the administration may determine to be necessary or appropriate because of floods or other catastrophies.

Now, it has been construed legally, Mr. Chairman, that "or other catastrophies" does give us the authority to declare—

The CHAIRMAN. The Office of Emergency Planning statutory authority refers to natural disasters.

Mr. MOOT. Yes, sir.

The CHAIRMAN. The words "natural disaster" are not included in your statutory language.

Mr. MOOT. It is not, Mr. Chairman.

The CHAIRMAN. It refers to floods or other catastrophes.

Mr. MOOT. That is right, sir.

The CHAIRMAN. And your counsel has in a formal opinion advised you that destruction of a business from a riot through violence or arson could be within the category of other catastrophes such as a flood?

Mr. MOOT. That is correct, sir.

The CHAIRMAN. Has there been any court interpretation of that opinion?

Mr. MOOT. No, sir. We did testify last summer, in late July, subsequent to the Detroit problem, before the House Banking and Currency Committee, as to our legal interpretation of this language, and the report of the committee concurred in our legal interpretation of it. This was the House Banking and Currency Committee report, sir.

The CHAIRMAN. Therefore you now believe you are empowered to make loans not only for flood and tornadoes, but also as a result of riots and violence?

Mr. MOOT. Yes, sir. We haven't in the recent disturbances, but we do think we have the authority to.

The CHAIRMAN. I think you did a marvelous job in New Orleans in Hurricane Betsy. You moved in there and thousands of loans were made and businesses were reestablished. I understand in the earthquake in Alaska that probably you made 4,000 loans and perhaps one has been criticized out of the 4,000, so that is a rather good record also, I would say.

I am not so sure of the soundness of your lawyer's opinion with respect to this other. From a humanitarian point of view it is good, but from a legal point of view I am not so sure, because the whole question is open in the Congress now as to whether or not there should be riot insurance or other insurance as a result of some of the current wave of problems that we are having.

Mr. MOOT. Well, I might point out, Mr. Chairman, that——

The CHAIRMAN. The lawyers disagree, you know.

Mr. MOOT. Yes. Actually a disaster declaration is probably not the best approach for this kind of assistance at any rate. First of all, we can't provide for economic injury, for the loss of business, under our disaster declaration. Only for the physical property loss.

Secondly, the problem generally is related to urban renewal, more to the displaced business loan, where the entire area is under redevelopment, and I think at the moment that we are much better off to do it on an orderly redevelopment basis, where you have given us authority, to where there is a designated urban renewal section, to bring into play the four and a quarter percent 10-year loan for displaced business loans. That would be 7(b)(3) as you look on down.

The CHAIRMAN. This language which you have read was enacted in 1967, last year?

Mr. MOOT. No, sir. This is original language.

The CHAIRMAN. This has been there?

Mr. MOOT. Yes, sir.

The CHAIRMAN. For a number of years?

Mr. MOOT. Yes, sir.

The CHAIRMAN. And you indicated to us in testimony that this had been discussed by both the committees of the House and Senate, the authorizing committees, in their reports?

Mr. MOOT. No, sir, just the House, although we have advised the Senate committees, but the House committee held a specific hearing on this section subsequent to the Detroit problem of last year.

The CHAIRMAN. Have there been any loans made in this area for reestablishment of businesses?

Mr. MOOT. Yes, sir.

The CHAIRMAN. Following the riots?

Mr. MOOT. Yes, sir.

The CHAIRMAN. How many, what volume?

Mr. MOOT. We made in the combination Detroit and Newark, of last summer, we made just one or two under 200 loans for about $3.5 million. We have no declarations or no loans as a result of the April 4 and the ensuing days' disturbances of this calendar year.

The CHAIRMAN. You would not propose to make any loan for a business destroyed by fire or riot or violence unless the area had been declared a disaster area? Would that be a first prerequisite?

Mr. MOOT. Our first prerequisite has been, and we have received requests specifically from the mayor of Washington, and from the mayor of Baltimore to declare both cities a disaster area to the extent that they were damaged in the civil disturbances. My reply to both mayors has been I would like to see from them their plans for relating the damaged areas to their current urban renewal plans, again relating to the authority you have given us for urban renewal assistance namely, the displaces business loans.

I have talked informally with both cities. They thoroughly understand the problem, the question, and they are developing information. In the meantime we are making our conventional programs available, and to the extent that the physical capability of these areas allows restoration of businesses, the businesses are going back in, and to the extent that we can provide assistance to those businesses, with our regular programs, we will provide such assistance.

To the extent that the physical damage is such that the businesses can't go in without new construction, there is nothing that we can do at the moment in terms of relating our programs to the city's redevelopment program until the city, in each case, does its planning.

The CHAIRMAN. In the two instances in which loans have been made, Newark and Detroit, they followed a declaration of disaster and it was tied in with your urban renewal programs?

Mr. MOOT. That is right, sir, except you will recall that this was prior to any model city designation last summer, and prior to the development of urban renewal designations, such as we now have. In other words, urban revewal is much further downstream now than it was last summer.

The CHAIRMAN. What is the time factor involved in the processing of these types of loans? What was your experience?

Mr. MOOT. How long did it take us to process?

The CHAIRMAN. Yes.

Mr. MOOT. We established an office in Detroit in the area of the greatest damage, and we processed loans, they didn't come in very quickly, frankly, sir. I mean the requests were held, pending the determination of insurance companies.

The CHAIRMAN. These loans were made to reestablish the businesses?

Mr. MOOT. To reestablish the business.

The CHAIRMAN. Have the businesses been reestablished in the instances where you have made the loans?

Mr. MOOT. Yes, sir.

The CHAIRMAN. Under your new regulations will you make disaster loans to small businesses to refinance existing indebtedness?

Mr. MOOT. No, sir; we will not. As a matter of fact, we have an administrative restriction against using SBA disaster loan authority

to refinance any existing indebtedness, unless it happens to be a SBA loan.

Mr. MITCHELL. May I ask a question?

The CHAIRMAN. Mr. Mitchell.

Mr. MITCHELL. I had misunderstood, I suppose. I understood that your new limitations prevented you from making loans to any businesses or individuals or homeowners under the authority of section 7(b)(1), to refinance existing indebtedness, but you are saying now that it also applies to small businesses. You will not make a small business disaster loan, which includes refinancing?

Mr. MOOT. That is right, sir. Now, what we will do, however, is to configure our small business disaster loan so that it picks up after or is worked in conjunction with his current indebtedness, so that the man can continue in his business. In other words, we are not aiming at creating a situation that is going to put him out of business by simply loading our loan on top of another indebtedness. But what we do not want to do is to convert 8 or 9 percent money into 3 percent money.

The CHAIRMAN. Do you have any questions, Congressman Kluczynski?

Mr. KLUCZYNSKI. Mr. Chairman, just one question to satisfy myself. On relocation, I hope you can answer this. On urban renewal, I believe for families in business, the families are allowed $3,000, is that it? Would you know that?

Mr. MOOT. This, of course, is not——

Mr. KLUCZYNSKI. I understand it is not you.

Mr. MOOT. I am not sure I understand. I think it varies, doesn't it?

Mr. KLUCZYNSKI. Is it $3,000? Is there a limit on the business?

The CHAIRMAN. This is in the area of urban renewal.

Mr. KLUCZYNSKI. I understand, under HUD, I know that. I thought I would get that information.

Mr. MOOT. I really don't know, and I will be glad to find out and put it in the record on the per family.

Mr. KLUCZYNSKI. No; I just wanted it for the committee.

Mr. MOOT. For business moving there is a maximum moving cost grant of $25,000.

Mr. KLUCZYNSKI. $25,000 for business and I believe it is $3,000 for families.

Mr. MOOT. It could very well be, sir.

Mr. KLUCZYNSKI. Under the highway construction the families get only $300, I believe. The reason I ask that, we are going to have hearings on highway legislation and I would like to put it the same as urban renewal. I thought you had the answer at your fingertips.

Mr. MOOT. I should have.

The CHAIRMAN. Do you want to check this out and supply it for accuracy for the record? It would be appreciated.

Mr. MOOT. I will, sir.

Mr. KLUCZYNSKI. You don't have to do it now. This afternoon is all right or sometime tomorrow. Thank you.

Mr. MOOT. I will, sir.

(The information referred to follows:)

RELOCATION PAYMENTS FOR INDIVIDUALS AND BUSINESSES DISPLACED BY FEDERAL HIGHWAY PROGRAMS AND BY ACTIVITIES OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HIGHWAY PROGRAMS (FEDERAL-AID HIGHWAY ACT OF 1962)

Residential, $200 maximum; *Business*, $3,000 maximum.

Only available if authorized by State law. Relocation costs are considered part of the construction costs and are reimbursable by the Federal Government pro-rata according to the respective Federal/State shares of the construction costs up to the above maximums.

Currently, 37 states, the District of Columbia and Puerto Rico have legislation authorizing relocation payments.

About 20 state laws are substantially in accordance with the Federal provisions. Some are considerably more liberal than the Federal maximum (i.e., up to $500 for residential moves and up to $25,000 for business moves in Pennsylvania); some are more stringent (i.e., Connecticut makes relocation payments only on projects that have more than 20 families to be displaced). Fifteen states have no authorizing legislation.

HUD PROGRAMS (RELOCATION CAUSED BY ANY ONE OF 11 PROGRAMS)

Residential—up to $200 for individuals and families for moving expenses including storage costs and loss of property.

Business—(and nonprofit organizations):

(1) up to $3,000 for moving expenses, including storage costs and reimbursement for property loss incurred in the move;

(2) if moving expenses exceed $3,000, reimbursement for actual moving expenses may be made, up to a maximum of $25,000. Payments in excess of $25,000 may be made if shared by the locality.

Note: Payment for a *combination* of direct property loss incurred because of the move *and* moving expense is limited to $3,000.

(3) *Small Business Displacement Payment*—payment of $2,500 in addition to any of the above for eligible business. Generally eligible if average annual net earnings before taxes is less than $10,000, provided gross annual receipts are in excess of $1,500.

The CHAIRMAN. Mr. Williams, any questions?

Mr. WILLIAMS. No questions, thank you.

The CHAIRMAN. Mr. Mitchell, any questions?

Mr. MITCHELL. Mr. Administrator, concerning your new regulation that 3 percent disaster loans are limited to $100,000 on direct loans, now a small business firm that gets that 3 percent disaster loan at $100,000, is he still then eligible for your regular direct small business loan up to $100,000 at 5.5 percent?

Mr. MOOT. Under the criteria for a regular business loan.

Mr. MITCHELL. The regular business loan?

Mr. MOOT. Yes, sir.

Mr. MITCHELL. In other words, the $100,000 limitation is cumulative?

Mr. MOOT. That is right. One loan program does not mutually exclude application under another.

The CHAIRMAN. Mr. Administrator, you know the answers. You are on top of your program and your agency, and I think you are one of the finest Small Business Administrators that we have had.

We are going to suspend these hearings until 10 o'clock in the morning, at which time we will want to talk about the antipoverty programs of which Mr. Greenberg, I believe, is the coordinator.

Unless there are further questions, we will stand adjourned until 10 o'clock tomorrow.

Mr. MOOT. Thank you very much.

The CHAIRMAN. Thank you, gentlemen. Our colleague Representative Herbert Tenzer has submitted a statement to the committee on the loan program and asked that it be placed on the record. Without objection his statement with exhibits will be received into the record at this point.

(Representative Tenzer's statement follows:)

STATEMENT OF HERBERT TENZER, A MEMBER OF CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, I appreciate this opportunity to appear before the members of the House Select Committee on Small Business this morning and to testify on the business loan program of the Small Business Administration.

Last year, in a letter to the distinguished Chairman of this Committee, I expressed my concern with the alarming decline in the number of small business loans approved by the SBA. I have attached copies of my letter of September 5, 1967 to my testimony (Exhibit A).

This Committee has made several recommendations which I believe would strengthen the Small Business Administration and provide more realistic assistance to the small businessmen of America—the backbone of our economy.

The first proposal concerns the so-called priority system of SBA. While the priorities of SBA may not be formal, they are observed in a manner which has discriminated against the small businessman in the literal sense—the man who operates a small store located in an average community and who does not hire disadvantaged persons.

The priorities which give a preference to defense-oriented industries, to loans which result in a substantial increase in employment, loans to businesses contributing to reductions in our balance of payments, to reduction of air and water pollution and loans in areas of high unemployment, may be desirable, but should not be exclusive.

The intent of Congress in establishing the Small Business Administration was not to single out particular industries for favoritism but to foster competition in general.

The priority system has violated the intent of Congress and should be modified or eliminated. As SBA has attempted to implement their existing authority, it has become crystal-clear that the limited eligibility has hampered the development of a sound program and private company participation.

An example of how the priority system has affected SBA's loan policies can be seen by comparing the allocation of loan funds among the 50 States.

New York State with 9 percent of the population of United States and contributing 19 percent of the total federal tax revenue, received only 225 of the 8,086 business loans approved during fiscal year 1967. New York State also received only $13.7 million of the $383 million in loan funds allocated by SBA during this same period.

The following States received more loans:

[Dollar amounts in millions]

State	Loans	Amount
1. California	305	$12.0
2. Colorado	227	9.3
3. Florida	443	21.4
4. Kansas	257	12.3
5. Massachusetts	309	16.7
6. Mississippi	282	12.4
7. Missouri	322	16.9
8. South Carolina	225	11.1
9. Texas	407	17.7
10. Puerto Rico	457	10.4

I do not question the need for SBA assistance to small business in these and every State, but I do question the authority under which the Small Business Administration establishes priorities and allocates its funds. While I recognize the need for economic guidelines in connection with determining which loan application to approve, those guidelines should not result in the inequitable distribution of loan funds among the 50 States.

Without the priority system, New York State would have received much more than the 2.5 percent of loans and the 3.5 percent of the funds distributed by SBA.

Moreover, it is disturbing to note that small business loans in Nassau County dropped from 66 in fiscal year 1966 to 13 in fiscal year 1967 and that on a nationwide basis the number of direct loans dropped from 10,404 to 8,086. I have also discovered that more than 1,550 requests for loans from business concern in Nassau County were recorded by SBA. This figure includes all loan inquiries—even though applications may not have been filed. Since SBA has refused to accept applications which do not fall within their guidelines, this statistic—as opposed to the number of processed loans—is a more realistic appraisal of the need for SBA assistance in Nassau County.

In my letter of September 8, 1967 to Robert C. Moot, Administrator of the Small Business Administration, which I have attached to my testimony (Exhibit B), I urged a review and revision of the allocation system employed by SBA to assure a more equitable distribution of loans throughout the 50 States. In addition, I called for a more informative statistical reporting system so that Congress can effectively exercise its watchdog function and for the elimination of priorities based on the type of business applying for assistance.

SBA Administrator Moot, in reply to my letter, admitted that Nassau County loans had sharply declined by stating: (Exhibit C—full text of letter with attachments)

"With respect to Nassau County, you are quite correct in pointing out that there has been a substantial decrease in the loan activity * * * there is no reason not to anticipate an upward trend in loan activity for fiscal year 1968 in consideration of our substantially higher projections for that fiscal year."

In 1966 this distinguished Committee recommended the elimination of the priority system. To date, I believe that recommendation has been consistently ignored. This priority system continues to deprive small businessmen from receiving SBA assistance. The nationwide loan program and policies must be strengthened so a more equitable distribution system can be established and put into operation.

I am pleased that this Committee is fully aware of the problems attending the small business industry and I am hopeful the Administration will make recommendations which will establish a profitable, well regulated industry within the goals of the Small Business Administration. This is the only federal agency whose sole mission is to promote the welfare of our 5,000,000 small business concerns and is considered by many to be the Magna Carta of our free enterprise system.

EXHIBIT A

SEPTEMBER 5, 1967.

Hon. JOE L. EVINS,
Chairman, Select Committee on Small Business,
Rayburn House Office Building,
Washington, D.C.

DEAR MR. CHAIRMAN: As the Congressman from a district with approximately 20,000 small businesses, I have been concerned with the activities of the Small Business Administration. My examination of SBA programs reveals a startling drop in the number of SBA loans nationwide and in Nassau County, New York, part of which I represent.

Statistics furnished by the SBA show that the number of Section 7(a) loans in Nassau County dropped from 66 in fiscal year 1966 to 13 in fiscal year 1967. On a nationwide bases, the number dropped from 10,404 to 8,086 loans.

I have been unable to find any satisfactory explanation for these statistics. In addition is is apparent that the number of banks, willing to participate in SBA loans, has also decreased to an alarming point.

I respectfully request the assistance of the Select Committee on Small Business in 1) investigating this matter in Washington, and 2) sending a representative to Nassau County to explore it fully at the local level.

I would appreciate any assistance you could give me in this matter.

Sincerely,

HERBERT TENZER,
Member of Congress.

EXHIBIT B

SEPTEMBER 8, 1967.

Mr. ROBERT C. MOOT,
Administrator, Small Business Administration,
Washington, D.C.

DEAR MR. MOOT: I am writing to express my concern about the apparent decline in the SBA's direct loan program and to offer some suggestions which I believe will strengthen the program.

The statistics which your office furnished me on August 15th reveal the following:

(1) The number of section 7(a) small business loans—nationwide—dropped from 10,404 in fiscal 1966 to 8,086 in fiscal 1967. Even if Economic Opportunity loans are added, the total number dropped from 12,093 to 11,124.

(2) In Nassau County, New York, the number of 7(a) loans dropped from 66 to 13.

(3) In New York State the number of 7(a) loans dropped from 1473 to 225.

(4) Of the more than $386 Million in 7(a) loans approved by SBA in fiscal 1967 only 13.7 Million went to businesses in New York State and only 2.5 percent of the total number of 7(a) loans approved were spent in a State with 9 percent of the population of the United States and which contributed 19% of the federal tax revenues.

In light of these statistics on September 5, 1967, I requested the House Select Committee on Small Business to inquire as to the reasons for this decline in the number of 7(a) loans.

Because of my concern over the decline in loans, I would like to suggest the following changes in procedure which I believe would benefit the Small Business program and the Congress. They are:

(1) Elimination or modification of the present priority system under which preferences are given to defense oriented industries; loans resulting in substantial increase in employment; loans to businesses contributing to reduction in balance of payments through export sales; businesses contributing to reduction in air and water pollution; and loans based on local economic needs. While I recognize the need for guidelines, these categories of priorities must not become exclusive.

The intent of Congress in creating the SBA was not to single out particular industries for priority but to foster competition and strengthen the small business community in general. The priority system has violated the intent of Congress and should be modified or eliminated.

(2) A change in SBA's reporting system to include in its annual report to the Congress more realistic statistics regarding the total number of loan requests received by SBA.

SBA officials have admitted in congressional hearings that SBA's application statistics are meaningless since many loan requests are turned down before applications are processed and these are not reported to the Congress. Congress should have this information in order to effectively exercise its watchdog functions. I urge you to change the reporting procedures of SBA accordingly.

(3) Review and revise the allocation system employed by SBA to assure a more equitable distribution of loans throughout the 50 States. It is certainly strange that New York State with 9 percent of the total population of the United States received only a little more than 2 percent of the small business loans approved this year. If this is a result of the priority system then I am more convinced that SBA has strayed far afield from the intent of Congress in creating the SBA.

I make these suggestions because of my concern for providing to the small businessman, who is the backbone of American industry, an effective independent agency which will carry out the intent of Congress. I urge you to review these proposals and invite your comments.

Sincerely yours,

HERBERT TENZER, *Member of Congress.*

EXHIBIT C

SMALL BUSINESS ADMINISTRATION,
Washington, D.C., September 13, 1967.

Hon. HERBERT TENZER,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN TENZER: I have read with interest your letter of September 8, 1967, as well as a draft bill to amend the Small Business Act, which was separately furnished by your staff.

I would like to take this opportunity to outline more fully the statistics with respect to the loan activity of the Small Business Administration and to discuss the provisions of your proposed bill.

Attachment No. 1 indicates our financial assistance programs (excluding disaster loans) for the fiscal years 1966, 1967, and 1968. Assistance provided to small business companies under the SBIC Program has not been included although such financing represents in excess of $200 million a year.

It should be noted that the current year program, approved by the President and the house of Representatives with Senate action now in process, contemplates the highest level of loan activity in the history of this Agency. Programmed loan activity for fiscal year 1968 is numbered and in dollar value is 60 percent and 47 percent higher respectively than the comparable levels for fiscal year 1967. For all three years, the dollar value of all programs, except Displaced Business Loans, shows a consistent increase. Displaced Business Loans, as you know, are made only when federally financed urban renewal or highway construction programs are involved and the volume of such loans is directly related to the level of activity under such construction programs.

It is clear, therefore, that not only is there not a decline in the level of loans to be made in terms of value, but rather a 57 percent increase from 1966 to 1968. We look forward, as previously stated, to the highest level of loan activity in history for the financial assistance programs indicated in the tabulation.

With respect to loans in the State of New York, the high level of programmed activity in fiscal year 1968 will likewise be experienced in this state. To the extent that need is demonstrated by qualified applicants, we expect to reach a new high in financial assistance this year. With respect to the disproportionate number of loans between fiscal year 1966 and fiscal year 1967 which your letter accurately cited, I would like to state that large numbers of loans in 1966 were occasioned by the transit strike in that year. However, on a dollar value basis, even including loans made on account of the transit strike, the total was $24.5 million for fiscal year 1966 and $22.4 million for fiscal year 1967, a difference of only $2.1 million. In addition, under the Small Business Investment Program, which has a different yearend reporting period, financings in the State of New York are the second highest of any state and exceed $30 million per year.

With respect to Nassau County, you are quite correct in pointing out that there has been a substantial decrease in the loan activity. Attachment Number 2 recapitulates the situation. As in each of the cases cited above, when the total financial assistance program is viewed, the reduction is not quite as large as indicated for the 7a loan program alone. Similarly, there is no reason not to anticipate an upward trend in loan activity for fiscal year 1968, in consideration of our substantially higher projections for that fiscal year.

It should be noted that by law we are not allowed to provide financial assistance when funds are available in the private sector. If follows, therefore, that areas and communities with significant economic strength and well-being cannot qualify for financial assistance to the same extent as communities with greater economic need despite comparative population density.

I would now like to address the provisions of the proposed bill. As you know, loan funds available for small business assistance must be provided within the total resources available in the President's Budget and our utilization of these funds must be in accordance with sound management control procedures in order to assure fiscal responsibility. With respect to Section I, while we do not believe that funds can be specifically allocated by population and by relationship to percentage of Federal Revenue alone, we are making allocations on an equitable geographic basis taking into account such economic factors which have been established by or relate to the intent of Congress in assisting the small business community. We believe that the distribution of more than a billion dollars requires the exercise of judgment on the part of SBA in the administration of these programs.

With respect to Section II of your proposed bill, we do not have at the present time in effect a priority system in the sense of mandatory instructions to our loan officers. In your letter you state that "While I recognize the need for guidelines, these categories of priorities must not become exclusive." The loan objectives which we have given to our field offices are in the nature of guidelines, a restatement of the mandates (competitive environment, economic growth, balanced employment, etc.) given to us by the Congress for the conduct of this program, and not an exclusive list of priority categories. The funding of national goals as described in your letter is covered in our program reporting system in order that we may learn the intended use of Government funds. However, SBA regulations have historically prohibited loans to various kinds of business enterprises. I am attaching (Attachment No. 3) Part 120 of SBA Rules and Regulations which, under Subsection 120.1(d), Subsections 5, 6, 7, 8, 9, 10 and 12, indicates the types of such restrictions. Since the inception of this Agency these restrictions have been in effect and, although reviewed at frequent intervals, there has not been sufficient justification to warrant revision. An amendment as broad as that proposed might require SBA to make such loans in which the public interest might not be well served. The Congress has in effect directed this Agency to conduct its affairs under fairly specific policies. Therefore, our job is delimited, if you will, by certain basic considerations, which affect the geographic distribution of our funds as well as the categories of small businesses to which such funds are made available. May I list a number of them:

1. Availability of credit—credit generally is more readily available in centers of financial institutions and in areas of economic well-being, thus the need for SBA funds is normally greater in areas of economic stagnation and smaller financial institutions. This is true desite the comparative population totals in these areas.
2. Without recognition of the economic needs of an area—areas with slow growth rate could be penalized.
3. Industry structure is not well distributed geographically—states such as those in the South and Rocky Mountain areas which need new industry could be penalized due to lack of capital—states with industry needing modernization such as textile industry in New England could be denied critically needed funds.
4. Bank lending practices are not uniform throughout the nation, particularly in non-urban areas. Banks tend to be interested in certain lines of business activity, thus new industry needed in non-urban areas could be denied funds.
5. In the area of R & D, the technologically based entrepreneur does not follow a geographic equality pattern—his type is usually found in university and research centers—geographic distribution of funds would limit financial assistance to firms interested in new products and innovative ideas.
6. Capital markets are unevenly distributed in the United States—largely concentrated in New York, Illinois, California, and Texas—this has impact on supply of equity on long term capital.

Your proposed amendment in Section III to require certain reporting information in our annual report we believe is unnecessary since such requests may be handled administratively. We are always responsive to the requests of our select, legislative and Appropriation Committees of the Congress. In addition, if at any time you have any problems with respect to the operations of the SBA and require certain information we will be happy to develop the information and furnish it to you.

In summary, we believe that our loan program is not on the decline but rather will enjoy the biggest year in its history in 1968. We have a system of fund management which will provide on an equitable basis an appropriate distribution of funds to small businessmen throughout the country. We must in the conduct of our affairs establish guidelines so that the resources which are available to us may be distributed to accomplish the stated objectives of the Congress. This will be done recognizing the needs in certain geographical areas and in certain categories of business. Judgment and administrative flexibility are needed by an operating agency within well defined guidelines to carry out the intent of the Congress. It is my considered judgment that the matters with which you are concerned can be handled on a mutually acceptable basis within the authority of our present legislation.

I would like to express to you my appreciation for your interest on behalf of the small business community of this country.

I share this concern and I assure you that this Agency will be ever alert and responsive to the needs and problems of small business.

Sincerely yours,

ROBERT C. MOOT, *Administrator.*

SBA-WIDE LOANS APPROVED

[Dollar amounts in millions]

	Actual, fiscal year 1966		Actual, fiscal year 1967 [1]		Estimated, fiscal year 1968 [2]	
	Number	Amount	Number	Amount	Number	Amount
Business 7(a)	10,404	$354.8	8,070	$385.3	12,828	$590.2
Economic opportunity	1,689	17.6	3,034	31.9	5,328	60.0
Displaced business	753	48.4	385	32.7	370	35.0
Development company	317	54.1	341	56.7	389	58.9
Total	13,163	474.9	11,830	506.6	18,915	744.1

[1] Subject to final adjustment.
[2] Included in fiscal year 1968 budget pending before the Congress.

NASSAU COUNTY, N.Y., LOANS APPROVED

	Fiscal year 1966		Fiscal year 1967	
	Number	Amount	Number	Amount
Business (7a)	65	$1,197,000	13	$527,000
Economic opportunity	27	249,000	16	109,500
Displaced business			4	355,000
Total	92	1,446,000	33	991,500

The CHAIRMAN. Unless there are further questions, we will stand adjourned until 10 o'clock tomorrow.

(Whereupon, at 1:10 p.m., May 20, 1968, the committee recessed to reconvene at 10 a.m., Tuesday, May 21.)

ORGANIZATION AND OPERATION OF THE SMALL BUSINESS ADMINISTRATION (1968)

TUESDAY, MAY 21, 1968

HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE TO CONDUCT STUDIES AND
INVESTIGATIONS OF THE PROBLEMS OF SMALL BUSINESS,
Washington, D.C.

The committee met, pursuant to call, at 10 a.m., in room 2359, Rayburn House Office Building, Hon. Joe L. Evins (chairman) presiding.

Present: Representatives Evins, Patman, Kluczynski, Dingell, Smith, Corman, Addabbo, Conte, Horton, and Burton.

Also present: Richard L. Mitchell, special counsel; Myrtle Ruth Foutch, clerk; Beth Russell Schultheis, staff assistant; and John J. Williams, minority counsel.

The CHAIRMAN. The committee will come to order.

We will resume our hearings this morning. We have with us the Deputy Administrator of the Small Business Administration, Mr. Howard Greenberg. He is the coordinator and director of all the anti-poverty programs within the agency.

Yesterday we had a review of a great number of programs, the regular business loan programs, the development company loans, the lease guarantee program, insurance, and other discussions with an overall presentation by Administrator Moot.

Mr. Administrator, if you wish to proceed with Mr. Greenberg, we will now be pleased to hear him.

TESTIMONY OF ROBERT C. MOOT, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION, ACCOMPANIED BY HOWARD GREENBERG, DEPUTY ADMINISTRATOR, AND CLYDE B. BOTHMER, DEPUTY ASSOCIATE ADMINISTRATOR FOR PROCUREMENT AND MANAGEMENT ASSISTANCE

Mr. MOOT. I would like to make an opening comment on the record, Mr. Chairman.

Largely through the efforts of the chairman of this committee, and the members of the committee, the responsibilities of the Small Business Administration were both strengthened and expanded with the passage of the Economic Opportunity Act Amendments of 1967.

The added responsibilities of SBA in this regard were directed to poverty pockets in both the rural and the urban and intercity areas,

and aimed at improving these areas through strengthening small business enterprises and entrepreneurships in these particular target areas.

Upon the passage of the Economic Opportunity Act Amendments of 1967 in December, SBA reviewed and evaluated the programs it then had, which were aimed at the objectives of Congress. And we have revitalized and redesigned our programs to make them more effective to meet the objectives of the Congress.

As you stated, Mr. Chairman, the Deputy Administrator has been the coordinating focal point for these programs. And he does have a prepared statement. And with your permission, he will now address the committee with that statement.

The CHAIRMAN. Mr. Greenberg, the committee will be most pleased to hear you. And you may proceed as you wish.

Mr. GREENBERG. Thank you, sir.

Mr. Chairman and members of the committee, I am glad to have this opportunity to report to you on the actions and plans of the Small Business Administration in carrying out a mission assigned by the Congress and underscored as to importance in the Economic Opportunity Act Amendments of 1967.

The need to develop and expand entrepreneurship in poverty pockets and among minority group citizens is well known. So well known, in fact, that for me to dwell upon the need would be redundant.

Suffice to say, I assure you that we who have the responsibility for creating, safeguarding, fostering, and encouraging small business enterprises are well aware of the requirement.

We have developed what I believe to be an effective and balanced approach. And we have plans to progressively expand our approach as experience and resources permit.

I would like to describe the tools we have, how we have been using them, and what plans we have for the future.

At the outset, let me say that the Congress has given us the legislative authority we need to do the job.

First, I would like to describe a new SBA activity known as our community economic development program.

We know that one of the main aims of our disadvantaged citizens in both urban and rural areas is to become a part of the economic ownership structure.

It is the typical and truly American desire to be a manager and an operator of one's own means of earning a living.

To help in achieving this objective, SBA has established a new effort—additive to our others. Its aim is very specific: to bring about the creation or expansion of existing resident-owned, operated and managed substantial enterprises located in deprived areas.

By substantial enterprises, we mean those which are concerned with light manufacture or wholesaling; enterprises which involve a considerable number of local residents not only as workers but shareholders as well.

We mean enterprises which community residents either wholly own, or in which they initially have a strong position and eventually, through positive divestiture arrangements, gain control.

We mean enterprises which will reverse the adverse balance of payments in the depressed area by exporting goods and services outside the area and bringing the revenue into it.

Every slum area in the Nation is a target for the endeavor. Every underdeveloped rural community which is losing its youth to the cities is a target for the endeavor. However, we have thought it prudent to proceed at first on a limited scale, in order to not overly diffuse our resources and so that we can objectively review first results.

Therefore, we have selected seven locations in which to begin. These are the cities of Boston, Philadelphia, Washington, D.C., Los Angeles, and Chicago, and—for rural balance—the 10-county Elk and Duck Rivers area of Tennessee and the Navaho Indian Reservation in northern Arizona.

We have emplaced specially trained three-man teams of SBA employees to work exclusively on developing proposals for this program. They have full knowledge of SBA's financial, technical, and management assistance programs as well as assistance available from other agencies.

One of the team members is a community resident who has the respect of the community because it recommended him.

The three-man teams will not work out of our regular offices. They will be physically located in the center of each area being assisted.

The team will work with a local organization having the most effective impact on the community. This may be a small business development center group, or other local organization which has a demonstrated record of effectiveness and ability to communicate.

The teams will work with local residents in attempting to develop specific proposals for substantial enterprises.

The CHAIRMAN. If I may interrupt you there, we have county agents who assist in agricultural matters who are assigned to the county. Do you sort of envision the small business specialists as county agents or development program specialists?

Mr. GREENBERG. I think this would be the same kind of approach, working in the community, knowledgeable of the problems of the community.

The CHAIRMAN. They will live in the community?

Mr. GREENBERG. They will be located directly in the community and working with the community itself.

The CHAIRMAN. There are three assigned to each of the seven selected locations?

Mr. GREENBERG. That is correct, sir.

The CHAIRMAN. And will all three of them live there among the people, or just one?

Mr. GREENBERG. They will all be located in the areas in which they will be working.

The CHAIRMAN. Proceed. Thank you.

Mr. GREENBERG. The teams will do more than explain and apply potential SBA financial and management assistance. They are fully conversant with resources available from other Federal agencies as well, since part of their responsibility is a close liaison with other Federal agencies at the regional level.

The teams will also attempt to interest other resource sources to assist the banking and insurance community, the educational institutions, and the business community. In fact, the team will fully explore the entire potential within the target city for assistance.

If resources are required which are not available in the local area, the team has direct and immediate access to SBA-Washington to request resources from the national level.

One of the key ingredients of the program is our requirement that the local residents, who are going to own and operate what is created, invest their substance.

We will help form local development companies. We will assure maximum Federal participation. We will urge private sector capital to assist. But we also will require that the local community, to the extent possible, raise and put into the plan as much of its own funds as it can.

Even though the new program has been launched recently, I am heartened to report that the response has exceeded our expectations. A number of proposals show great promise.

If the results prove we have projected accurately, we will soon extend the number of target cities to include an additional eight. And if our resources permit, during fiscal year 1969 we will move across the Nation so as to have more than 70 teams at work in underprivileged areas, both rural and urban.

This program we hope will effectively harness our entire resources, and the applicable resources of other agencies who have indicated a willingness to work with us. We have tested this technique in the past few months through the development of some 12 actual projects in various parts of the country. We are satisfied that the approach is feasible and that it will prove productive.

Next I would like to outline our plans for using another authority which the Congress has provided us in the Economic Opportunity Amendments of 1967.

These amendments reinforce and expand our existing authority to provide management and technical assistance to small business concerns.

While authorization has been given, necessary funds are required to put the program into effect.

Now we are authorized to finance private and public organizations, under contract, to broaden the scope of our management and technical assistance activities to small businesses.

Now we can go in strength and in depth to the low-income area small concerns and provide expertise in basic business practices.

Now we can specifically tailor our help to the struggling enterprise, or the new enterprise, by contracting for and supplying in sufficient scope and duration the expert advice, help, and training the small businessman needs to develop entrepreneurial and managerial self-sufficiency.

Now we can contract with private and public organizations to work continuously with SBA, the local business community and the potential entrepreneur, in the identification and development of new business opportunities.

In the coming fiscal year, the authority to fund local organizations—that is, small business development centers or other similar groups—has been granted to SBA.

If financing is provided for contractual management and technical assistance and to staff local organizations, we intend to significantly increase the program support level to small business in depressed communities.

We plan to fund the local organizations at modest levels and direct their efforts to working with the target area SBA teams in the development of small substantial businesses. The wider scope of our manage-

ment and technical assistance will be available to all small businesses in the areas.

We will be working with our own SCORE teams and trade associations and cooperatives in the application of this new assistance.

Not the least of the resource now vested in SBA by virtue of the authorities of section 406 is our expanded opportunity to look toward the youth of the minorities and provide for entrepreneurship training.

We can begin to implement a long sought agency objective of in-depth programs of manager-trainee programs. Under these, potential entrepreneurs can be placed in work-study situations to become productive managers. And then to become productive owners or part owners of small enterprises.

This would be nothing more than an on-the-job program of business administration which is conducted by our universities. It would be a practical program, under which those who have not and cannot benefit from our universities would get day-to-day training in how eventually to manage their own enterprises.

Further, we are authorized to contract for planning and research, feasibility studies and market research to provide a sound basis for establishing economically viable enterprises.

The programs I have thus far described aim at largely bringing new businesses into being.

We have others whose center is perhaps more equally divided between the objectives of helping existing, as well as new businesses.

One of these is a program we have recently begun by activating section 8(a) of the Small Business Act.

Under section 8(a) SBA is empowered to take Government prime contracts and to subcontract same to small business concerns. That is the essence of the authority. Section 407(a) of the Economic Opportunity Act, as amended, gives further emphasis to this program.

By working with procurement and requirements officials of Federal agencies—principally the Department of Defense and GSA—the Small Business Administration is able to identify nonsophisticated items of manufacture which are required.

If SBA can then locate or develop a minority-owned producing facility, or a facility located within a depressed area which will employ hard-core personnel, a compact can be arranged. SBA can and does take the prime contract, and places it on a subcontract basis with the selected firm. We supply management counselling and assistance to give every assurance of success.

We further our national social and economic objectives by doing this. Government procurement work is placed in firms which otherwise, without such assistance, may never have the opportunity to participate in Government procurement.

All this is done in accordance with procurement policy.

Experience under this program is already available. It is, today, operating successfully in several areas in the country.

It also has had an additional social benefit. For under this program, large, national corporations are investing funds and technical personnel to assist younger, less experienced minority pools of talent in getting started.

There are new combinations today of big business, community residents, and Federal agencies organized to develop small businesses in depressed areas.

Lastly, I would like to describe for the committee a program which is not new in SBA but which time has certified is tested and significant in helping the deprived and underprivileged community in becoming entrepreneurs.

It is the economic opportunity loan program, launched in 1964 and reshaped in 1966.

Under it, two loan programs provide funds for underprivileged entrepreneurs according to their needs:

One program makes available loans of up to $15,000 with a maximum term of 15 years at 5½ percent for those with submarginal incomes who want to go into business or are struggling to stay in business.

The other increases the maximum available to $25,000 for up to 15 years for those who the record can show have been denied the opportunity to compete because of social or economic discrimination.

The record is filled with statistics of what this program, because of less stringent criteria, has provided entrepreneurs who otherwise would have been denied sources of capital. Some highlights:

In its first 23 months, almost 2,600 loans for $26 million were approved.

From December 1966 through February of this year—when the program was accelerated—more than 4,000 loans for $43.5 million were made.

None of these loans would have been made without this program.

Nearly half of these loans were made to minority entrepreneurs.

All of them went to small operators.

About 15,000 job opportunities were created.

The involvement of banks as participants in these admittedly high-risk loan situations has shown a steady increase. Five percent when the program started; 11 percent now—and a predicted 13 percent for the current fiscal year.

I have briefly described what we in SBA believe are programs of imagination and purpose.

SBA makes no grants. The dollars we place in small enterprises come back when loans are repaid.

The technical assistance, and the management assistance we provide comes back to our Nation in the form of more successful, taxpaying small businesses and employment of our underprivileged citizens.

Thank you.

(The legislative authority for the various programs referred to were ordered to be received into the record at this point:)

PUBLIC LAW 88-452[1]

ECONOMIC OPPORTUNITY ACT OF 1964

TITLE IV—EMPLOYMENT AND INVESTMENT INCENTIVES

STATEMENT OF PURPOSE

SEC. 401. It is the purpose of this title to assist in the establishment, preservation, and strengthening of small business concerns and improve the managerial skills employed in such enterprises; and to mobilize for these objectives private as well as public managerial skills and resources.

[1] This has been amended by PL 89-794 (*see* p. 146) and PL 90-222 (*see* p. 146).

LOANS, PARTICIPATIONS, AND GUARANTIES

SEC. 402. The Director is authorized to make, participate (on an immediate basis) in, or guarantee loans, repayable in not more than fifteen years, to any small business concern (as defined in section 3 of the Small Business Act (15 U.S.C. 632) and regulations issued thereunder), or to any qualified person seeking to to establish such a concern, when he determines that such loans will assist in, carrying out the purposes of this title, with particular emphasis on employment of the long-term unemployed: *Provided, however,* That no such loans shall be made, participated in, or guaranteed if the total of such Federal assistance to a single borrower outstanding at any one time would exceed $25,000. The Director may defer payments on the principal of such loans for a grace period and use such other methods as he deems necessary and appropriate to assure the successful establishment and operation of such concern. The Director may, in his discretion, as a condition of such financial assistance, require that the borrower take steps to improve his management skills by participating in a management training program approved by the Director. The Director shall encourage, as far as possible, the participation of the private business community in the program of assistance to such concerns.

COORDINATION WITH COMMUNITY ACTION PROGRAMS

SEC. 403. No financial assistance shall be provided under section 402 in any community for which the Director has approved a community action program pursuant to title II of this Act unless such financial assistance is determined by him to be consistent with such program.

FINANCING UNDER SMALL BUSINESS ACT

SEC. 404. Such lending and guaranty functions under this title as may be delegated to the Small Business Administration may be financed with funds appropriated to the revolving fund established by section 4(c) of the Small Business Act (15 U.S.C. 633(c)) for the purposes of sections 7(a), 7(b), and 8(a) of that Act (15 U.S.C. 636(a), 636(b), 637(a)).

LOAN TERMS AND CONDITIONS

SEC. 405. Loans made pursuant to section 402 (including immediate participation in and guaranties of such loans) shall have such terms and conditions as the Director shall determine, subject to the following limitations—

(a) there is reasonable assurance of repayment of the loan;

(b) the financial assistance is not otherwise available on reasonable terms from private sources or other Federal, State, or local programs;

(c) the amount of the loan, together with other funds available, is adequate to assure completion of the project or achievement of the purposes for which the loan is made;

(d) the loan bears interest at a rate not less than (1) a rate determined by the Secretary of the Treasury, taking into consideration the average market yield on outstanding Treasury obligations of comparable maturity, plus (2) such additional charge, if any, toward covering other costs of the program as the Director may determine to be consistent with its purposes: *Provided, however,* That the rate of interest charged on loans made in redevelopment areas designated under the Area Redevelopment Act (42 U.S.C. 2501 et seq.) shall not exceed the rate currently applicable to new loans made under section 6 of that Act (42 U.S.C. 2505); and

(e) fees not in excess of amounts necessary to cover administrative expenses and probable losses may be required on loan guaranties.

LIMITATION ON FINANCIAL ASSISTANCE

SEC. 406. No financial assistance shall be extended pursuant to this title where the Director determines that the assistance will be used in relocating establishments from one area to another or in financing subcontractors to enable them to undertake work theretofore performed in another area by other subcontractors or contractors.

DURATION OF PROGRAM

SEC. 407. The Director shall carry out the programs provided for in this title during the fiscal year ending June 30, 1965, and the two succeeding fiscal years.

PUBLIC LAW 89-794[1]

ECONOMIC OPPORTUNITY ACT AMENDMENTS OF 1966

TITLE IV—AMENDMENTS TO TITLE IV OF THE ACT

SEC. 401. Sections 402, 405, and 406 of the Act are amended by striking out "Director" where it appears in such sections and inserting in lieu thereof "Administrator of the Small Business Administration".

SEC. 402. (a) Section 402 of the Act is hereby redesignated section 402(a) and there is added at the end thereof a new subsection (b) as follows:

"(b) The Director is authorized to make grants to, or contract with public or private nonprofit agencies, or combinations thereof, to pay all or part of the costs necessary to enable such agencies to provide screening, counseling, management guidance, or similar assistance with respect to persons or small business concerns which receive or may be eligible for assistance under subsection (a). Financial assistance under this subsection shall be subject to the provisions of section 208 of this Act."

SEC. 403. Sections 403 and 404 of the Act are hereby repealed.

SEC. 404. Section 407 of the Act is amended to read as follows:

"DURATION OF PROGRAM

"SEC. 407. The Administrator of the Small Business Administration shall carry out the programs provided for in this title during the fiscal year ending June 30, 1967, and the three suceeding fiscal years."

SEC. 405. Section 402 of the Act is amended by inserting "(a)" after "SEC. 402." and by adding at the end thereof the following new subsection:

"(b) To the extent necessary or appropriate to carry out the programs provided for in this title the Administrator of the Small Business Administration shall have the same powers as are conferred upon the Director by section 602 of this Act".

SEC. 406. Sections 405, 406, and 407 of the Act, as amended by these Economic Opportunity Amendments of 1966, are respectively renumbered as sections 403, 404, and 405 of the Act.

SEC. 407. Section 606 of the Act is amended by striking out "and IV" where it appears in subsections (a) and (d) thereof.

PUBLIC LAW 90-222

ECONOMIC OPPORTUNITY ACT AMENDMENTS OF 1967

AMENDMENTS TO TITLE IV—EMPLOYMENT AND INVESTMENT INCENTIVES

SEC. 106. (a) Section 401 of the Economic Opportunity Act of 1964 is amended by striking out "enterprises;" and inserting in lieu thereof "enterprises, with special attention to small business concerns (1) located in urban or rural areas with high proportions of unemployed or low-income individuals, or (2) owned by low-income individuals;".

(b) Section 402(a) of such Act is amended by—

(1) striking out "employment of the long-term unemployed" in the first sentence and inserting in lieu thereof "the preservation or establishment of small business concerns located in urban or rural areas with high proportions of unemployed or low-income individuals or owned by low-income individuals";

(2) striking out the period at the end of the next to last sentence and inserting, in lieu thereof, a colon; and

(3) inserting immediately preceding the last sentence, "*Provided, however,* That any management training program so approved must be of sufficient scope and duration to provide reasonable opportunity for the individuals served to develop entrepreneurial and managerial self-sufficiency."

(c) Section 402 of such Act is amended—

(1) by inserting before the period at the end of subsection (a) the following: ", and shall seek to stimulate new private lending activities to such concerns through the use of the loan guaranties, participation in loans, and pooling arrangements authorized by this section";

(2) by striking out the first subsection (b);

(3) by adding at the end of the second subsection (b) the following: "To insure an equitable distribution between urban and rural areas for loans

[1] This has been amended by PL 90-222.

between $3,500 and $25,000 made under this title, the Administrator is authorized to use the agencies and agreements and delegations developed under title III of the Act as he shall determine necessary."; and

(4) adding at the end thereof the following new subsection:

"(c) The Administrator shall provide for the continuing evaluation of programs under this section, including full information on the location, income characteristics, and types of businesses and individuals assisted, and on new private lending activity stimulated, and the results of such evaluation together with recommendations shall be included in the report required by section 608."

(d) Title IV of such Act is amended by—

(1) renumbering section 405 to read "408" and inserting in such section "and the Secretary of Commerce" immediately following the word "Administration";

(2) striking out section 404; and

(3) inserting new sections 404, 405, 406, and 407 to read as follows:

"DISTRIBUTION OF FINANCIAL ASSISTANCE

"SEC. 404. The Administrator of the Small Business Administration shall take such steps as may be necessary to insure that, in any fiscal year, at least 50 per centum of the amounts loaned or guaranteed pursuant to this part are allotted to small business concerns located in urban areas identified by the Director, after consideration of any recommendations of the Administrator of the Small Business Administration, as having high concentrations of unemployed or low-income individuals or to small business concerns owned by low-income individuals. The Administrator of the Small Business Administration, after consideration of any recommendations of the Director, shall define the meaning of low income as it applies to owners of small business concerns eligible to be assisted under this part, and such definition need not correspond to the definition of low income as used elsewhere in this Act.

"LIMITATION ON FINANCIAL ASSISTANCE

"SEC. 405. No financial assistance shall be extended pursuant to this title where the Administrator of the Small Business Administration determines that the assistance will be used in relocating establishments from one area to another if such relocation would result in an increase in unemployment in the area of original location.

"TECHNICAL ASSISTANCE AND MANAGEMENT TRAINING

"SEC. 406. (a) The Administrator of the Small Business Administration is authorized to provide financial assistance to public or private organizations to pay all or part of the costs of projects designed to provide technical and management assistance to individuals or enterprises eligible for assistance under section 402, with special attention to small business concerns located in urban areas of high concentration of unemployed or low-income individuals or owned by low-income individuals.

"(b) Financial assistance under this section may be provided for projects, including without limitation—

"(1) planning and research, including feasibility studies and market research;

"(2) the identification and development of new business opportunities;

"(3) the furnishing of centralized services with regard to public services and government programs, including programs authorized under section 402;

"(4) the establishment and strengthening of business service agencies, including trade associations and cooperatives;

"(5) the encouragement of the placement of subcontracts by major businesses with small business concerns located in urban areas of high concentration of unemployed or low-income individuals or owned by low-income individuals, including the provision of incentives and assistance to such major businesses so that they will aid in the training and upgrading of potential subcontractors or other small business concerns; and

"(6) the furnishing of business counseling, management training, and legal and other related services, with special emphasis on the development of management training programs using the resources of the business community, including the development of management training opportunities in existing businesses, and with emphasis in all cases upon providing manage-

ment training of sufficient scope and duration to develop entrepreneurial and managerial self-sufficiency on the part of the individuals served.

"(c) The Administrator of the Small Business Administration shall give preference to projects which promote the ownership, participation in ownership, or management of small business concerns by residents of urban areas of high concentration of unemployed or low-income individuals, and to projects which are planned and carried out with the participation of local businessmen.

"(d) To the extent feasible, services under this section shall be provided in a location which is easily accessible to the individuals and small business concerns served.

"(e) The Administrator of the Small Business Administration shall, in carrying out programs under this section, consult with and take into consideration the views of the Secretary of Commerce, with a view to coordinating activities and avoiding duplication of effort.

"(f) The President may, if he determines that it is necessary to carry out the purposes of this part, transfer any of the functions under this section to the Secretary of Commerce.

"(g) The Administrator of the Small Business Administration shall provide for an independent and continuing evaluation of programs under this section, including full information on an analysis of the character and impact of managerial assistance provided, the location, income characteristics and types of businesses and individuals assisted, and the extent to which private resources and skills have been involved in these programs. Such evaluation together with any recommendations as he deems advisable shall be included in the report required by section 608.

"GOVERNMENT CONTRACTS

"SEC. 407. (a) The Administrator of the Small Business Administration shall take such steps as may be necessary and appropriate, in coordination and cooperation with the heads of other Federal departments and agencies, so that contracts, subcontracts, and deposits made by the Federal Government or in connection with programs aided with Federal funds are placed in such a way as to further the purposes of this title.

"(b) The Administrator of the Small Business Administration shall provide for the continuing evaluation of programs under this section and the results of such evaluation together with recommendations shall be included in the report required by section 608."

SMALL BUSINESS ACT

SEC. 8. (a) It shall be the duty of the Administration and it is hereby empowered, whenever it determines such action is necessary—

(1) to enter into contracts with the United States Government and any department, agency, or officer thereof having procurement powers obligating the Administration to furnish articles, equipment, supplies, or materials to the Government. In any case in which the Administration certifies to any officer of the Government having procurement powers that the Administration is competent to perform any specific Government procurement contract to be let by any such officer, such officer shall be authorized in his discretion to let such procurement contract to the Administration upon such terms and conditions as may be agreed upon between the Administration and the procurement officer; and

(2) to arrange for the performance of such contracts by negotiating or otherwise letting subcontracts to small-business concerns or others for the manufacture, supply, or assembly of such articles, equipment, supplies, or materials, or parts thereof, or servicing or processing in connection therewith, or such management services as may be necessary to enable the Administration to perform such contracts.

The CHAIRMAN. Thank you, Mr. Greenberg, for a very excellent statement. It is concise and to the point, yet it covers a very broad field.

You outlined a number of tools that are available to SBA to help in the antipoverty program in the hard-core areas. These goals are all laudable. The goals and objectives are fine.

Just this morning a press release came to my attention from the Small Business Administration which states that:

Berkeley G. Burrell, President of the National Business League, today pledged his support of the Small Business' programs to assist the minority group business community.

In a letter to SBA Administrator Robert C. Moot on the occasion of Small Business Week, Burrell said, "The National Business League will continue to cooperate with SBA to provide aid and assistance to minority entrepreneurs to establish equal participation in the private enterprise system.

Burrell told Moot, "Our work both demonstrates the validity of American system to the black community and helps instill pride and determination necessary for success tor those who have been excluded from equal participation."

While the National Business League was founded by Booker T. Washington in 1900, Burrell said that the work of the League is only now being recognized.

He said that although progress has been made still more needs to be done. "To that great work, we pledge our full support," he told Administrator Moot.

While all of SBA's programs are available, the Agency's Economic Opportunity and Displaced Business Loan programs and the relatively new lease guarantee program are of particular interest to minority entrepreneurs, and the SBA is working closely with the National Business League as well as other groups to provide aid and assistance to those who need it most.

As I stated, the objectives are good and the goals are good, if it can be made to work.

You described these several tools earlier. We might review them. One is the community economic development program, in which you try to encourage the minority groups to own their own businesses. You do this by setting up a team of three men to go into some seven target areas which you have listed, the hard-core areas of some of the cities and a couple of rural areas. What success have you had? What has been accomplished, and what progress are you making? Tell the committee. What achievements can you point to today?

Of course, we recognize that this is a new law, new legislation. Under the old economic opportunity program this was centered in the Department of Commerce, it had many advisory groups. Then it was under the sponsorship of this committee, and particularly our distinguished colleague, Congressman Dingell, who proposed the amendment, that we got the amendment to turn this job over to SBA. Congressman Dingell said in effect, and we agree with him, that we think that SBA can do it better, SBA is the recognized loan agency. If you are going to make loans, SBA should do the job.

And the Congress adopted that concept. So now you have the authority, you have the responsibility. And this committee believes that you can do the job. But again I say, it is new. Tell us, what progress are you making?

Mr. GREENBERG. I would like to answer your question directly as to progress, and then if I might, with your permission, I would like to give a little more background on it, Mr. Chairman.

This program was initiated on the 1st of April. Since the 1st of April we have selected the teams——

The CHAIRMAN. Of this year?

Mr. GREENBERG. That is correct, sir.

The CHAIRMAN. You have been in operation, then, 50 days?

Mr. GREENBERG. We have 24 proposals that we are presently considering. There is another dozen that are under consideration.

The program contemplates not merely the granting of loans, but the developing of a package which would make available to the proposed entrepreneur all of the Federal assistance available, not only by SBA through its loan program and its management and technical assistance, but also the application of the 8(a) program for the granting of Govern-

ment contracts to small business entrepreneurs, and the development of training programs from the Department of Labor to train the unskilled and the hard-core unemployed.

I think that the fact that in a period of from 10 to 45 days there has been generated some two dozen projects across the country of varying degrees of size is certainly an indication.

The CHAIRMAN. Twenty-four projects?

Mr. GREENBERG. Twenty-four, two dozen, since the 1st of April.

The CHAIRMAN. Of course, this legislation was signed into law in December of last year.

Mr. GREENBERG. That is correct, sir.

The CHAIRMAN. And prior to that SBA was knowledgeable of the problem and was cooperating with the Office of Economic Opportunity and others.

Mr. GREENBERG. This is a new approach, as you know. The Office of Economic Opportunity, with centers for business development located in some 44 cities throughout the country was primarily concerned with the economic opportunity loan program. This program is a little broader than its concept.

Mr. MOOT. Let me add one comment, Mr. Chairman. During the development stage from the fall until April 1 when, as Mr. Greenberg said, we went into business in this program, we did test the program out. We developed and have in operation some 13 projects around the country which are substantial businesses above the retail trade and service level. These projects are in the manufacturing area and account for, either through retention or increase, some 2,000 employees.

Now, I think that it is too early for us to say that these are all going to be successful businesses. But we do have them operating, and they look as though they are going to be successful. We are providing them with large doses of management and technical assistance. We have provided them with some Government procurement awards, and we have provided them with financial assistance. We think they are going to be successful. So this was a prerequisite of our going into the target areas.

The CHAIRMAN. Will you give just one example? You indicated that it is mostly confined to manufacturing.

Mr. MOOT. Yes.

The CHAIRMAN. Give us an example of one or two manufacturers, business types that have gone into production.

Mr. MOOT. All right, sir.

There is in San Antonio a minority owned concern named Superior Aluminum Manufacturing Co., which manufactures aluminum screen doors. This is a concern that is receiving a large amount of production and technical know-how from a white manufacturer of aluminum doors. It has been established. It is currently employing 50 employees. We have provided management plus financial assistance, in the form of a $150,000 SBA loan.

In Washington, D.C., a well-know example is the agreement whereby a large concern, Fairchild-Hiller, working together with the Federal agencies and community organizations in Washington, participated with SBA's financial assistance and procurement award assistance, in the establishment of a new small business called Fairmicco. We have provided financial assistance to Fairmicco, which now has an employee training force of 60, and is going into production this month.

A new bakery, Home Sale Bakery, in Chicago, which has an employment of 114, was established along the lines we are talking about.

There is in Los Angeles a seating company which has an employment of 50 people.

And I could go through several others.

The CHAIRMAN. Mr. Administrator, do you envision your responsibility under this act as one of being imaginative and creative and taking the initiative, or do you wait for applications to come in to be processed to fund them or to assist them in management? In other words, are you waiting for the tide to come in, or do you go out and recognize the problem and meet it?

Mr. MOOT. Mr. Chairman, I think that I have had the message from the Congress loud and clear that we are supposed to be creative and imaginative and to use our own initiative. It is for that reason that we are actually locating our teams in these areas, to search out with the communities, projects and packages that we can get started.

The CHAIRMAN. What success are you having today with, let us say, large business enterprises that have taken a contract; established a business, with a view to putting large numbers of people to work, and ultimately selling or allowing them to acquire ownership and control and management?

Mr. MOOT. We have two specific operations now going. We have talked with perhaps 12 or 13 of the largest concerns in the country. All have expressed interest in working with us. There is nothing specifically in process at the moment, over and above the two that are actually in operation. But we have many that look very promising.

And I would say that big business is showing a great cooperation in this area.

The CHAIRMAN. If you can enlist the large business concerns to establish branch plants, other plants, with a view of providing employment, and letting the people become partial owners, that would be helpful, I should think.

Mr. MOOT. Yes, sir.

The CHAIRMAN. You state, of course, that every slum area is a target area. Local organizations are being formed. Tell us again, how many have expressed interest, and how many besides the two dozen that you have mentioned, do you have underway.

Mr. MOOT. We have, as Mr. Greenberg can outline in detail, in the legislation a requirement to look to the Office of Economic Opportunity to designate target areas for us. The OEO has designated areas, and it is within the scope of these areas that we are gradually and progressively establishing our SBA teams. We would plan, if resources are made available to us, to have about 70 teams or 70 areas with teams in them by the end of fiscal year 1969, Mr. Chairman.

The CHAIRMAN. In other words, if OEO says that x location is a target area, this is where you would concentrate? You are not finding this, they are finding it for you, is that right?

Mr. MOOT. They are charged to make the recommendation to us.

The CHAIRMAN. Tell us about your work with OEO and your cooperation with Commerce. We notice in here that Commerce has a role. What do the other agencies do? The primary responsibility is SBA's, is it not?

Mr. MOOT. Yes, the primary responsibility is SBA's. We work closely with the OEO, with the Labor Department, and with Com-

merce. And we have had very close cooperation. As a matter of fact, we have had a task force developing an improved program as we go along. And we have all contributed. And we try to understand each other's roles and missions very well.

The Labor Department, as you know, provides training funds so that we can train the work force. The OEO has been funding the local organizations with which we are going to work. The legislative authority is ours in 1969. If the Congress sees fit to make funds available for this purpose, then we will continue along these lines. And so far we have had excellent cooperation from all Federal agencies.

The CHAIRMAN. How long would the Department of Labor provide training funds for training employees? Let us say that a large aircraft company wanted to build an assembly plant. They would like to have the part made, and they need the labor. The Labor Department furnishes training for a time. For what period of time will they provide this training?

Mr. MOOT. I think they are doing it currently on an annual basis, Mr. Chairman, if required on an annual basis. The company seeking training must look to hard core unemployed, No. 1, and must have Labor Department certified employees. The Labor Department actually finds and screens the employees to be trained. The training is planned on an annual budgeted basis. And if the upgrading is accomplished prior to that, then the training funds cease, of course. But the funds are provided on an annual basis.

The CHAIRMAN. They would provide it upon the recommendation of SBA not only to a large company, but to a local development company, or to a small company if SBA recommended it; isn't that right?

Mr. MOOT. Yes, sir, that is correct. There are two types of labor training. One is the production force work training, and the other is the management skills. Now, the Labor Department currently does not have funds to train potential junior managers. They have funds to train production workers, to upgrade skills in that area. We are currently using OEO funds during this fiscal year which ends June 30 for a very modest approach to management training.

The CHAIRMAN. Does the Department of Labor set any standard as to the type of labor for which they will approve training? The reason I ask this is, just yesterday when I left the committee there came to my office a letter from a small manufacturing company in which they state that the Labor Department will not approve funds for training workers on machines for garments, sewing machines, or stitching machines, or in the textile field. Are they setting standards? Are they going to eliminate different kinds of labor, or are they going to select various kinds of labor? Which kind will meet their approval?

Mr. MOOT. Mr. Chairman, I am not very well informed on this particular subject. It is my understanding from an experience that we have had that the Labor Department and the cut, make, and sew labor unions have reached an agreement whereby the unions will provide the required training in this area. For this reason this is one segment of the labor force that is not receiving direct Department of Labor training funds. I believe this is the correct answer. I would be glad to verify this with the Labor Department for the record, if you would like.

The CHAIRMAN. Without objection, that will be received.

Mr. Mitchell, our counsel.

Mr. MITCHELL. I believe, Mr. Administrator, that in connection with this specific inquiry that came to the committee, the chairman was concerned with the concentrated employment program (CEPS) that is in the Department of Labor.

And, Mr. Chairman, if we could put this letter in the record, we could refer it to the Small Business Administration to supply a check on it.

Mr. MOOT. We would be most happy to.

(The letter and report from SBA follows:)

LIBERTY MANUFACTURING CO.,
Liberty, Tenn., May 15, 1968.

Hon. JOE L. EVINS,
Member of Congress,
Federal Building, Smithville, Tenn.

DEAR CONGRESSMAN EVINS: The purpose of this letter is to discuss a problem which my firm has in developing its organization and operation in the DeKalb County area, and more specifically Liberty. Mr. Congressman, as you know I recently purchased the Liberty Manufacturing Company. I did this of course with the hope that I could make a better operation and improve the existing industrial activity in this area. I want to emphasize that I am extremely anxious to build a first-class manufacturing firm out of the Liberty Manufacturing Company. This, Mr. Congressman, brings me to my point.

I have for the last several months been planning to participate in a government program called the Concentrated Employment Program (CEPS), and I have made my plans to train people on the job in this program. Now I am informed by the Employment Security Agency that the type of people I wish to train under this federal program will not be eligible. They say, and it is difficult for me to understand, that a sewing machine operator would not be eligible for training help.

While I realize, Mr. Congressman, that our industry is highly competitive and can't always pay the highest wages, we take pride in the fact that we, in the garment industry, have provided employment in many areas of the country which would not otherwise have been available. It just seems to me that there is some element of discrimination involved. We have enough problems coping with imports from Hong Kong.

I appeal to you, Mr. Congressman, to examine this problem of ineligibility for training of sewing machine operators in the CEPS program, and I hope that in some way you may be able to assist us.

Since coming to your County, I have been very much impressed with the people and with the country. It is my sincere desire that I can promote something that will be a distinct asset to this area.

With kindest personal regards, I am

Sincerely yours,

JACK J. LORCH,
President.

(Report from SBA:)

FUNDS FOR TRAINING IN THE GARMENT AND APPAREL INDUSTRY

Mr. Chairman, I am advised by the Department of Labor that they are the only branch of the Government that has funds available for on-the-job training.

I am further advised that the legislative history supporting the Manpower Development and Training Act specifically precludes the Garment and Apparel Industries from the use of these funds.

In the 1963 Amendments to this Act, Senator McNamara expressed the Congressional intent as follows:

"The bill was designed for situations where there is a demand for labor, but in which prior training or a specific skill is a substantial prerequisite for employment in the given job. It is not intended to cover industries, such as the garment and apparel industry, where minimal training is needed, where traditionally the employer has provided the necessary on-the-job training, and where there exist a substantial number of experienced and able workers who are presently unemployed. As I understand it, we do not intend to give a competitive advantage to

one employer over another by having the Manpower Development and Training Act pay costs which usually and traditionally the employer has assumed, nor do we intend hereby merely to transfer unemployment from one area to another."

Representatives O'Hara and Holland explained the Act's policy in substantially identical language to the House. (Cong. Rec. Bound Volume 109, part 18, pp. 24258 and 24261, 1963.)

In summary, it appears very clear that it is the intent of the Congress that the Garment and Apparel Industries be excluded from the availability of on-the-job training funds.

The CHAIRMAN. Mr. Greenberg, you also state that you are trying to interest banks and insurance companies and educational institutions. What are the banks doing, and what are the insurance companies doing?

Yesterday you told us that you had to sit down and enter into a treaty to even get them to insure something. What do you expect to get out of the insurance companies, if anything?

What is the banking industry doing? They all recognize the problem, but what are they doing?

Mr. GREENBERG. I think the banking fraternity or community has recognized its responsibilities in this area. And I understand they have just recently established a group that would interest itself particularly in the slum area and urban area problems. We are working continuously with the banks in trying to get their participation in any other projects that we are developing. Obviously, as we pointed out, there has been an uptrend in the private sector of participation in all of our programs. Our people find in talking with the various banking institutions in the various parts of the country that they are working with, that there is certainly a greater awareness now on the part of the banking community of their responsibility, not only from the standpoint of finance, but as a part of the community, in trying to help this program get started.

The CHAIRMAN. There are programs for training, there are programs for education, and there are programs to induce businesses of all types to give youth summer jobs. And I think all in all that we are making a dent, with all approaches to the problem.

You point out that the key ingredient is the local residents, the local interest. And I would say that this is certainly to be emphasized. I heard President Johnson say, and we have all heard it said, that there would be no programs coming from Washington, but that they come to Washington. If there is initiative, if there is imagination, if there is a local group that has a plan, there are various programs to assist. But the Government is not forcing any of these programs on anybody. It is really very difficult, I suppose, to make them work.

You indicate that you have tested the techniques, and you expect to expand. You state that Congress has given you the opportunity. You also state that you are now authorized to finance private organizations by contract. This begins July 1. Do you have any monetary problems with this? I imagine that you would have lots of applications for grants for contracts.

Mr. GREENBERG. I am glad you brought that question up, Mr. Chairman. Actually, there are no funds available at the present time. And a good part of the plans that we are talking about to carry this program through 1969 will have to be financed from funds presently being considered by the Congress.

The CHAIRMAN. The Small Business Development Centers were under the old OEO program.

Mr. GREENBERG. And they agreed to finance those through June 30 of this year.

The CHAIRMAN. OEO is financing them?

Mr. GREENBERG. That is correct, sir.

The CHAIRMAN. Beyond this you could finance a development company, a local organization?

Mr. GREENBERG. We couldn't without additional funds, Mr. Chairman.

The CHAIRMAN. What do you mean to assist in with this program—providing jobs, making studies?

Mr. GREENBERG. In addition to the three-man team that we are establishing, and which we hope to finance if our present level of funding is approved by the Congress for 1969, we are going to be working with local organizations of a similar kind, in fact the counterpart team of the local organizations, which might be a SBDC or some local organization. The funding of those local organizations is dependent upon the availability of funds in 1969, Mr. Chairman. In addition to the funds required for these counterpart operations of the local organizations, funds will be required to carry out the technical and management assistance program authorized under the Economic Opportunity Act Amendments of 1967.

The CHAIRMAN. Do you want to tell this committee how much you have requested from the Appropriations Committee for this purpose, so that we may be apprised?

Mr. MOOT. Mr. Chairman, the Poverty Act authorization, in terms of the fund request up with the Congress, is fully funded. However, there are no funds in there earmarked for section 406, which is the section of title IV we are talking about. The Bureau of the Budget, in sending up a fully funded request, said to SBA and OEO, work out what your plans or your requirements might be, and then come and see us, and we will consider your requirements along with others when Congress appropriates funds.

We have submitted a request to the Bureau of the Budget for $10 million for our funding requirements under title IV, section 406 of title IV, to provide financing to private and public organizations for expanded management and technical assistance.

If we have appropriated that which we requested for SBA in 1969, we think we can fund the SBA part of the requirement, the SBA teams.

We likewise believe that the loan levels that Congress is considering for 1969 will provide us sufficient funds to provide financial assistance. But what we do want is $10 million to fund the expanded responsibilities that were given to us in December of 1967.

The CHAIRMAN. Mr. Greenberg, you indicated that another tool that is currently available to you under section 8(a) of the Small Business Act is to take prime contracts.

Mr. GREENBERG. Yes, sir.

The CHAIRMAN. You would take the prime contracts into a depressed area and employ hard-core personnel. SBA can and does take these prime contracts. Tell us to what extent you have done this, what success you have had, and how many people have been employed.

We commend you in taking a few of these contracts. Tell us what you are doing, tell us what success you have had.

Mr. MOOT. If you don't mind, I will respond.

The CHAIRMAN. Surely, Mr. Moot. This committee has been recommending this for some time.

Mr. MOOT. We have to date taken five contracts from other Government agencies, for a total amount of $8,200,000. In turn, we have negotiated eight subcontracts with small firms throughout the country for the production and delivery of these items for the same amount of money, $8,200,000.

These eight small firms employ some 1,300 employees. This is an increase of some 300 employees as a result of the procurement we are providing. It also results in the retention of certain employees that would otherwise have been discharged in the coming months.

The CHAIRMAN. Mr. Administrator, I want my colleagues also to have an opportunity to ask questions. One further question: You mentioned the two loan programs in addition to training and setting up organizations and introducing industry. And you are taking the prime contracts. You also have two types of loans. One is for $15,000 and another, I believe, is for $25,000?

Mr. GREENBERG. That is correct, sir.

The CHAIRMAN. Delineate for the committee and the record the difference between these two loans programs.

Mr. GREENBERG. The EOL I program, which has a limitation of $15,000, is for those who have submarginal incomes, who don't have enough income to meet their basic needs. They are eligible for loans under this particular program. The criteria are less stringent than they are under our regular programs.

The CHAIRMAN. This is a loan to go into business, to begin a business, or to expand a business?

Mr. GREENBERG. Yes, for any of those purposes.

The CHAIRMAN. It all relates to businesses?

Mr. GREENBERG. That is correct, sir.

The second, EOL II, has a maximum lending limit of $25,000. Those people who are disadvantaged by reason of social or economic discrimination are eligible for loans in this particular category. The criterion for the loans is really the applicant's character rather than the other more stringent criteria under our regular business loan programs.

The CHAIRMAN. Both of these loans are for what term?

Mr. GREENBERG. Fifteen years, 5½ percent, Mr. Chairman. This is the maximum term, 15 years.

The CHAIRMAN. Mr. Dingell, any questions?

Mr. DINGELL. Yes, Mr. Chairman.

I am most pleased to see my old freind, Mr. Greenberg, here this morning.

I would also like to welcome the distinguished Administrator. And I would like to commend them for very fine testimony this morning.

I would like, gentlemen, if I could, to lightly treat some of the matters which have been discussed by the chairman with you, in two particulars.

One, can you tell us what supervision is given by SBA to assure that the loans made to these small businesses in economically deprived areas are for what essentially would be regarded as reasonably good investments for the person concerned? For example, I came across the other day a case where the Small Business Administration had made a loan for a franchised restaurant operation to an individual who was presently in bankruptcy, and who neither delivered the supervision, provided the assistance in procuring foods, or afforded the bookkeeping and other services that he was supposed to provide,

nor did he furnish nor could he furnish the technical assistance that was required. And this brought to my mind the very urgent need to have your agent, as fully as it possibly could, to at least assure itself that the business applying for a loan is solvent, and that the possible business applying for a loan is one that has at least some possibilities of success.

Mr. MOOT. I would say, Mr. Dingell, that I could get the specific answer to that particular case, if you want the details.

Mr. DINGELL. I don't want to clog the record with that, Mr. Moot.

Mr. MOOT. I mean specifically from the hearing.

But I would like to say that we are acutely aware of this problem. We do provide actually, with our somewhat limited personnel in the field, some limited servicing of loans and processing of loans and following up of loans. We also have the entire organization involved in management counseling, seminars, workshops, face-to-face counseling. In addition to that, we have 3,210 members of our SCORE teams which are, as you know, service corps of retired executives, whose job it is to provide expertise in terms of particular operations.

Thus we are very acutely aware of the need for management and technical assistance as well as the initial need to evaluate the risks of the proposition.

So, I am somewhat concerned about the aspects of the case as you mentioned. If it was known to us, and it should have been known to us, it doesn't look as though it was the type of loan that we should have made. I would be the first to admit that every loan is not a perfect loan. We do make mistakes.

Mr. DINGELL. I fully understand that. This question was asked not by way of criticism, but by way of example, perhaps to alert you to a problem that you might face, and also to ascertain what you could do in terms of loan applications to assure that an individual who is going into reliable business is not going into something which involves the assumption of perhaps almost impossible liabilities.

Mr. MOOT. As a matter of fact, we have been looking fairly sympathetically at good franchise operations, because a franchise operation does provide the kind of production and technical management assistance that is so acutely needed.

Mr. DINGELL. And on an on-going basis.

Mr. MOOT. On an on-going basis. But it is likewise true that it has to be a good franchise operation. Otherwise, it can be a mulcting or a draining off of funds, or a hit and run, a selling of the franchise, and then no followup.

We are aware of these problems.

Mr. DINGELL. The other question I wanted to direct your attention to is to try and find out what your experience has been in terms of the expansion of geographic areas. As you remember, the amendments which placed the Small Business Administration in charge of these programs were much criticized on the basis that it was a blow struck at the poor and the impoverished Economic Opportunity Act.

It was my experience that only small areas of the country were able to derive benefits under the previous loan program when it was administered by OEO. I believe that you now cover the whole country. And it is my experience that you are making loans in much larger amounts, both in terms of numbers of loans made and in terms of dollar amounts involved. Am I correct in that?

Mr. MOOT. You are right, sir, on all counts. We are now making, in terms of the economic opportunity loan program, the one described by the chairman and Mr. Greenberg as $15,000 and $25,000 limits. We are making these loans at a volume of 3,000 a year.

We are making them throughout the country, and we are making them in all areas of the country. In the program Mr. Greenberg has just described, we are going to put resident SBA teams right in the urban inner city area as well as the rural undeveloped area. We are going to move SBA to the site of the requirement.

Mr. DINGELL. I think that is a highly desirable thing.

Could you submit for the record some information as to the experience before and after the change in the law, in terms of the numbers of loans made, the kinds of loans made, the kind of supervision that is afforded? Because I have had reason to believe that the supervision afforded by SBA is superior to that which is given by OEO.

And I would also like to have some understanding, perhaps, if you please, of the area of the country which is covered today as opposed to that which was covered then. Today it is the entire country. And in those previous days it was only in a few small areas.

The CHAIRMAN. Without objection the information may be furnished for the record.

(The material referred to follows:)

ECONOMIC OPPORTUNITY LOANS APPROVED

[Dollar amounts in thousands]

	Number	Amount
Feb. 1 through June 3, 1965	159	$1,766
Fiscal year 1966	1,689	17,625
July 1 through Nov. 30, 1966	737	6,846
Total through Nov. 30, 1966	2,585	26,237
Dec. 1, 1966, through June 30, 1967	2,297	25,057
Fiscal year 1968	2,891	31,065
Total, Dec. 1, 1966, through June 30, 1968	5,188	56,122
Total	7,773	82,359

The above data reflect that during the initial period of this program from inception in 1964 through November of 1966 there were 2,585 Economic Opportunity Loans approved with a dollar volume of $26,237 million. During this period, the program was restricted to less than 50 communities throughout the United States.

With the passage of the 1966 Amendments to the Economic Opportunity Act, one of which was offered by Congressman Dingell that specifically assigned SBA full responsibility for the Loan Program, the Loan Program was immediately expanded nationally, and since that time has been available to everyone eligible under this Act throughout the country. During this period, from December 1966 through fiscal year 1968 SBA has approved 5,188 Economic Opportunity Loans with a dollar volume of $56,122 million. This reflects that the program has better than doubled in the 19 months of operation since Mr. Dingell's amendment.

As to geographic spread, Economic Opportunity Loans have been made in every State in the Union during the past 19 months, for just about every conceivable kind of small business from a pottery tableware manufacturing operation on an Indian Reservation in North Dakota to a small restaurant operation in Harlem.

Mr. DINGELL. Thank you very much.

I would also like to direct your attention to one more matter that is peripheral to the matters before you, but which I think is very important. What is the standing of your revolving fund now?

The CHAIRMAN. He testified to that yesterday.

Mr. MOOT. It is in the record of yesterday. A very quick answer, we are all right financially through the next fiscal year.

Mr. DINGELL. You have enough money to make the loans that you are going to have applications for?

Mr. MOOT. Yes, sir.

Mr. DINGELL. My experience with regard to loan in my area, and th esmall business company assistance, is that there seems to be a very distinct difficulty in achieving these loans because of the shortage of money in your revolving fund.

Mr. MOOT. That is a little different aspect, Mr. Dingell. It is true that there is a greater demand for Small Business Administration loans than we have the resources to fill. On the other hand, we would hope that this would always be the case, because I think part of our job is to make our program known to the small business community, both potential and actual, throughout the country.

We have about 400,000 inquiries for financial assistance a year throughout the country. I think it is obvious that we can never have the kind of funds that would meet the total demand. On the other hand our program next year is at a significantly increased level, as it appears on the Hill today.

Mr. DINGELL. Are you talking about the total loan program?

Mr. MOOT. I am talking about each and every loan program. The record, I think, for yesterday, will show that each of the programs is on an ascending scale from this year until next year, as well as down from last year.

Mr. DINGELL. I am pleased to hear that.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Mr. Corman.

Mr. CORMAN. Thank you, Mr. Chairman.

Mr. Moot, when I served on the President's Commission on Civil Disorders your agency came in for a little bit of criticism from some on that Commission because they were not losing enough money. But it is my understanding that first of all you do not deal with anybody unless they have been turned down by a bank, indicating that you are reaching people who would not otherwise be reached. Is that correct?

Mr. MOOT. That is correct, sir.

Mr. CORMAN. And further, that you have placed all your assets in loans that the Congress has seen fit to give you, you don't have any great backlog that you have been holding back, isn't that a fair statement?

Mr. MOOT. Yes, sir. We have been using all of the authorization, all of the funded program levels that have been provided us.

Mr. CORMAN. That was my contention. And I wanted to be sure I was right. It seems to me that if you are lending all of the money that we give you, lending it to people who can't borrow it any place else, we shouldn't criticize you because you are not losing the Government's money.

Now, you indicated that Los Angeles is one of those areas which you have selected for loans under the poverty program amendments. Does that mean that anyone in the Los Angeles area would qualify, or do you limit it geographically within the Los Angeles area?

Mr. MOOT. There are two types, Mr. Corman. The Economic Opportunity loan program is open to all qualified people who meet the requirements of that program.

The other program is a specific program within a target area designated by the Office of Economic Opportunity. And this is the area where we are trying to build above the retail service and trade level. We are trying to build substantial businesses, minority owned, managed, and operated. In Los Angeles we have two areas, South Side and East Side.

Mr. CORMAN. Then it follows the same target areas as the Department of Labor's concentrated program, doesn't it?

Mr. MOOT. In the certified areas, yes.

Mr. CORMAN. I would like for you to give consideration to expanding that, because—and I expect all the metropolitan areas have similar problems—you will find that a half of a percentage point difference in unemployment will cause the Labor Department to cut off the geography of the availability of those areas. And I think that is wrong. I think you will find that there very well may be significant areas within the total metropolitan area where the minority unemployment is extremely high, because it is relatively smaller. And they find themselves handicapped in a great number of ways.

They lose the concentrated employment program, and they lose the availability of your program. So I hope you will counsel divorcing yourself from this criteria unless they broaden it rather quickly.

Mr. MOOT. We would be glad to do that.

Mr. CORMAN. The other question is concerning the development of shopping centers or retail businesses. In many of the ghetto areas that seems to be one of the really depressing facts of life, that the balance of the metropolitan area has beautiful shopping centers, but the people in the ghettos are still tied to very substandard retail facilities. If a reasonable proposal were made, would you consider assisting in the financing of that kind of business enterprise, assuming that they met the other criteria of local ownership and reasonably sound management, and so forth?

Mr. MOOT. Yes, sir; we not only would, but we have. And in Los Angeles specifically we have recently funded through a local development company the establishment of a shopping center. You are probably aware of it. The name is a Mexican one, El Mercado.

Now, I want to qualify one statement, Mr. Corman. Subject to the availability of insurance, to the relationship to urban renewal model city programs, all of which have an impact on our particular programs, we stand ready with all of our resources, including the lease guarantee which attracts the flow of outside money as well as our own money, to help build the economy of the inner city as well as the rural areas.

Mr. CORMAN. Fine. I appreciate that very much, sir.

The CHAIRMAN. Any further questions?

Mr. CORMAN. No. Thank you.

The CHAIRMAN. Mr. Conte.

Mr. CONTE. Mr. Greenberg, I share your point of view as to the importance of bringing our urban and rural disadvantaged citizens into the economic ownership structure of this country. I can't understand, however, why you have made the proposed means of doing this, as stated on page 2 of your statement, so rigid and narrow. Isn't it unrealistic to limit your assistance to light manufacturing and wholesaling? I am wondering why it isn't more flexible. As I understand it, the services area is an area of great potential for achieving the goals you talk about. It is something where hard work and initia-

tive can bring beneficial results a lot faster than manufacturing and wholesaling.

Why is this services area excluded from possible assistance under your community economic opportunity program? I notice on page 3 of your statement that you refer to the reversing of the adverse balance of payments in depressed areas by exporting goods and services. Yet, you exclude services from your own development program.

Mr. GREENBERG. Let me see if I can answer that.

What we are trying to do essentially is to establish enterprises that have a greater impact on the area involved. We are treating this as you would treat an underdeveloped nation. What we are saying in fact is that our regular programs are available for services and retail operations. We don't have to go out and find people to build substantial businesses. The regular programs of SBA are already available for the entrepreneurs for the smaller service operations, for the retail operations, for the mom and pop store.

They will come under 7(a), also under the local communities. The 502 programs can assist in developing various kinds of enterprises.

What we are trying to do, if we can, is to reverse the present conditions where the communities feed upon themselves, where all of the money that comes into the community goes outside and we believe that the best vehicle to accomplish this is manufacturing and wholesaling enterprises. Obviously there are situations which do not particularly qualify as such. We would consider, for instance, if there was a new car dealership established in a local community, in a ghetto area, in an underprivileged area, or in a rural area, which had this kind of problem, we would consider that.

What we are trying to do is limit the availability of this particular program to establishing enterprises which would be owned, operated, and managed by residents of the community, and employing and teaching skills to the hard-core unemployed in the area.

There is nobody excluded, except that our regular programs are available for the kinds of things that you are talking about.

Now conceivably if we had a large drycleaning plant—we have, for instance, a group of some 60 or 65 drycleaners in the community here. They might, if they wanted to, establish a wholesale drycleaning operation which would not only service their own particular group, but would make their services available to other businesses, white businesses outside. What we are trying to do is export goods and services outside and bring some revenue in which can be used to build up the economic viability of the community itself.

Does that answer your question, Mr. Congressman?

Mr. CONTE. Yes.

I am interested in your seven trial locations. We are pleased that Boston happens to be one of them. I feel, however, that John Lindsay has done a good job working in the ghettos in New York City. Why was New York City excluded?

Mr. GREENBERG. Let me explain this to you. We first decided on an initial impact in some 15 locations. New York was one of the locations. But in order to be effective in the community we have to develop a local organization with which we can work. We have been working very closely with New York City which is developing a

group within the city itself, with which we can work. I hope within the next week or 10 days to go to New York and talk to them, so that we can work together with them in developing the kind of communications with the local organizations which we believe is necessary to do a good job.

New York is going to be one of the next groups that will be coming in.

Mr. CONTE. From the little that I know about this subject matter, I feel that he has done a good job in trying to promote it there.

Mr. GREENBERG. There is no question about it. Actually there are many areas—if we do select New York, we will go into more than one area there. We have the Bedford-Stuyvesant problem, and the Harlem problem, and the Bronx problem. When we get this worked out, we propose to go in there fairly quickly, Mr. Congressman.

Mr. CONTE. You continually talk about your community economic development program in the future tense, in terms of what you are going to do. Section 406 of the Economic Opportunity Act became law December 23, 1967.

Mr. GREENBERG. Yes, sir.

Mr. CONTE. What have you done to put into effect the mandate of section 406? Why can't we get started?

Mr. GREENBERG. Well, we have a little problem of funds, as we discussed before, Mr. Conte. We have actually started this as a pilot program. The Administrator has made available from this year's funds to start these teams immediately. As we pointed out, I think, in a previous discussion, the continuation and the expansion of this program would be dependent upon the availability of funds after July 1.

Mr. CONTE. These funds will come from OEO. Is that right?

Mr. MOOT. It is up to the Bureau of the Budget what they allocate funds for. But the poverty program is fully funded as requested. It is a logical source of funds. And of course 406 is a part of it. There are no earmarked funds per se for this.

Mr. CONTE. This bothers me a little. I wonder whether it would be better to have it right in your shop than to be dependent upon OEO.

Mr. MOOT. Well, it bothers us a bit too, I might mention.

Mr. CONTE. OEO isn't your baby. This may take second priority.

Mr. MOOT. I don't think, Mr. Conte, that that presents too much of a problem. I do think that the priorities of the administration and the Congress will have to be considered in the allocation of the funds. And of course it depends upon what total funds come back off of the Hill, in contrast to that which is requested. But our cooperation with OEO, as the chairman indicated before, and I responded to, has been excellent.

Mr. CONTE. On page 4 of your statement, Mr. Greenberg, you have indicated that teams will be working with local organizations. You refer to small business development centers, and say that it is possible that there will be such groups. As I understand it, all of the SBDC's will expire by June 30 unless they receive additional funds to continue. What do you plan to do about preserving the already existing SBDC's?

Mr. GREENBERG. After June 30 there are no funds available to pay for these services. We have the same problem again. In those areas where the SBDC's are located, we propose to work with them.

Mr. CONTE. Are you going to allow them to discontinue?

Mr. GREENBERG. We have no authority to pay for them after July 1. This, of course, depends on what the Congress does if there are no appropriations passed by July 1.

Mr. CONTE. Are you requesting funds?

Mr. GREENBERG. We requested $10 million, as the Administrator said, from the Bureau of the Budget.

Mr. CONTE. That hasn't been before the Congress?

Mr. MOOT. This would be an allocation out of the Poverty Act, when appropriated.

Mr. CONTE. On page 5 you talk about forming local development companies. Wouldn't it be a waste and a duplication to allow existing SBDC's to terminate, and then form new local development companies.

Mr. GREENBERG. These are two different kinds of organizations, sir. When we talk about the local development companies, we are talking about our 502 programs—about local development companies formed by members of the community, which then in turn make funds available to an identifiable small business. The SBDC's we are talking about are in effect the team counterparts to SBA; they will be the local organization groups that we will be working with to develop the wholesaling and manufacturing enterprises we mentioned. They are separate and distinct.

Mr. CONTE. You mentioned, in answer to a question of my able chairman, the SCORE program.

Mr. GREENBERG. Yes, sir.

Mr. CONTE. Will you elaborate on that? Are we getting many volunteers from industry?

Mr. MOOT. We have an excellent response from industry, from retired executives. We have a target of some 5,000. We now have 3,210. We want to balance our skills, and we particularly want to be able to use teams such as three-man teams that provide expertise in the areas that we are talking about, either for rural development, or for urban area inner-city problems. And it is in this area that we look to the SCORE operation as one of our most valuable resources. So far it has been very successful.

Mr. CONTE. You are not meeting any problems in obtaining volunteers?

Mr. MOOT. No.

Mr. CONTE. How much are you allocating for your community economic development program in fiscal 1968, and how much have you requested for 1969?

Mr. GREENBERG. At the present time we have seven teams which have been authorized by the Administrator, three-man teams in seven locations. That is 21.

Mr. CONTE. How much will that cost?

Mr. GREENBERG. We have projected a cost for the CED teams on an annual basis of about $50,000 per team per year. That is about $12,500 a quarter. If the teams were operating from the beginning of April it would be some $90,000. I imagine between $50,000 and $60,000, because of the lapse of time in financing.

With respect to other portions of this, there are no funds available for any of the other items in 406.

With respect to the SBDC's, the OEO is financing the SBDC's through June 30, 1968, sir.

Mr. CONTE. How about the 70 teams now?

Mr. GREENBERG. They would have to come out of the $10 million that we are projecting for the next year.

Mr. CONTE. What would those 70 teams cost?

Mr. GREENBERG. $3,220,000 for next year, 70 teams would cost $3,220,000.

Are you talking about the 70 local teams, or the 1967 SBA teams?

Mr. CONTE. SBA teams.

Mr. GREENBERG. The SBA teams would cost $2,500,000, plus $150,000 for the Washington staff, or a total of $2,650,000 to be allocated from the funds presently pending. And then we have the $3,220,000, which would be the local organizations for which we fund. The balance of the $10 million is for the other contractual, training feasibility studies, and other costs at the same time.

Mr. MOOT. In summary, Mr. Conte, we have handled this program financially except for what is required to fund the operations before us.

Mr. CONTE. This is interesting to one who is on the Appropriations Committee.

The CHAIRMAN. I noticed that Mr. Henry Ford stated in a television broadcast recently that it wasn't a matter of money, it was a matter of know-how as far as the franchising of automobile dealers is concerned. There is a need for skilled know-how, and money is not the answer to all the problems.

Mr. MOOT. We are quite alert to the fact that money is not the answer to many of the projects we are looking at. It is the lack of know-how. As a matter of fact, we would multiply the projection if we could find the know-how.

Mr. CONTE. This is where SCORE will help?

Mr. MOOT. Yes. But it is not an instant success yet. It will take time. That is the problem.

Mr. CONTE. As I understand it, SCORE is a voluntary service, and SBA pays only travel costs.

Mr. MOOT. We can pay them if we move them out of their hometown; we can pay them per diem and travel cost. But there is no salary involved. It is voluntary.

Mr. CONTE. We talk about 70 teams. Are we talking about 70 cities?

Mr. GREENBERG. Seventy-seven teams altogether in 70 cities. There are going to be some cities with more than one team.

Mr. CONTE. How much is SBA planning to allocate for implementing Section 406 in fiscal 1968 and fiscal 1969? I would like to know your view as to whether or not this amount is sufficient to do the job called for by the Secretary.

Mr. MOOT. I think I can answer this by saying, SBA in 1968 has no fund for section 406. However, OEO has continued its level of funding at our request for section 406 until June 30. The answer for fiscal year 1969 is the $10 million.

Mr. CONTE. Section 404 provides criteria for the distribution of financial assistance. What has been done to implement Section 404 for fiscal 1968, and what are your plans for implementing this provision in 1969?

Mr. MOOT. Section 404 required the balanced distribution and allocation that we have been talking about, Mr. Conte. In other words,

between rural and urban it is the 50–50 determination. As I mentioned before, we are using the target designated by OEO and allocating our resources and balancing our program to assure that we do create the proper balance between rural development and inner city development. And we are applying all of our resources as required to meet this commitment.

Mr. CONTE. Will you set forth how your role is different from EDA in terms of local economic development. Perhaps you could best do this by distinguishing between what the role of EDA is in this area and what your role is.

Mr. MOOT. EDA has a very important responsibility of identifying areas that require economic development that have a high degree of unemployment or underemployment, or underutilized resources, and designating these areas. EDA has available to it about $50 million in program level for loans to these areas, for building the economics of the area without reference to size. EDA has some modest amount of management and technical assistance funds that it can grant in a contract form to provide for the technical upgrading of the skills in these areas. EDA therefore is limited to specifically depressed areas. SBA's responsibility, on the other hand, is a much broader responsibility. It has the overall congressional mandate of stimulating the economy throughout by building small business, with specific reference to keeping balanced growth wherever it may be. So that we are not just concerned with a high unemployment area, or even an underemployment area. We are likewise concerned with areas which show their resources underutilized, so that we can build the economics of the country on a balanced basis, or help to build them, because obviously SBA can only do a portion of the job. Our responsibility, therefore, in this particular respect is much broader in scope. To do this, we have, as you know, authority for about $1 billion worth of financial assistance each year, together with the financial and procurement award assistance that we have previously discussed of approximately $15 billion of Government awards, plus our 8(a) authority, which allows us to subcontract from a prime contract base.

The combination of all of these resources give us a much wider responsibility, and a much greater spectrum of tools to do the job that Congress has given us.

Now, we work very closely with EDA. As you know, we process the EDA loans. So that there is a cooperative effort where we are trying to jointly build an economic area that EDA has designated as a depressed area. The processing of the EDA loans is done in connection with our own evaluation of the needs of that particular section of the country.

Mr. CONTE. I don't want to put you on the spot. I am concerned about the question of duplication or overlapping. I think you are better equipped to handle this particular problem. I can't see why we should have two agencies working more or less in the same field. It would be much better, in my estimation, to have the $50 million under one umbrella and under your direction where jurisdiction was given by the Congress.

I think in the long run we would save money for the taxpayers, and we would get a lot more done for our dollar.

Mr. MOOT. I think several committees of the Congress are considering this particular aspect.

The CHAIRMAN. Mr. Burton.

Mr. BURTON. Thank you, Mr. Chairman.

I would like to ask Mr. Greenberg to refer to his statement on page 10.

There, Mr. Greenberg, you point out to the committee that under some circumstances you can lend $15,000 up to 15 years at 5½ percent. Then, you go on to explain that you can make a maximum of $25,000 available for up to 15 years for those who the record can show have suffered from social and economic discrimination.

Obviously you have some criteria which you use to determine who is eligible for the $25,000 program. I would be interested to know what criteria you employ to determine who has been socially discriminated against, No. 1; and No. 2, who has been economically discriminated against.

Mr. GREENBERG. A handicapped person, for instance, would be one of the people that we think of as being economically discriminated against. There are other areas where an individual, because of certain racial or other social problems, has been unable to participate in the program, or participate in the economy. We believe there are many areas. I don't have the specific criteria here——

Mr. BURTON. "Handicapped" I can understand, but I don't understand the other criteria. If a colored man makes an application, is he automatically assumed to be economically discriminated against?

Mr. MOOT. Not necessarily, Mr. Burton. And in many instances, quite frankly, it gets down to a judgment determination. The two levels, $15,000 and $25,000, were established in order that we might take a plateau at a time. Congress authorized this program with a ceiling of $15,000. This was a congressional limit, for economic opportunity purposes, to keep the doors of economic opportunity open to those disadvantaged citizens that were in some way either physically or socially handicapped.

We have criteria which in effect says that if you want to establish a business, or if you are in a business, and your income is submarginal in terms of supporting your family, we will grant you a loan up to $15,000 on a character basis with little or no collateral if it looks as though you have a reasonable assurance of repayment.

Mr. BURTON. What is "submarginal"? Will you define that for me?

Mr. MOOT. Well, it depends upon the part of the country you are in; it depends upon the living costs, and it depends upon the family size. So we have not used what has been in the past the standard measure of $3,000, over and under.

This is the determination of our regional directors, depending upon the region that we are evaluating.

For example, it would be different in Salt Lake City than it would be in New York City.

Mr. CORMAN. Will the gentleman yield for a question at that point?

Mr. BURTON. Yes, I would be happy to yield.

Mr. CORMAN. I wonder if in dealing with this problem of minorities the regional director would look to the banking practices in the community to ascertain whether people of all colors got the same treatment from lending institutions, or if there was a pattern of practice in that community of putting different criteria on people solely because of their color. Would that be one of the considerations?

Mr. MOOT. Well, it would be, Mr. Corman, except that, to be quite honest, the general pattern throughout the country is such that the minority groups do not have equal access to the banking institutions. And this is not just plain discrimination; it is just that they do not have the kind of credit background or collateral or security that a bank normally is looking for. Which gets us to the second type of loan, where we normally are looking at established disadvantaged people operating a business above that marginal level, whatever it is determined to be, who are seeking a chance to expand their business, and who can convince us that they have a need to expand the business, and who cannot secure private financing.

Now, we are quick to agree that there is very little difference between this man who can, therefore, get $25,000 on a judgment determination of need not otherwise satisfied and the man who comes in with a straight business proposition and needs $15,000. Generally speaking, the answer is, I think reflected in the fact that these other programs are generally used in areas where there is a depressed situation or hardship, low-income families.

Mr. BURTON. I understand that. I am all in favor of that. If someone is being socially or economically discriminated against, I think that is a legitimate reason to give them help. Constantly on this committee, Mr. Chairman, I run into SBA rules, regulations and wording, which seems to be completely subjective, however.

Mr. Bruhn, our regional SBA director in Utah, how does he determine who is being socially discriminated against? Is it completely up to him? Do you send him any guidelines?

Do you send the regional SBA Director in Mr. Corman's district these guidelines and policy statements, and say, "This is when these will apply in this particular program, and this is when they won't"?

That is what I am trying to find out this morning.

Mr. MOOT. Regional Director Bruhn and Regional Director Myers of Los Angeles have criteria guidelines, rules, and regulations. But there is no substitute, in my opinion, for actual judgment on the spot. And so therefore we do not attempt to make a close matrix, where you put one of the facts down here, and the answer will come out. It has to be judged in each particular case upon need, character, and ability to make a success.

Now, generally speaking, a resident of a deprived or depressed area who is either in business or who has a means of going into business with a reasonable assurance of success can be considered as eligible for an economic opportunity loan, unless his personal resources are so great that he therefore rules himself out of eligibility. Just being a resident of a depressed community, without resources, but with character, ability, and opportunity to go into business, is enough, generally speaking, to qualify for this particular program.

Mr. BURTON. This is the thing that bothers me. Words like "character," "ability," and "opportunity," are subjective.

The CHAIRMAN. Will the gentleman yield?

Mr. BURTON. Yes, sir.

The CHAIRMAN. These are not grant programs, Mr. Burton, these are loan programs. SBA has a number of loan programs to assist a man in business, to go forward in business. And here is a new program that we are reviewing, economic opportunity. And they have several

tools. One is to take a prime contract and break it down, and to let them become owners of the company to give them jobs.

And another is to make a loan. Some people don't want loans. They want welfare, they want handouts. Some don't want to work, regrettably and unfortunately. And this is a new tool to try to help people to become entrepreneurs, to become owners, to become owners of the company, to become managers. And I am sure the SBA has a difficult problem. As I say, one gentleman stated that it wasn't a matter of money, it was a matter of management and know-how. And so we are reviewing the programs to try to assist people to get ahead in business.

Mr. BURTON. I am all for that, Mr. Chairman. The only thing I am trying to develop this morning is that when I play a ball game, I want to know what the rules are, and I want them to apply to all the players equally.

Mr. MOOT. You appreciate that this is a very difficult program. The economic opportunity program, Mr. Burton, is somewhat different from a regular business loan program. It is easy to process a bank loan of the kind that we normally make in our regular business loan program, where it is a question of evaluating security, past sales, projection of new sales, the market, and so forth, and a balance sheet. It is much more difficult and necessarily subjective when you are evaluating the granting of a loan of Treasury dollars to a man who does not have security but can offer you his experience, which you have to test, his character, which means his reputation of paying his bills, and so forth, and a proposal which you have to test in terms of the market viability. These matters necessarily are subjective. And there is no substitute for the mature judgment of our regional directors and their loan assistants and their management assistants in the area of knowing the community and being able to check on the credit ability of the applicant. I don't really see any other choice. I can put in the record the specific criteria that we pass out. But I am the first to admit that it is subjective.

Mr. BURTON. It has to be pretty flexible.

Mr. MOOT. That is true, sir.

Mr. BURTON. Thank you.

The CHAIRMAN. Mr. Horton.

Mr. HORTON. No questions, thank you.

The CHAIRMAN. Will you yield to Mr. Conte?

Mr. HORTON. I yield.

Mr. CONTE. On page 10 you say, "The involvement of banks as participants in these admittedly high risk loan situations has shown a steady increase, 5 percent when the program started, 11 percent now, and a predicted 13 percent for the current fiscal year."

Could you give us a dollar figure of the bank involvement, sir?

Mr. MOOT. So far this fiscal year, since April, we have had $3 million of private sector financial institution participation in the economic opportunity loan program, which in total through that same period of time was $23½ million.

Mr. CONTE. Thank you.

The CHAIRMAN. Any further questions, gentlemen?

Mr. Corman?

Mr. CORMAN. No, sir.

The CHAIRMAN. Mr. Mitchell, our counsel.

Mr. MITCHELL. Mr. Chairman, for coherence of the record may we have placed in the record immediately following Mr. Greenberg's

formal statement, title IV of the Economic Opportunity Act of 1964, as amended by the Economic Opportunity Act Amendments of 1966 and 1967?

The CHAIRMAN. Without objection, it will be included.

Mr. MITCHELL. And also section 8(a) of the Small Business Act?

The CHAIRMAN. Without objection.

(The material referred to may be found beginning at p. 144 of this record.)

Mr. MITCHELL. Concerning section 8(a), of the Small Business Act, Mr. Greenberg, where you are using that authority to help channel contracts to businesses, is this being utilized solely to channel contracts into small businesses, or to any size business in a depressed area?

Mr. MOOT. May I respond to that, Mr. Chairman?

Mr. MITCHELL. Yes, sir.

Mr. MOOT. We are using 8(a) for the benefit of small business. And unless that appears to be an equivocal answer, I will go on. In one of the eight subcontracts we have made to date we have contracted with what is currently a large business, with a firm legal document in hand showing planned divestiture by sale of the small entity which is now a currently wholly owned subsidiary of the large concern. We have interpreted our authority under 8(a) to allow us to use 8(a) to the benefit of small business.

As the chairman mentioned earlier, we look with great promise to the area of having big business work with us in what are termed spinoff operations where they will help us form a small firm, start out with the ownership of that firm, but with a firm plan for divestiture, so that the community becomes the owners over a period of time.

Mr. MITCHELL. We understand that section 8(a) is being utilized now for the purposes of channeling contracts to business in poverty areas, or areas of economic deprivation. Are you using or have you used or are you planning to use section 8(a) solely for the purpose of channeling contracts just to small business, regardless of the area, in any areas where you might find that the Government procurement agencies are not properly giving small business their fair share?

Mr. MOOT. We haven't reached that point, Mr. Mitchell. We have taken the congressional intent for this program as expressed in section 407, title IV of the Economic Opportunity Act Amendments of 1967, as a direction of the Congress for us to use section 8(a) for the poverty pocket areas at this stage. And I am frank to admit that it will take us some time to get this piece of the job done.

So we haven't looked beyond that.

Mr. MITCHELL. I have one other question: Much talk has been had and much legislation has been introduced concerning providing insurance through some Government-sponsored plan to businesses and small businesses that have been injured as a result of crime and riots, and so forth.

I believe that Mr. Horton introduced a bill along this line. Has the Small Business Administration taken any position concerning this type of approach to helping the small business?

Mr. MOOT. Yes, sir. We have taken a very strong position, and have testified in favor of S. 3028 and its House counterpart, which provides for insurance on the fair plan with a reinsurance provision by the Federal Government.

Mr. MITCHELL. That is all I have, Mr. Chairman.

The CHAIRMAN. We want to hear from our other witness in just a moment. But first, let me say this. In the vast Economic Opportunity Act we notice the section that says, on page 41 of the act, under section 406(f), that "The President may, if he determines that it is necessary to carry out the purposes of this part transfer any of the functions under this section to the Secretary of Commerce."

Now, that was a rather gratuitous section that was thrown in and agreed upon by an unnamed Senator. We think that the SBA is capable of doing this job. We think that it is located in the right area and in the right jurisdiction, that you are experts in this field. It is a new program, and you are making some progress, although it is a very difficult program. We want to commend you on it. We battled to have SBA administer this program. We have confidence that you will do a good job.

Mr. MOOT. Thank you, sir.

The CHAIRMAN. If there are no further questions, we will hear our next witness, Mr. Bothmer, who is the Deputy Associate Administrator for Procurement and Management Assistance.

The procurement program is one of the vast programs of the SBA, and one that has always been of immense value and service.

Mr. Bothmer, we will be pleased to hear your statement as to how your program is coming along.

Mr. BOTHMER. Thank you, Mr. Chairman.

I appreciate the opportunity to discuss this morning our procurement and management assistance programs.

The general objectives of our procurement assistance program are to increase the share of awards to small business at both the prime and subcontract level and to decrease the number and severity of the problems which small firms experience either in being considered for awards or in the field of contract administration.

Since 1960, there has been a dramatic rise in total Federal procurement and the amounts going to small business.

In 1967, Federal procurement totaled $49.8 billion, an increase of 92.2 percent over the $25.9 billion in 1960. The amount going to small business more than doubled and reached $10.2 billion in 1967, an increase of 117 percent over the $4.7 billion in 1960. Percentagewise the small business share increased from 18.3 percent of the total in 1960 to 20.5 percent in 1967.

The CHAIRMAN. If I may interrupt at this point, when you indicated that Federal procurement in 1967, last year, totaled $49.8 billion, an increase of 92.2 percent over the $25.9 billion in 1960, is this all procurement, both military and civilian?

Mr. BOTHMER. That is correct, Mr. Chairman.

The CHAIRMAN. And small business' share has gone up 117 percent since 1960. To what do you attribute this mammoth rise? Of course, there is great procurement in the military for the Vietnam war effort. But there has been this vast increase. Tell us what accounts for this large increase.

Mr. BOTHMER. The percentage of increase for small business, Mr. Chairman?

The CHAIRMAN. Right.

Mr. BOTHMER. We feel that the attention that has been given to the small business and the need for a viable small business community in assuring a healthy economic growth in the country by the

Congress, that the continuing attention legislatively that has been paid to this area has contributed greatly to the rise in contract awards to small business, Mr. Chairman.

The CHAIRMAN. Very good.

Mr. MOOT. I think also, Mr Chairman, that you touched on another fact, that the absolute volume of Federal procurement matches the defense programs in terms of the readiness of the country, as is evidenced by the difference between the $25.9 billion and the $49.8 billion which is the current level.

The CHAIRMAN. That is a dramatic rise. And the SBA and the others who have contributed to that percentagewise, as far as small business is concerned, are to be commended.

Mr. MOOT. And likewise this committee has done an amazing amount of work in hearings and in reports, which has helped our effort considerably, sir.

The CHAIRMAN. Proceed, Mr. Bothmer.

Mr. BOTHMER. We believe this trend speaks well for the efforts expended by SBA and for the cooperation we are receiving from the procurement activities of the Government. However, we are not resting on this past record. We intend to continue to press for larger shares of procurement for small business and would like to raise the level to 26 percent by 1975.

In addition to prime contract awards, we are, in cooperation with DOD and GSA, engaged in an effort to induce big business prime contractors to increase their subcontracting with small business.

We are working with 39 large Government contractors in what we call our voluntary subcontracting program to seek out more small firms for subcontract work. In fiscal year 1968–69, the number of prime contractors will be increased from 39 to 74 and the number of plants from 244 to 324.

The CHAIRMAN. If I might interrupt again, I would like to commend you for the recent voluntary subcontracting program conference which was held in this room recently, which is another evidence of your inducing large Government contractors to subcontract with small business.

Proceed.

Mr. BOTHMER. Thank you, Mr. Chairman. We appreciate the cooperation we received from this committee in making facilities available and making this conference a success. We have had a number of compliments on it.

We also have established Project Upgrade which is designed to assist submarginal small firms to improve their capabilities for subcontract work.

The subcontract program already is producing good results. In fiscal year 1967, DOD, NASA, and AEC, prime contractors reported that they had placed $7.3 billion in subcontracts with small firms. If we add this amount to the $10.2 billion in total prime contracts awarded to small business, the total would represent 35.2 percent of the 1967 Federal procurement dollar, as compared with 20.5 percent.

I am glad to report that after little more than a 2-year lapse, the procurement set-aside program was resumed on November 1, 1967.

We have 18 representatives working at major procurement activities of the Department of Defense and are budgeting for full implementation in 1969.

These representatives open up new opportunities for firms to compete by recommending, when appropriate, that sole-source procurements be made competitive; recommending that separate portions of large planned procurements, or suitable components of end items, be purchased separately so small firms may compete, locating additional small business suppliers for these opportunities and recommending modification of unduly restrictive specifications.

The CHAIRMAN. Mr. Bothmer, you indicated just now that you have had 18 of these procurement specialists since you have resumed the program. How many did you have prior to the time it was discontinued?

Mr. BOTHMER. I believe it was 46, Mr. Chairman.

To help reduce contract administration problems of small firms, we plan to have representatives stationed at Defense Contract Administration offices.

There they can serve as a "friend in court" in such matters as inspection problems, problems of delay in performance caused by the Government, or causes beyond the control of the small firm, progress and other payment problems, and proprietary rights problems.

The CHAIRMAN. If I might interject again, there was a continuing argument that SBA should have the specialists. Others such as the Defense Department have them. We had a period when we didn't have the specialists, and during this period I must say that your testimony indicates that the highest percent of subcontracting was going on. Which shows that it is not all the work of the specialists. I would like to say that it is not the number of specialists that you have in the field, but the quality and capability. One man might be able to do more than a dozen others.

That is just a gratuitous comment.

Proceed.

Mr. BOTHMER. We have recently started some special studies to determine, on a geographic and industrial basis, where the Federal procurement dollar is being spent. The first such study dealing with a contract density index has recently been completed.

The contract density index is a useful measure of the relative impact of Federal procurement among SBA regions and areas. The index represents the ratio of each region's or area's share of total procurement to its share of total manufacturing shipments, converted to a base of 100.

An index of 100 for an area or region means that its share of total Federal procurement equals its share of manufacturing shipments.

Indexes above or below this base measure the degree to which the area or region has exceeded or fallen short of its proportionate share of Federal procurement awards.

The wide dispersion of the index (from a low of 20 for the Boise and Sioux Falls regions to a high of 900 for the Washington metropolitan region) reflects major variations in regional industry mixes.

The 27 regions with the highest indexes (125 and above) generally contain medium or large metropolitan areas which have emerged as growth centers for new industries serving the needs of the electronic, missile, and space age. Illustrative of these are most of the regions of the northeastern area; Jacksonville and Miami in the southeastern area; and Los Angeles, San Francisco, and San Diego in the Pacific coastal area.

Indexes of 80 or lower were recorded for 29 regions. These include two principal types of region:

(1) Regions containing metropolitan complexes with high concentrations of manufacturing concerns producing basic materials, heavy equipment, production equipment, and automotive vehicles—such as Pittsburgh, Birmingham, Chicago, Detroit, Cleveland, and Portland.

(2) Regions which are predominantly rural with limited man manufacturing facilities largely devoted to supplying local markets on processing local primary materials—such as Clarksburg, Jackson, Augusta, Little Rock, Des Moines, Boise, and Spokane.

In some instances, a high concentration of service-type contracts may distort an index based upon manufacturing capabilities.

This explains, in part, the abnormally high index (900) for the Washington metropolitan region.

The certificates of competency program is designed to give small firms a better chance to participate in Government procurement.

If a small business bids low on a Government contract, and the contracting agency feels that the firm does not have adequate productive capacity or credit to fulfill the contract, SBA is authorized to investigate the competency of the firm. SBA may issue a COC based on a thorough study of the company's operations. The contracting agency must award the contract to the small business when the certificate is issued.

SBA follows the progress of the contract until it is completed. If the contractor has difficulty meeting production schedules because of technical or other problems, SBA offers assistance.

The program also makes available to the Government the services and products of those qualified small firms that have submitted low bids on particular purchases. This enables the Government to realize a saving and the Government, as well as small business, benefits.

Since it began, through fiscal year 1967, the COC program has saved the Government $29.8 million through the acceptance of low bids on the 2,111 COC's issued. In fiscal year 1967, the total savings were $1,498,000 based on 141 COC awards made for $22.8 million.

Another 94 awards valued at $14.3 million were made without the necessity of issuing COC's after SBA supplied specific information to contracting agencies. The savings, by accepting these low bids, exceeded $1.5 million.

Section 8(a) of the Small Business Act declares it to "be the duty of" SBA, and SBA is empowered whenever it "determines such action is necessary" to enter into procurement contracts with other Government agencies on such terms and conditions as the parties agree.

SBA is authorized by section 8(a)(2) to subcontract to others the performance of contracts it has obtained. This authority had not been exercised by previous SBA Administrators. Our decision to utilize this authority was prompted by the President's test cities program announcement proposing to "mobilize the resources of private industry and the Federal Government to help find jobs and provide training for thousands of America's hard-core unemployed."

In addition, the Economic Opportunity Act Amendments of 1967 added congressional emphasis and direction for our use of this authority.

In utilizing 8(a) in the context, we are trying to encourage small business development in areas which require economic stimulus and small business participation in resolving a critical national problem of developing job opportunities for the hardcore unemployed in our country.

We are moving carefully in employing our 8(a) authority. Our initial effort was focused on the five cities in which the test program operated—Washington, Boston, Los Angeles, San Antonio, and Chicago.

With the full cooperation of the Department of Defense and the General Services Administration, we are jointly determining the items that are relatively simple to manufacture; that have a large continuing requirement; and that generally lend themselves to the training and skill development needs of the hardcore unemployed.

We are seeking out qualified small business firms that are interested in participating in this program.

Other Government agencies are assisting us in developing a procurement package that will be acceptable to the small business subcontractor who is being asked to assist not only in training of completely unskilled individuals, but also in providing permanent jobs. The Labor Department has agreed to expedite its consideration of training program requirements that can be included in our negotiations with potential subcontractors.

Arrangements have been made with Lackland Air Force Base for a contract to supply troop issue bakery items. We have subcontracted with an existing supplier, and we are assisting in expanding a small minority-owned bakery in San Antonio to which we will subcontract a portion of the requirement. Both firms plan to work with the Labor Department in a training program. A loan application from the second firm to assist in its expansion plans is now being processed by our agency.

In Washington, D.C., we are working initially with a large business concern. In this particular case, the large concern in conjunction with a local civic organization is setting up a local development corporation. The corporation will provide operating capital for a newly formed small business firm to which SBA will subcontract for military requirements.

For the initial production item, we are taking contracts from the Defense Supply Agency for wooden pallets and boxes. These will be subcontracted to the small manufacturer and will provide a production base from which this business can be launched successfully.

Eventually, the firm plans to expand into electronic assembly work. At least 60 hard-core unemployed will be brought into the training program during the initial phase of this operation.

The Labor Department has agreed to a 12-week training program, and the Economic Development Administration will provide assistance for necessary management and technical advice.

SBA seeks to assure full opportunity for small logging and milling concerns to bid on Federal timber sales. To do this, SBA and the appropriate Federal sales agency set aside certain timber sales for bidding by small concerns only. Since the inception of this program in 1959, SBA-sponsored set-asides have averaged almost $6 million annually. It is expected that set-asides will be $14 million annually by fiscal year 1969.

SBA also has programs to assist small firms in purchasing surplus Government property, to promote the interests of small business in the purchase of stockpile items and to encourage the Department of Commerce to keep in mind the interests of small business when preparing regulations governing the allocation of critical materials.

In summary, the major SBA procurement assistance events during the past year involved:

Reestablishment of the agency's "procurement set-aside" program.

Expansion of the subcontracting program to gain more Government business for the small producers.

Increased activity in the certificate of competency program.

Activation of the 8(a) procurement program in furtherance of the President's test cities effort to provide more jobs for the hard-core unemployed.

Restaffing of the procurement centers with SBA representatives to assure continued attention to the small business potential by the procurement officer.

BUSINESS MANAGEMENT ASSISTANCE

Our Office of Management Assistance conducts a number of programs designed to assist businessmen in their day-to-day operations. This Office—

Publishes factual pamphlets and booklets covering the whole spectrum of small business operation.

Provides counseling services through its own network of management assistance officers in 73 cities.

Offers counseling at local levels program which brings the services of SBA counselors to about 500 cities per quarter.

Makes arrangements with educational institutions to provide both day and evening training sessions in business subjects for established businessmen as well as potential entrepreneurs.

Manages a cadre of 3,210 retired executive (Service Corps of Retired Executives) who volunteer to provide their expertise to small business free of charge.

During fiscal 1967, 3,400,000 copies encompassing 500 different business subjects were distributed.

Our publications are written by distinguished authorities in the business field, either as a public service or for a modest fee.

Interest in our publications is continually growing.

The overwhelming majority of all publications distributed was a direct result of specific requests from individuals, corporations, governmental institutions, State governments, foreign governments and banks.

Many police departments have very recently requested volume amounts of publications dealing with crime prevention measures which small businesses located in ghetto areas may be able to take.

The CHAIRMAN. Mr. Bothmer, are you telling the committee that you have a publication in SBA on how to prevent crime, and that the police departments, who are supposed to be experts, call upon you for these publications so that they may be better informed?

Mr. BOTHMER. Not a single publication, Mr. Chairman. We have some publications dealing with subjects such as shoplifting and the kind of preventive measures that small companies might take from a

merchandising standpoiut to alleviate or minimize shoplifting, similar publications which have been of interest to police departments, who in turn redistributed the pamphlets.

The CHAIRMAN. And these are for distribution to the small merchants?

Mr. BOTHMER. That is correct.

The CHAIRMAN. Mr. Bothmer, this is just another example of the many services of SBA.

Proceed, Mr. Bothmer.

Mr. BOTHMER. During 1967, the agency set up more than 2,000 business education courses, workshops, seminars or conferences. This training varies from a course meeting 1 night a week for 8 to 10 weeks, a 1-day workshop for prospective business owners, or a 1-day conference for established small business owners.

Approximately 73,000 small businessmen and potential small businessmen attended such training units in fiscal year 1967. This past year there has been a sharp increase in attendance by relatively young people and members of the minority groups who desire to own their own businesses.

The 3,210 volunteers in SCORE helped more than 11,500 businesses and individuals last year. These ranged from one-time visits to small stores to assist in such problems as bookkeeping, inventory management, customer stimulation, and other subjects to intensive day-to-day counseling.

An outstanding example of the service, rendered free of charge, by individuals in this category is seen in the case of help given to a cooperative in a small Louisiana town.

A retired vice president of General Mills went from Minnesota to Louisiana (travel paid by the SBA, but no salary), and as a result of his visit, the cooperative's ventures into the baking industry, and the retail grocery, and gasoline business, was completely remade.

PROMOTION OF SMALL BUSINESS IN EXPORT TRADE

On November 13, 1967, SBA and the Department of Commerce formally signed an agreement to help the Nation's small businessmen enter export markets and share in the benefits of our expanding export trade.

The CHAIRMAN. Mr. Bothmer, I read this statement earlier with interest as to why it would be necessary to presume that you would have to enter into an agreement with the Department of Commerce to agree to stimulate export trade, in view of the balance-of-payments situation. We have had extensive hearings heretofore on how to use all the tools available to try to encourage small business in the export field. And Commerce does this, and SBA does it. Why is it necessary to enter into an agreement to promote this objective? This is one of the regular missions, this is one of the goals. That is a nice statement, but it doesn't get the job done.

Mr. BOTHMER. I think one statistic, Mr. Chairman, might be useful. There are approximately 290,000 manufacturers in the United States, of these, about 90 percent are small businesses. Less than 5 percent are actively engaged in export trade. A majority are small businesses under the size standards of the SBA.

The CHAIRMAN. What growth has there been in small business participation in export trade, let us say, in the last 5 years?

Mr. BOTHMER. I am sorry, Mr. Chairman, I don't have that information available.

(The following was subsequently submitted and ordered to be inserted at this point:)

GROWTH IN SMALL BUSINESS PARTICIPATION IN EXPORT TRADE

A review of foreign trade statistics compiled by the Bureau of the Census reveals that there are no available export statistics tabulated by size of business which permit an analysis of the growth in small business participation.

The CHAIRMAN. I think you ought to have some figures as to how much export trade small business is doing, whether it is growing.

Mr. BOTHMER. I think I can say generally, Mr. Chairman, that the export trade business being done by small concerns has been growing at a much less dramatic rate than the growth rate in the medium-sized and larger firms. And part of the problem, as we see it, is to encourage small business by making known to them the fact that their capability to participate in this field is not necessarily as difficult as it appears to many people who have not previously engaged in it.

The CHAIRMAN. Didn't SBA at one time have an export division, foreign trade section or division? Do you have such a division now, or are you turning it all over to Commerce?

Mr. BOTHMER. We did have a very small group interested in the export trade field sometime ago. This was discontinued. And we have just reopened our interest in this by working out this agreement with the Department of Commerce. And we do currently have a gentleman in my office whose function it is to continue to work with Commerce and with large-scale carriers, and so forth, interested in the export field to sponsor conferences and workshops to try to educate small companies to the possibilities of entering this field.

The CHAIRMAN. We commend your effort.

Mr. BOTHMER. Thank you, Mr. Chairman.

The agreement provides for close cooperation between SBA a d the Commerce Department's Office of International Trade Promotion to expand U.S. exports to help improve the Nation's balance of payments.

Under this agreement, SBA will give additional emphasis to loans to small business for participation in U.S. export trade.

SBA will also encourage small businesses to participate in U.S commercial exhibits, in U.S. Trade Center exhibitions in trade missions and trade conferences.

SBA shares the frequently expressed confidence of the House Select Small Business Committee that American small businessmen possess the competence and ingenuity to compete successfully in export trade, provided they have a knowledge of foreign market potential for a given product or service and follow sound marketing management practices.

The two agencies, together with American flag carriers, have set up a series of at least 12 foreign trade conferences in the United States during 1968.

A highly successful conference was held in Boston in which Pan American World Airways Cargo Service joined the Government agencies.

Another has been held in Seattle, Wash., with Northwest Airlines joining Commerce and SBA as sponsors, with 64 new potential exporters signing up.

Preparations are under way now for conferences in Phoenix, Atlanta, Los Angeles, Jackson, Chicago, Cleveland, Louisville, Miami and other cities of small business manufacturing concentration.

TECHNOLOGY UTILIZATION

In the middle of 1967, SBA undertook to assist to the small business manufacturing community (300,000 companies) to obtain some of the benefits from technology information generated as a result of Government-sponsored research and development. Two programs have been activated:

First, the scheduling of technology utilization conferences throughout the country and technology transfer workshops to encourage the potential commercial application of technical advances from space, nuclear energy and other programs, and

Second, the screening of technical information resulting from Government-sponsored research and development and publication of selected items in special industry-aimed pamphlets.

During the past 6 months, three highly successful general conferences have been held and an additional 23 are scheduled in the major manufacturing centers of the country.

Conferences and workshops are cosponsored with SBA by such agencies as NASA, AEC, State Technical Services and are participated in by technical staffs from those agencies.

Smaller, industry-oriented workshops have been held with the cosponsorship of universities and trade associations, such as the Tool and Die Institute.

It is estimated that more than 500 companies have already reacted to conference and workshop attendance by requesting additional and more detailed information on specific technical subjects.

Many publications will be issued in the coming months. The first publication, dealing with Electrical and Electronics Advances, has been issued and will reach a selected audience of 17,000 manufacturing firms.

Other carefully screened publications will appear later in the year and will cover such subjects as: Advances in Tools, Dies, Jigs, and Fixtures Technology; Advances in Welding, Brazing and Soldering Technology; and Selected Advances in Instrumentation Technology.

That concludes my statement, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Bothmer, for a comprehensive statement of your two principal functions: procurement and management assistance.

There is nothing as powerful as an idea. And these technical publications and conferences may well stimulate new ideas for new industries and growth.

Certainly the Government is spending a great deal of money on research. And we hope that there will be results growing from it.

I want to ask you a question or two. I think you are doing a good job on your procurement program. I am glad to see the percentage of your small business participation increasing. We have a special committee concerned with procurement. And we think it is also doing a good job in supporting it and assisting it.

You state on page 5 that once a COC is issued that the agency must award the contract. I understand that the way it used to be was that you checked into their capacity and credit and, if you found that it was satisfactory or acceptable, you issued the COC, and they were supposed to let them have the contract. Now they are finding other ways and means of getting around this certificate of competence and stating that they don't have the tenacity necessary, or the perseverance. They are finding other avenues to evade the COC. Would you want to elaborate for the record on this?

Mr. BOTHMER. Yes, Mr. Chairman. Several years ago the first test case of this kind arose in which the small bidder on a Government contract was disqualified on the basis of tenacity and perseverance. This generally refers to the record of the small business company on past transactions, its record of performance, as opposed to its financial capability and its capacity in tooling and plant. This concept was tested and upheld by the General Accounting Office.

We think in SBA that certainly the procuring agency has every obligation to ascertain the tenacity and perseverance of a firm. We don't know exactly how much impact the use of tenacity and perseverance is having, but we feel that it could be very substantial. And we feel that one of the things that should be looked at very closely is the question of the current status of the firm. In other words, if its past record is the sole basis for determining its tenacity and perseverance, and it is ruled out on the basis of that record without any current look at perhaps changes in the management, changes in the policy or other things that would have a bearing on that record, it would be very difficult indeed for a small concern to ever get back into Government procurement.

And, therefore, we think there must be a current look at the question of the firm's willingness to perform before it is ruled out on the basis of tenacity and perseverance.

Mr. MITCHELL. As a practical matter, Mr. Bothmer, hasn't SBA in the past when it surveyed a company as to capacity and credit taken all these factors into consideration?

Mr. BOTHMER. Yes, Mr. Mitchell. We in SBA—and I certainly as an individual—feel very strongly indeed that we are doing no one any favors by certifying as to the competence of a firm if it is not truly competent. And by that I mean from all standpoints that we are able to make any check on. We don't think we are helping the small business if they can't perform the contract. And we are certainly not interested in certifying people who can't fulfill their obligations to the procuring agency. So we do in fact check on every aspect of the business.

Mr. MITCHELL. Then if Congress, in order to straighten out this matter, desired to add the words "tenacity and perseverance" in section 8(b)(7) of the Small Business Act, it would actually put no greater burden on your agency; it would actually clear the matter up more than anything, wouldn't it?

Mr. BOTHMER. Yes, sir; that is correct.

Mr. MITCHELL. That is all.

The CHAIRMAN. At what levels are your small business specialists in procurement stationed in the Department of Defense?

Mr. BOTHMER. Generally, when we have fully implemented this program, Mr. Chairman, we will have some 45 procurement center

representatives throughout the country—42 will be in procurement installations, and three will be in defense contract administration service regions, on a test basis. The 42 in procurement centers will be at the large procuring activities: the Defense Department, NASA, the AEC, and so forth. Some portion of those 42 people will cover more than one installation on a liaison basis. As far as their actual level in the organization is concerned, we try to assure—and I think with some success—that our procurement center representatives have access to the top-level procurement people and the commanding officers of most of the installation in which they are stationed.

The CHAIRMAN. I want to yield to our distinguished chairman of the Subcommittee on Procurement: Mr. Corman, of California.

Mr. CORMAN. Thank you, Mr. Chairman.

Mr. Bothmer, I know that you are going to be back before our subcommittee in a couple of weeks. But I want to say that I shared your optimism when we looked at the figures on the growth of the percentage of small business up to the first half of this fiscal year. And then we noted that, insofar as the Department of Defense is concerned, it had dropped back to below 18 percent, or about that figure. And I wondered if you had any views now or might have when you appear before us as to the reasons for that, and what we might do to change that trend.

Mr. BOTHMER. Yes, Mr. Corman. We would be very happy to discuss that in detail later. And briefly now, I might say that the Procurement Division, as you know, has a great deal to do with the success or failure of the small business program in any given year.

I have a few figures on this as of the time frame you are talking about. During the first three quarters of fiscal year 1968, the percentage declined from 20.6 to 18.4. While I think that SBA's programs can help alleviate this sort of situation, and the reinstitution of our PCR's and activity in the procuring centers will have a salutory effect, I think there is something to be said for the problems that are faced by the procuring agencies. In this case, the commercial-type items which have greater small business potential and normally provide about 50 percent have been reduced in dollar volume over that period in terms of about a billion dollars. During that same period, clothing and textiles, which are predominantly produced by small business, have been reduced by about $375 million. Sustenance, another item in which small business shares very highly, is down by about $175 million. And in addition to that, the purchase of missiles was up $500 million. In aircraft engines there was a $300 million increase. So I think that the decline percentagewise in dollar expenditures in the areas in which small business normally shares best during the same time frame that the hard goods, particularly the larger weapon systems hard goods, have been going up, has in part at least accounted for this decline.

Mr. CORMAN. We will explore that in much more detail in a couple of weeks.

With reference to tenacity and perseverance, which the chairman brought up, we were very disturbed just because we had trouble getting a handle on it ourselves. What about the poor businessman out there? As I understand it, that issue never comes before SBA. Let us assume for the moment that he is the low bidder, and the procuring agency says, "We are not worried about his credit and his competency, so we won't submit that issue to SBA. We are going to eliminate him on tenacity and perseverance." And you never take a look at that, do you?

Mr. BOTHMER. That is correct.

Mr. CORMAN. Now, as I recall the testimony, they have not used this as a second step. In other words, if they submit the credit and competency to you, you give them a certificate, and then they can't come back and pull the rug out from under him after they get the certificates by saying that he didn't have the tenacity and perseverance; do they?

Mr. BOTHMER. There have been one or two cases where that has happened. That certainly is not a general practice. I will say that we normally work quite cooperatively in this field with the procuring agency. But that has happened.

Mr. CORMAN. I think our subcommittee would like to have the instances for the record, because in the first place, if they decide when they first look at him that he isn't going to get the contract anyway, they shouldn't put you through the exercise of reviewing for a certificate.

Mr. BOTHMER. I agree with that.

Mr. CORMAN. What has been your record for performance when you do get a certificate of competency?

Mr. BOTHMER. Our record has been quite good. It is a little difficult to be exactly responsive to that question. But, for instance, the default rate on contractors to whom we have issued certificates of competency, I think, compares very favorably with the default rate experienced generally in the Defense Department. In fact, it may be better than the default rate generally. We work very hard to make sure that it comes out that way.

Mr. CORMAN. I am pleased to hear that. And I think it might be protection for you and for our committee if you keep some statistics. Because if anybody ever gets the idea that they might want to change it, we might want some statistics to back us in retaining the present policy.

The CHAIRMAN. Will the gentleman yield?

Mr. CORMAN. Yes, sir.

The CHAIRMAN. I think, in addition to the default, we are concerned as to how many times they have failed to honor your COC's. The law says they must.

Mr. BOTHMER. To the best of my knowledge we have no record of that sort of thing, Mr. Chairman.

The CHAIRMAN. You have just delineated that they have found other criteria?

Mr. BOTHMER. On the one or two occasions where they have, subsequent to the issuance of the COC, said that the company lacked tenacity and perseverance, that is true, Mr. Chairman. But I understand your question to be broader than that. And in other circumstances we have no trouble.

The CHAIRMAN. You say there are only one or two exceptions in which they have failed to honor your COC's?

Mr. MOOT. Occasionally, Mr. Chairman, there is a cancellation of the requirement after we issue a COC, which is a subjective determination that the requirement no longer exists. This is a pretty difficult thing to prove.

Mr. BOTHMER. We don't feel, in other words, that the Defense Department has specifically said, "We refuse to honor a COC; there are other reasons."

The CHAIRMAN. Very good.

Mr. Corman.

Mr. CORMAN. Just one other thing. We will want to look very carefully at your criteria in deciding whether to take a prime contract for the purpose of contracting the small business. And also I am curious as to whether or not you have to compete when you want to bid on a prime.

Mr. BOTHMER. No; we do not have to compete. We can certify ourselves as being competent. And in very brief form, the criteria we are mostly interested in is whether we can find simple items for which there are continuing requirements, and from which there is a need for additional competition. In other words, we don't want to take an item and subcontract it out and find 6 months later that we have no continuing way to keep the subcontractor in business, nor do we want to take contracts from Peter to pay Paul.

So we are looking for added capacity.

Mr. CORMAN. We will look into that in more detail. We are out of time.

The CHAIRMAN. Mr. Addabbo.

Mr. ADDABBO. I am happy to be a member of this Select Committee on Small Business and a member of the subcommittee with Mr. Corman. I take this opportunity, first, to congratulate the Administrator and his staff on the work that they have been doing. We have had some favorable reports back in New York, although there are still innumerable problems.

Mr. Administrator, we are also extremely pleased and proud of your Associate Administrator for Procurement and Management Assistance, Irving Maness. I know that the small business community in New York and in the Nation is extremely proud of his efforts on behalf of the small businessman. The exceptional job done in the procurement and management area, we know, is due to the great efforts of Irving Manness.

I congratulate the Administrator and his staff on the wonderful statements they have presented. I hope that we will be able to supply the funds when you have the manpower to fulfill this dream.

I look forward to working together with the committee and SBA individually. On the question of publications, how technical, Mr. Bothmer, would the publications be? Will we need explanations of the publications, or will they be clear enough for the small businessman to be able to interpret without hiring counsel?

Mr. BOTHMER. We try to keep our publications very simple, very down to earth, very practical. In the main, when we are talking about things like, for instance, controlling an inventory system, or retail displays, that sort of thing, we try to get an expert in the field to write an article. We review it in a number of ways, and try to put it out in a form that is very readily understandable.

You may have reference also to the publications that we intend to put out in our technology utilization endeavor. In that case they are very obviously and necessarily more technical and more complicated. However, our whole purpose is to take briefs of the National Aeronautics and Space Administration, patterns and information developed by the Commerce Department or the Defense Department, and do in a selected field relate all the information that we can to sort of bring up a pattern of the current state of the art and new advances in that field.

And again we try to keep it as simple as we can, and have it reviewed by a number of activities, including the experts in other departments, and try to put out something that is as understandable to a layman as we possibly can.

Mr. ADDABBO. On page 16 of your statement you say, speaking of certain publications, that they will reach a selected audience of 17,000 manufacturing firms. When you say a selected audience, how will they be selected?

Mr. BOTHMER. We have worked with industry associations, our own facilities, our inventory files, and so forth, and with NASA and the other agencies concerned with advances in this area, in trying to select that group of small businesses which we think will be interested in receiving this information.

Mr. ADDABBO. Thank you.

No further questions, Mr. Chairman.

The CHAIRMAN. Mr. Williams, any questions?

Mr. WILLIAMS. No, sir.

The CHAIRMAN. Mr. Moot, Mr. Greenberg, and Mr. Bothmer, we thank you. We think you have many tools. And we commend you for the work that you are doing.

Without objection, counsel may insert sections of the act in the record.

Mr. MOOT. Thank you for your consideration and support.

The CHAIRMAN. We will stand adjourned until 10 o'clock tomorrow, at which time we hope to look over the program of the Small Business Investment Divisions.

(Whereupon, at 12:15 p.m., May 21, 1968, the committee recessed, to reconvene at 10 a.m., Wednesday, May 22.)

ORGANIZATION AND OPERATION OF THE SMALL BUSINESS ADMINISTRATION (1968)

WEDNESDAY, MAY 22, 1968

HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE TO CONDUCT STUDIES AND
INVESTIGATIONS OF THE PROBLEMS OF SMALL BUSINESS,
Washington, D.C.

The committee met, pursuant to call, at 10 a.m., in room 2359, Rayburn House Office Building, Hon. Joe L. Evins (chairman) presiding.

Present: Representatives Evins, Patman, Dingell, Addabbo, Conte, Horton, and Morton.

Also present: Richard L. Mitchell, special counsel; Myrtle Ruth Foutch, clerk; Beth Russell Schultheis, staff assistant; and John J. Williams, minority counsel.

The CHAIRMAN. The committee will come to order.

This morning we will resume our hearings on the Small Business Administration.

We hope that these hearings are instructive and helpful.

We have Mr. Moot, the Administrator, back with us this morning, and Mr. Greenberg, the Deputy Administrator, and Mr. Glenn R. Brown, the Associate Administrator for Investment.

TESTIMONY OF ROBERT C. MOOT, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION; ACCOMPANIED BY HOWARD GREENBERG, DEPUTY ADMINISTRATOR, AND GLENN R. BROWN, ASSOCIATE ADMINISTRATOR FOR INVESTMENT

The CHAIRMAN. Mr. Administrator, how do you wish to proceed?

Mr. MOOT. I would like to make some opening remarks, Mr. Chairman, and then ask Mr. Glenn Brown to present a statement to the committee.

The CHAIRMAN. Very well.

Mr. MOOT. I would like to say for the record that, since the Small Business Administration testified in 1966 before this committee on the small business investment company program, in my opinion much has happened to the benefit of the small business community. And the two men who are with me this morning at the table in my opinion have been largely responsible for the operational improvement of this program.

As you know, Deputy Administrator Greenberg was the Associate Administrator for Investment prior to August of 1967. Since then Mr.

Glenn Brown has been the Associate Administrator and has very capably handled the small business investment company program.

With your permission, he does have a statement which he would like to present to the committee at this time.

The CHAIRMAN. Mr. Brown, you may proceed.

Your entire statement may be included in the record, with the tables. And you may highlight it, or proceed as you wish.

Before you begin, Mr. Brown, we will place in the record at this point something of your background, your experience, and a little biography. Don't be modest. You are a new man heading this Small Business Investment Division.

Mr. BROWN. Thank you.

(The material referred to follows:)

BIOGRAPHICAL SKETCH OF GLENN R. BROWN, ASSOCIATE ADMINISTRATOR FOR INVESTMENT, SMALL BUSINESS ADMINISTRATION

Glenn R. Brown has headed the Investment Division of the Small Business Administration since August 1, 1967. As Associate Administrator for Investment of SBA, Mr. Brown administers the Agency's small business investment company program. This program involves more than 500 privately owned and operated small business investment companies with assets of three-quarters of $1 billion.

Mr. Brown, who is 39, joined SBA in August 1966 as Director of Western Area SBIC Operations and became Deputy Associate Administrator for Investment in November 1966.

Before coming with SBA, he was supervisor for the nine-state southwestern area of the Economic Development Administration.

Mr. Brown has also served as a trial attorney for the Department of Justice, as attorney-managing director of the Texas Association of Life Underwriters, and as Assistant Attorney General for the State of Texas.

A native of Jacksonville, Texas, he is a graduate of the University of Texas in Austin and served in U.S. Army Counterintelligence during the Korean War.

He and his wife Peggy have six children and live in Arlington, Virginia.

Mr. BROWN. As you know, when SBA appeared before this committee in June of 1966, the SBIC industry was the focal point of a searching inquiry by the Congress due to a multitude of problems—involving all aspects of the industry and of SBA's operation of the program. Since that time, we at SBA and the industry have been the beneficiaries of two pieces of legislation which represent giant strides in our continuing quest to provide small business with a sound and viable equity and long-term financing vehicle.

Today, I will direct my remarks to the status of our efforts to successfully cure the problems which were present in 1966, and to our current situation and future plans.

The primary problem which we faced in June of 1966 was that there were many SBIC's who were either unable or unwilling to adhere to the SBI Act, the regulations, and to sound financial practices and requirements incident to the borrowing of funds from SBA.

In July 1966 we instituted vigorous action in order to rid the industry of these operators. As of June 10, 1966, there were 686 licensed SBIC's. From July 1, 1966, until April 30, 1968, 164 licensees left the program, voluntarily or involuntarily, and 15 new companies were licensed. We had 537 licensees as of April 30, 1968. As of that date, 42 of these companies were in the process of surrendering their licenses.

This substantial reduction in the number of licensees does not illustrate the entire picture. On April 30, 1968, there were 120 companies in various problem categories, other than in process of sur-

render. Most of these licensees will be leaving the program in the near future. The remaining 375 licensees form the nucleus for our future plans.

We were able to identify and proceed successfully against the problem companies due to a continuing program of examination, investigation, and appropriate legal action.

As you recall, one of the most glaring deficiencies involved our examination program. The SBIC's were not being examined on a continuing basis nor were the examinations being conducted in depth. From August 1 through November 30, 1966, 434 licensees were examined. This represents every licensed company who had not been examined between January 1 and June 30, 1966. In all of the preceding 12 months only 339 companies had been examined.

As a result of the findings of the examinations, 74 investigations were requested and 64 completed in fiscal year 1967, and 22 have been requested through February 29, 1968, in fiscal year 1968 and 27 completed. In the previous history of the program only 56 investigations were completed.

When violations of the act or regulations are uncovered, legal action is promptly instituted. Since August 1, 1966, 130 complaints have been submitted to the Department of Justice requesting the subject licensee be removed from the program and 63 of these have resulted in judgments in favor of SBA by U.S. district courts. There were 58 cases pending at the Department of Justice or before U.S. district courts as of April 30, 1968, nine of these being criminal references. With your permission, we are attaching an aging of these pending cases and a copy of the agreement which we have entered into with the Department of Justice, which should be treated as confidential. We believe that the agreement has generally worked well to help process these cases.

Each SBIC is now being examined at least once a year. Whereas, in fiscal year 1967, 51 percent of all violations uncovered were of a serious nature, statistics covering the first 9 months of fiscal year 1968 reveal that only 41 percent of the indicated violations could be considered of a more serious nature.

In September 1966, the Congress passed legislation strengthening SBA's enforcement powers and authorizing fines for failure to file reports as required. The legislation also provided that SBA could be named receiver in appropriate cases. The 1966 amendments, resulting in large part from this committee's 1966 SBIC hearings, greatly improved SBA's regulatory tools to allow us to properly administer the program.

Subsequent to the passage of the bill, SBA instituted eight actions against companies who filed required reports late or did not file at all. Of the 75 companies in a state of receivership as of April 30, 1968, 56 SBA receivers had been named.

There were certain other program problems which were apparent at the time of the 1966 congressional hearings. I would like to briefly review these problems and the action we have taken to correct each.

First, licensing procedures needed improvement. In this area we are strictly adhering to a policy of a close scrutiny of each proposal received and of the individuals involved, and an examination of the company within 6 months of licensing. Fifteen licenses have been

issued in the past 22 months. During that period 28 proposals were received.

The 1967 amendments to the SBI Act provided that the Administration, prior to licensing, would give due regard to the need for a licensee in the particular area, the business reputation and character of the proponents, and the probability for financial soundness and profitable operations. We feel that these amendments provide useful guidelines with regard to the issuance of licenses.

We have previously indicated the extent of our overall regulatory activities.

Our new regulations, which became effective on January 9, 1968, better enable us to take action against licensees who are not carrying on active operations. The new regulations provide a presumption of inactivity where SBIC's with large amounts of idle funds do not invest a significant portion of them within a year.

Whereas conflicts of interest and overline violations represented 13 percent of all indicated violations in fiscal year 1967, this figure was reduced to 8 percent during the first 9 months of fiscal year 1968.

The conference report incident to the SBI Act Amendments of 1967 indicated that the House and Senate Banking and Currency Committees would review the overall industry involvement in real estate investments prior to June 30, 1968. SBI was directed to prepare a study involving the entire spectrum of the real estate problem. That report has been recently submitted to the Congress.

Pending the study completion and congressional review, SBIC's who are approved real estate specialists and who are not otherwise in violation of the act or regulations have been accorded the same benefits and privileges as other nonproblem licensees.

Following the hearings in June of 1966, a study was undertaken to establish a uniform and consistent method to estimate what would be a conservative reserve for losses. As of September 30, 1966, 682 licensees were indebted to SBA for $284,389,052. We established a reserve against this amount of $50,571,607 as of December 31, 1966, or 17.8 percent. The latest figure indicates that $285.9 million is owed by SBIC's and the loss reserve established as of September 30, 1967, was $44.5 million, or 15.6 percent.

SBA has established an early warning system in order to ascertain SBIC's encountering serious financial difficulties. In addition, the licensees themselves have been provided guidelines which help them to evaluate initially and on a continuing basis the viability of their small business borrowers.

The latest available consolidated financial report for the industry, dated September 30, 1967, indicates, for the 478 reporting companies, that industry assets are $659.6 million.

This includes $481.8 million in outstanding loans and investments in small business. The private investment in these reporting licensees is $358.8 million as compared with outstanding Government funds of $232.1 million. Loans from private sources are $47 million.

Thus, for every outstanding dollar of Government financing, small business has received approximately $2.07.

Profits represented 4.7 percent of invested capital.

The average interest rate to SBIC's was just over 8 percent.

From the inception of the program, through September 30, 1967, SBIC's made 28,367 separate financing transactions to small businesses

in all 50 States, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands. These transactions represent $1.2 billion.

There were SBIC's in 42 States and two territories as of April 30, 1968. We are presently attempting to encourage the formation of financially sound SBIC's in all States to make available to small concerns the facilities of these institutions.

Reports from 1,381 SBIC-assisted firms indicate they have increased their employment by 11,800 jobs—29 percent—since the original financings were made. Thus, for every $9,000 in SBIC disbursements, one new employee was hired. To put it another way, for every $3,000 in SBA seed money, $6,000 was added by SBIC's to create a new job opportunity.

The accumulated information which we have available regarding the impact of the SBIC program on small businesses and job creations is still sparse. The information available covers only 2 years since the installation of the requirement by SBA for SBIC's reporting data on their portfolio concerns. As the data builds up on the small business concerns financed by SBIC's, a more complete and profound analysis can be made of this impact. The information which is available, however, demonstrates the high potential of the program to provide assistance to small business concerns. For instance, a comparison of prefinancing and March 1967 data indicates that:

Gross revenues increased 42 percent on the average for the small business concerns.

Profits showed an increase of 100 percent, from $11.1 million to $22.2 million.

Net worth increased 18.8 percent, from $179 million to $213 million.

Total assets increased 36.8 percent, from $711 million to $973 million.

Short-term borrowings increased 22.2 percent, from $113.4 million to $138.6 million, demonstrating the increased ability of SBIC-financed concerns to secure funds from other sources.

We feel that the SBIC program is particularly valuable in providing assistance to small businesses in the manufacturing and technical innovation fields. Not only by supplying loan or equity financing to these concerns but in providing management assistance and financial expertise to the principals of the small concerns, which is often as valuable as the funds provided. Because of reporting difficulties, and as a result of corresponding lack of information, these figures do not represent a majority of the small business concerns financed. We expect the reports to be received as of March 31, 1968, to provide a better basis of information on the small businesses financed by SBIC's.

The SBIC industry, the Small Business Investment Act, and SBA regulations thereunder, have, of course, undergone many changes since first established in 1958. Congress, SBA, and the industry have been gaining experience in ways to further the purposes of the act so as to maintain and foster a healthy, expanding, and useful industry to serve the small business community.

There are three major aspects of SBA's activities aiding the industry: as a promoter, as a lender, and as a regulator.

SBA's role under the act is to insure compliance with the statutory purposes of the program and protection of the Government's creditor position, and to help implement adequate guidelines and incentives to promote sound and profitable financial institutions serving small business concerns throughout the Nation.

All of these aspects have been greatly affected by the recent Small Business Investment Act Amendments of 1967, Public Law 90–104, signed by the President on October 11, 1967, and which became effective on January 9 of this year.

This legislation resulted from the experience by SBA, the Congress, and the industry over a period of years, and a general agreement that certain basic problems faced the program. These problems generally fall into three categories: SBIC size, SBIC profitability, and the need to encourage more equity-type investments by the companies.

Studies indicated that minimum-size SBIC's lacked sufficient capitalization to interest prospective investors and competent management, to make thorough investigations of investment prospects, to maintain continuous services for portfolio concerns, to insure a competitive return on investments, and to create a reasonable prospect for success. In short, these studies indicated that the minimum-size company was generally much too small, too limited in finance resources and management skills, to do the job contemplated by the Congress.

It was also recognized that the leverage offered to investors in SBIC's by prior law through SBA loans to the companies was not enough to attract and maintain the flow of private capital to the program. Moreover, larger companies were discriminated against in the amount of assistance they could receive from SBA.

The other major problem was that financing provided their portfolio companies by SBIC's was too frequently of a conventional-debt nature rather than the more desirable and needed equity-type investment. While long-term loans are beneficial to small firms, equity financing is often more appropriate and necessary. In contrast to straight loans, equity-type financing does not place the recipient under early-repayment pressure. It does not take priority over other obligations of the borrower. And it does not cut off other sources of credit. Such equity-type investments may include common or preferred stock, or debt obligations which have appropriate subordination and nonamortization features.

The recent legislation, which had the backing of the President, substantially improves the situation with respect to these matters. The maximum amount of SBA loans to an SBIC has been increased from $4 to $10 million. The companies are eligible up to $7.5 million for loans on the basis of $2 for every dollar of private capital. Thus, an SBIC having $3.5 million of private capital would be eligible for $7 million of Government loans, compared to its eligibility for only $2.8 million of SBA loans under previous law. SBIC's having at least $1 million in private capital may receive an additional so-called third dollar of Government loans for every dollar of their private capital exceeding $1 million if they have 65 or more percent of their funds invested in "venture capital" financings of small business concerns.

The $3.5 million privately capitalized SBIC would thus be eligible for a total of $9.5 million of SBA loans if it meets this "venture capital" test, compared to its previous eligibility for $2.8 million. As a result, potential SBIC financial assistance from SBA is substantially increased from prior law, and a special incentive is provided for equity-type assistance.

I will discuss in a moment our definition of "venture capital" for this incentive purpose. Another beneficial feature of the legislation is that SBA loans to the companies will generally be on a 15-year sub-

ordinated basis, unless credit considerations preclude this in particular cases. This long-term, subordinated, additional leverage will better allow the companies to develop private financing sources to supplement their private capital and SBA loans. The SBIC statutory total program authorization from SBA's revolving fund has been increased from the $400 million limit at the time of the previous hearings to $450 million; $271.2 million has been charged against this $450 million limit through February 29, 1968, leaving $178.8 million.

Features of the legislation which will encourage SBIC's to increase to a viable size include eligibility of larger companies for the "third dollar" leverage, as well as the fact that companies which do not increase their private capital will gradually over a 5-year transition period have their investment limit in a single small concern reduced. At present, the limit is based on a combination of private capital and debentures purchased by SBA from the companies. In 1972, after the transition period, an SBIC's maximum permitted investment in a single small concern will be 20 percent of its private capital. This should encourage minimum size companies to increase their private capital to a more adequate amount.

The new legislation specifically indicates that companies should be of sufficient size to operate soundly and profitably, and be managed actively and prudently, in accordance with the act and SBA regulations. While the legislative history indicates that private capitalization should not be the sole determinative of an adequate SBIC, Congress definitely indicated its intent that SBIC's have sufficient resources to be active, sound, and profitable financial institutions.

SBA has recently issued regulations implementing the provisions of the new law. For example, related to the question of size of SBIC's, the regulations require that each SBIC shall have and maintain qualified management in charge of its operations and available at its office to the public during regular business hours.

We believe that over a period of time these provisions, as well as a growing recognition by the companies of the desirability and necessity for an adequate capital base, will result in an SBIC industry comprised of companies with adequate amounts of private capital to support effective operations under the act. It should be remembered that many minimum-size companies have left the program either as a result of SBA action against them for violations, through default on their loans, or voluntarily because of lack of profit. We are also encouraging growth of remaining smaller companies through mergers and the addition of more private capital.

The SBA regulations also define "venture capital," which must comprise 65 percent of an SBIC's funds and investments in order for eligibility for the "third dollar" from SBA. "Venture capital" is defined to include common and preferred stock, and debentures or loans—whether or not convertible or having stock-purchase rights—which carry an effective interest rate not to exceed 10 percent, are subordinated to borrowings of the small concern from other institutional lenders, and have no part amortized during the first 3 years. This definition will encourage SBIC's to provide long-term funds to small concerns on a basis which will not require early amortization or prevent short-term borrowings of the small concern. This equity-type assistance is the type that is generally needed by small business and for which the program was primarily designed.

The legislation also contains a number of other provisions to promote the SBIC program. Increased investment by banks in the companies is permitted, subject to appropriate safeguards; and an industry advisory board to SBA is provided for. The new legislation increases permitted bank-SBIC investments from 2 to 5 percent of a bank's capital and surplus, but limits acquisitions of ownership of an SBIC by a bank to 49 percent or less.

The first meeting of this group, the National SBIC Advisory Council, was held in early March of this year in Washington, D.C., and the second meeting was held on May 3 in Dallas, Tex. This Council promises to be a most helpful means of improving communication between SBA and the industry, and to aid in developing measures to better enable the SBIC's to provide increased assistance to the small business community.

We are also, pursuant to the legislation, working with other Government agencies—such as the Internal Revenue Service and the Securities and Exchange Commission—to simplify and clarify their rules applicable to SBIC's, as well as continuing our efforts to aid the industry in improving SBIC profitability, obtaining better access to institutional loan funds for the companies, and in methods to make the industry more attractive to investors so as to increase the flow of private capital to the SBIC program.

I might mention at this point that there is important complementary legislation—H.R. 10410 and S. 1863—still pending before the Congress to improve the tax treatment of SBIC's and to encourage their making more equity-type investments. While the Congress in 1958 enacted a number of tax provisions recognizing the unique venture capital nature of SBIC's, experience under the program shows a definite need for modifications. Accordingly, after consultation with the industry and Treasury Department, SBA proposed legislation to accomplish corrective improvements in the tax provisions applicable to the companies and their stockholders. The SBIC's are presently permitted to establish a loss reserve against their loan investments; to treat as ordinary losses certain losses on their portfolio; and to pass through gains to their shareholders without payment of the corporate tax in certain circumstances. In these and other areas this tax legislation contains provisions designed to accord with the special nature and functions of the companies in their small business financings. In effect, these tax amendments would allow SBIC's to increase their profit potential by making venture-capital investments in conformity with the purposes of the Small Business Investment Act, without incurring tax disadvantages. We are hopeful that these tax amendments will be enacted in the current congressional session.

Concurrently with the January 9 effective date of the new legislation, SBA issued a general revision of its regulations applicable to the SBIC industry. A major purpose of this revision was to consolidate, simplify, and improve SBA rules applicable to the companies. There are a number of new provisions in this regulations package which are especially significant. These include specific authority for SBIC's to guarantee to institutional lenders debts of portfolio small concerns. This authority could substantially help portfolio small concerns in obtaining short-term financing supplementary to their long-term financing from the SBIC's. The regulations governing control of a small business concern by an SBIC have been tightened.

The regulation requires the SBIC in all cases where such control is acquired to divest control within a reasonable time, subject to a written plan approved by SBA. While it is recognized that SBIC's must take control in some cases in order to protect their investments, the regulation insures that such control is temporary only. It is clear that Congress did not intend SBIC's to be holding companies, operating or indefinitely controlling small business concerns. Other significant changes in the regulations include a tightening of the conflicts-of-interest regulations to prevent possible self-dealings by SBIC's; and a specific regulation prohibiting unreasonable inactivity, since the act contemplates that an SBIC shall conduct active operations to meet the needs for financing of small business concerns in its area. A provision has also been added for an early warning to SBA in the case of significant capital impairment by a debtor SBIC.

The intent throughout the regulations is to encourage stable and useful financial institutions serving small business. We believe these regulations are fair and sound, and provide reasonable desirable guidance to the companies in keeping with the congressional intent to provide aid to small concerns, to protect the Government's funds, and to encourage participation of private financing sources in the program.

The industry is now on a much sounder footing, largely as a result of these legislative and administrative improvements.

SBIC profits have been rising, and realized and unrealized appreciation of SBIC investments has been much greater. After a shakeup period of a number of years, the industry is gaining increased recognition as a needed and viable form of financial institution. SBIC managers are more experienced, and many companies have developed high-quality staffs. The SBIC's have learned how to invest in equity financing growth situations with the best chance of maximizing profits and minimizing losses. And there is every indication that the demand for capital from growing and high-potential small businesses will continue to present many desirable and profitable investment opportunities to SBIC management.

But there is still much work to be done. Many areas of the Nation are still not adequately served by SBIC's. We are continuing our efforts to foster interest in the program in such areas. SBIC's still have a difficult time raising additional private capital, since their shares frequently sell at a significant discount from book value. And the portfolio turnover rate of the industry needs substantial improvement, through better methods to realize on seasoned and appreciated investments, in order to enable the companies to perform maximum financial assistance services for the small business community.

But there have been advances in these areas and we look for more progress as the industry continues to prosper. The price index of publicly held SBIC's has risen substantially in the past year. Many portfolio small concerns have gone public, thus providing a market for sale of SBIC investments. And the possibility of some sort of capital bank, with secondary market features for purchase or loan against an SBIC's portfolio, is being actively considered within the industry. It should be noted that the new legislation, which generally provides for the subordination of SBA loans to the companies, would materially aid the development of such market financing sources for the SBIC industry.

As we have indicated previously, SBA is attempting to improve the information base related to the program, and to explore the long-range questions which must be studied if the program is to achieve continued growth.

Among these questions are:

The nature and size of the small business equity gap? This is the problem that the program was designed to meet. We must know more about the actual equity-capital needs of various types of small business.

What are the means for meeting this equity gap? The SBIC program has proven itself as a workable concept, but what other aids to the small business equity problem are available for utilization in conjunction with SBIC financing?

What is the appropriate annual rate of investment for the SBIC industry? Is the need for such financing growing?

Another important question is what structure for the industry can be most effective? What are the respective roles of public SBIC's, bank SBIC, closely held SBIC's and specialized types of SBIC's? There may be different types of roles for all these kinds of companies; but what are they? And how can they best be promoted?

What different small business opportunities are presented by various types of geographic areas and what approaches are needed in these areas for maximum utilization of the SBIC program to aid the contribution which small concerns can make to economic growth?

Our studies of the small business community indicates that the SBIC program can be of very great benefit to aid small concerns operating in high-growth areas of the economy. For example, in the manufacturing and new-technology fields there is a particular need for equity capital for rapidly expanding small businesses serving new and specialized markets. And SBIC financing can assist in providing capital to local industry to help in generating balanced economic development.

We are also attempting to better coordinate the SBIC program with our other small business assistance efforts. As you know, SBA's recently broadened lease-guarantee program permits small firms of all types to rent prime commercial or industrial premises which might otherwise be unavailable to small business. And SBA's local development company loan program provides long-term industrial mortgage loans to allow plant construction and reconstruction for small concerns. In many cases, the small firm might utilize these SBA financial assistance programs in conjunction with an SBIC investment which provides the additional equity-type capital needed for its expanded operations.

SBA may also provide management assistance, such as facilities or procurement advice, to small concerns receiving SBIC financing; and the small firm might be eligible for a regular SBA business loan. We have instructed our SBA field offices throughout the country to work closely with SBIC's in their area to help provide coordinated assistance services for small firms.

We are also working closely with the industry to help improve program effectiveness. The first two meetings of the National SBIC Advisory Council strengthened channels of communication with the SBIC industry and established a mechanism for joint efforts toward program objectives. Among the matter being emphasized are methods to broaden the geographic coverage of the program, to attract more

private capital to the industry, and to aid in the improvement of various governmental rules and procedures affecting the companies.

SBA considers the SBIC program to be one of its most important activities. It has high potential effectiveness in that it is carried out primarily with private resources and aids the most innovative and productive types of small firms. As the program develops and matures, SBIC's are gaining better recognition in the small business and financial communities as necessary and useful financial institutions. We are confident that the SBIC industry will continue to provide increasingly valuable assistance to small business, and to balanced economic growth in all areas of the Nation. SBA will make every effort to insure the success of the program.

At the completion of the hearings on the SBIC program in 1966, the committee made several recommendations on the program. With your consent we are submitting them attached as exhibits 1 and 1–A.

In addition we are also submitting exhibits 2, 3, 4, and 5 which provide additional information regarding the SBIC program.

That concludes my statement, Mr. Chairman.

The CHAIRMAN. Without objection, the other material may be included with Mr. Brown's statement.

(The information referred to follows:)

EXHIBIT 1

The Select Committee on Small Business conducted hearings on the small business investment program in June 1966 and published its report on December 29, 1966.

The Report included a number of recommendations, which are reproduced below, together with SBA's report on actions taken in response to the recommendations.

RECOMMENDATION NO. 1

The SBA should proceed as repidly as possible to remove from the SBIC program all companies which do not conform to the Act or regulations pursuant thereto and all officers and directors who may be guilty of malfeasance or nonfeasance, pursuant to the law.

In July 1966 SBA instituted vigorous action to rid the SBIC program of these companies. As of June 10, 1966, there were 686 licensed SBICs. From July 1, 1966, until April 30, 1968, 164 companies left the program, voluntarily or involuntarily and 42 additional companies were in process of surrendering their licenses. SBA is continuing the action to rid the program of undesirable companies. At April 30, 1968, there were 120 companies in various problem categories and most of these will be leaving the program in the near future.

RECOMMENDATION NO. 2

The Small Business Administration and the Department of Justice should promptly adopt procedures to allow the SBA to proceed more expeditiously on civil matters in court and, more especially, to allow the SBA to proceed exclusively and independently of the Department of Justice on any matter pursuant to Section 311 of the Act. The SBA and the Department of Justice are requested to report to the Committee on the Action taken.

On January 18, 1967, the SBA and the Department of Justice entered into a letter agreement wherein subject to the supervisory control of the Department of Justice and except in unusual circumstances, civil litigation arising out of the SBI Act of 1958, shall be actually handled by attorneys of the SBA. The procedures to expedite the handling of such civil litigation was also agreed upon in the letter agreement. A copy of the letter agreement is attached.

RECOMMENDATION NO. 3

The Department of Justice should take prompt action on criminal matters referred to it by the Small Business Administration. If prosecution is declined, the

SBA should be notified as rapidly as possible. If the case is to be litigated, it should be prosecuted promptly and with vigor.

The SBA has cooperated with the Department of Justice in criminal matters to facilitate prompt prosecution of these matters.

RECOMMENDATION NO. 4

The SBA should consult with representatives of the SBIC industry in an endeavor to formulate a workable plan whereby the assistance of organizations representative of the industry can be utilized to assist in policing the industry to insure compliance with provisions of the Act and regulations adopted pursuant thereto.

The SBA has consulted with representatives of the industry regarding the enforcement of the Act and Regulations. In addition, the National Association of Small Business Investment Companies has adopted a "Code of Ethics," "Trade Practice Rules," and "Procedures for Enforcement of the Code of Ethics and Trade Practice Rules" which are attached hereto.

RECOMMENDATION NO. 5

Amendatory provisions of the Small Business Investment Act as discussed in this report should be considered by the appropriate legislative committee of the Congress.

The SBIA was amended and became effective January 9, 1968. The dual types of lending programs (Sections 302 and 303) have been replaced by one type of lending program. This legislation provides 2–1 leverage to companies up to $7,500,000. In addition, the amendments provide a 3–1 leverage on capital in excess of $1,000,000 but not to exceed $10,000,000 if the company has sixty-five percent of its investments in venture capital.

The amendments eliminate the option to a small business concern obtaining capital from an SBIC to become a stockholder-proprietor of the SBIC.

RECOMMENDATION NO. 6

Immediate consideration should be given by the appropriate legislative committee to legislation which would amend the Internal Revenue Code to—

(a) allow bad-debt and reserve treatment on all types of financing instruments acquired by SBIC's other than shares of stock or rights to acquire stock.

(b) clarify the personal holding company surtax exemption now referred to in code section 542(c)(8).

(c) liberalize the diversification requirements for SBIC's registered under the Investment Company Act of 1940 that elect to be taxed as regulated investment companies, in order that small business investment companies can operate as SBIC's while being permitted to pass through their income to their shareholders without the payment of corporate income tax.

These provisions are included in the tax bill pending before Congress.

RECOMMENDATION NO. 7

Following completion of its examination of all SBIC's, the Small Business Administration is directed to make a full report on the operation and management of this program, together with recommendations, to the Congress.

Answered by letter dated 2–7–67.

EXHIBIT 1–A

SMALL BUSINESS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., February 7, 1967.

Hon. JOE I. EVINS,
Chairman, Select Committee on Small Business,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: In its report to the House of Representatives, 89th Congress, Second Session, the Select Committee on Small Business directed SBA, following completion of its intensive examination program, to make a full report to the Congress on the operation and management of the investment program.