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*****THE*****
SMALL BUSINESS ADMINISTRATION
DURING THE ADMINISTRATION
OF
LYNDON B. JOHNSON



NOVEMBER 1963 - JANUARY 1969



THE SMALL BUSINESS ADMINISTRATION
DURING THE ADMINISTRATION OF LYNDON B. JOHNSON

NOVEMBER 1963 - JANUARY 1969

VOLUME I

ADMINISTRATIVE HISTORY

SMALL BUSINESS ADMINISTRATION
HOWARD J. SAMUELS, ADMINISTRATOR

PREFACE

History offers the best training for those who care to take part in public affairs [Polybius: Histories I].

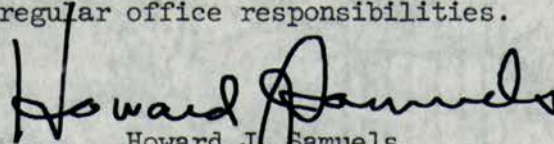
This document is a history of the Small Business Administration during the Administration of President Lyndon B. Johnson, prepared pursuant to a May 31, 1968 memorandum from Joseph A. Califano, Special Assistant to the President. It is hoped that it will permit those interested in public administration to learn how a relatively young and small but dynamic Government agency was established, organized, directed, and from time to time, improved.

The decision-making process has been given some emphasis. This is because Mr. Johnson, on becoming President, directed the agencies and departments of the Government to adopt a more systematic, more quantified and, hopefully, more rational technique for arriving at informed judgments. He has spoken of his approach as "a revolutionary system of planning and budgeting and programming," and he told department and agency heads that they would need a central, directly accountable staff for program and policy planning. Under the system, studies, goals, program proposals and reviews would be scheduled throughout the year instead of being crowded into "budget time." It would, as Budget Bureau Director Schultz has said, bring the most refined scientific methods available to bear on the tasks of defining

goals and measuring the cost-benefit or cost-effectiveness of existing and alternative programs.

In view of the importance of the decision-making process in the Lyndon B. Johnson Administration, I also requested the various SBA Administrators to furnish their appraisals of the decision-making process as practiced under their leadership. Copies of the replies thereto and also my views, appear in Volume II, Document 15.

I gratefully acknowledge the contribution of Dr. James I. Mills, who coordinated the preparation of this history, and also that of the many program personnel of the Agency who conducted appropriate research of Agency records and drafted portions of the text. I also wish to thank Margaret S. Hoover, who performed editing services, as well as those secretaries who performed typing and proofing services while at the same time carrying out their regular office responsibilities.


Howard J. Samuels
Administrator

Washington, D. C.
November 6, 1968

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CHAPTER I

INTRODUCTION

The importance of fostering and promoting business and industry has been recognized since the early settlers first came to America. On December 21, 1620, when the Mayflower compact was signed by the Pilgrims, it was stated, "In the name of God, we... do by these Presents, solemnly and mutually in the Presence of God and one another, covenant and combine ourselves together into a civil Body Politic, for the better Ordering and Preservation [of our people]...."

More than a century and one-half later in the Declaration of Independence, it was stated, "We, therefore, the Representatives of the United States of America...do...solemnly publish and declare that...they have full power...to establish commerce...." Again, this recognition of the need for the people to regulate commerce is expressed in the preamble of the Constitution: "We the People of the United States, in order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defence, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution of the United States of America....Section 8 of Article I of

the Constitution of the United States provides specifically that...

"The Congress shall have the Power...To regulate Commerce with foreign Nations and among the several States...."

The Constitution further provides that the President "may require the opinion in writing of the principal officer in each of the executive departments upon any subject relating to the duties of their respective offices." For fostering and promoting business and industry, earlier presidents relied chiefly on the Secretary of the Treasury until 1849, the Secretary of the Interior 1849-1903, the Secretary of Commerce and Labor 1903-1913, and the Secretary of Commerce 1913 to date. In addition, during the past century, there have been a number of regulatory bodies established such as the Interstate Commerce Commission and a number of executive agencies such as the Small Business Administration which have functions pertaining to business and economic development. Prior to the Civil War, tariffs were levied and patents were granted to encourage business without reference to size of business. Land grants to railroads stimulated the growth of trade and commerce. After the Civil War, opportunities for new and established small businesses were threatened by large business combinations. As a result, the Interstate Commerce Act was passed in 1887 and the Sherman Act in 1890. These regulatory and antitrust laws are primarily for the purpose of preventing or deterring undesirable business practices.

It was not until World War II that a special executive agency was established for the purpose of maintaining and strengthening the competitive position of small business. In the case of the Smaller War Plants Corporation, loans were made for war and essential civilian production and prime contracts were taken from procurement agencies to award subcontracts to small business. Other activities included the making of inventories of productive facilities and helping small plants obtain both prime and subcontracts mostly from large corporate prime contractors.

After the end of World War II, the lending, prime contract and surplus property powers of the Smaller War Plants Corporation were transferred to the Reconstruction Finance Corporation. The remaining functions, primarily the providing of information on establishing and operating different kinds of business enterprises and assistance to individual businesses seeking to obtain Government prime contracts and subcontracts were carried on by the Department of Commerce.

During the Korean period, the Small Defense Plants Administration was created to insure that the productive capacity of small business concerns should be more effectively utilized for national Defense and essential civilian production. During this period, proposed purchases of various Government agencies were earmarked for small business through the joint efforts of SDPA and the various agencies. Where necessary, Certificates of Competency attesting to

the capacity and financial ability of low bidding small firms to perform certain contracts were issued. Other functions included the taking of prime contracts and awarding of subcontracts to small plants, the formation of Defense production pools to obtain prime contracts for small business and recommending that RFC make specific loans to small businesses.

In 1953, the SBA was established to assist small businesses in order to preserve free competitive enterprise and to maintain and strengthen the overall economy of the Nation. Thus, the objectives of the SBA included the encouragement and development of small business opportunities as a means of strengthening the national economy.

During its first years, the SBA was primarily concerned with making business loans where credit was not available either because of the differences in the lending policies of the different lending institutions or because of a failure on the part of the prospective borrower to present effectively all of the information needed by the lending institution. In addition to providing financial assistance to small business, the SBA also continued to make disaster loans such as those made by the Reconstruction Finance Corporation. In order to assure small businesses a fair share of Government procurement, emphasis was placed also on the joint set-aside program. Under this program, the SBA and the Government procurement agency jointly determined which procurements were suitable for small business and set aside these procurements for exclusive or partial award to small business. Management counseling was largely limited to counseling prospective borrowers and those small businesses seeking Government contracts.

Management information such as the choice of the kind of business to launch, the selection of a business location, the development of a record keeping system, and marketing analysis were limited largely to the preparation of manuscripts and the publishing of these papers for wide distribution to all interested small businesses.

Especially during the first three years of the SBA, there was comparatively no emphasis given to assisting nonmanufacturers such as the many small retailers and the owners and operators of small services establishments. In 1956, through the adoption of the limited loan participation program, there was increasing emphasis given to widening the scope of the Agency's activities to include financial assistance to the small nonmanufacturers. In addition, the management assistance publications were increasingly directed to the small retailers and services establishments.

Chapter II describes the growth of the Small Business Administration from the time it was established in 1953 to November 1963. During this period it was the policy of the Agency to assist any small business satisfying the eligibility requirements and the established criteria for the particular program.

During the Administration of President Lyndon B. Johnson the policies and programs of the Small Business Administration were directed to provide freedom of opportunity for all people to become owners and operators of their own small businesses.

President Lyndon B. Johnson on May 1, 1964, first established Small Business Week. He proclaimed:

Now, therefore, I, Lyndon B. Johnson, President of the United States of America, do hereby designate the week beginning May 24, 1964, as Small Business Week; and I urge chambers of commerce, boards of trade, and other public and private organizations to participate in ceremonies recognizing the great contribution made by the 4.6 million small businesses of this country to our prosperous society and to the well-being and happiness of our people.

In order to help the State of Alaska and the people of Alaska to rebuild from the ruins of the devastating earthquake of March 27, 1964, the President sent a letter to the President of the Senate and to the Speaker of the House on the need for additional Alaskan reconstruction legislation. Under existing law, the Small Business Administration was authorized to make disaster loans on very favorable terms to assist home owners and businesses in reconstruction.

In remarks at a reception for small businessmen at the White House on August 20, 1964, the President stressed both the big responsibilities and the opportunities of small businessmen for leadership at the local level. He concluded his remarks as follows: "Your leadership at the local level will decide the quality of our cities. It will decide the quality of our classrooms. It will decide what kind of a country we will have. It will decide the quality of life in our Nation for a century to come." Thus, it is evident that the President was anxious that small businessmen, among others, assume leadership to improve our cities. Even then, the Small Business Administration was actively engaged in establishing policies and shaping programs to increase the business opportunities for all persons regardless of their backgrounds.

The President, throughout his Administration, emphasized the need for earnest and honest efforts to put to work in government, new concepts to produce more efficient management of public business. Within the SBA these efforts produced significant organizational and program changes which are presented in Chapters III and IV, respectively. To the extent possible, information is given to help interested persons to know how the decisions to make these changes were made.

Recognition of the continuing special needs of the small business community as well as the need for special Government assistance in case of suffering and damage resulting from disasters made necessary greater legislative activity relating to SBA programs and authority. In Chapter IV, this legislation is summarized.

SBA relationships with the United States Congress, other federal executive agencies, the small business community, and the public generally greatly influence its effectiveness in strengthening the free enterprise system. A discussion of these relationships and their importance is the subject of Chapter VI.

The Lyndon B. Johnson Administration more than any other succeeded in obtaining the necessary legislation to establish and implement programs designed to provide equal opportunities for all people. The SBA played a significant role in extending the efforts of the Administration to meet the problems of all disadvantaged persons.

During this period, 1964-1968, the programs of SBA were

increasingly directed to provide equal opportunities for all disadvantaged persons to own and operate their small businesses.

It was recognized that white ownership of the vast majority of black ghetto businesses, lack of black capital and experience, and lack of institutional arrangements to overcome these problems required SBA action.

In August 1968, Administrator Howard J. Samuels launched a half-billion dollar a year bank-industry program to rapidly sweep members of minority groups into the mainstream of business ownership.

The history of how SBA shaped its operating and staff functions in an effort to fit into the objectives of the Johnson Administration is told in Chapter VII, the final chapter.

CHAPTER II

MISSIONS, OBJECTIVES AND ACCOMPLISHMENTS

Missions and Objectives: Legislative Background, 1953 - 1963

Title II of Public Law 163, which was signed into law by President Eisenhower on July 30, 1953, was designated the "Small Business Act of 1953," and provided for the creation of the Small Business Administration.

The broad statement of policy best expressing the missions and objectives of the Small Business Administration under that legislation was contained in Section 202 of that Act. It read as follows:

The essence of the American economic system of private enterprise is free competition. Only through full and free competition can free markets, free entry into business, and opportunities for the expression and growth of personal initiative and individual judgment be assured. The preservation and expansion of such competition is basic not only to the economic well-being, but to the security of this Nation. Such security and well-being cannot be realized unless the actual and potential capacity of small business is encouraged and developed. It is the declared policy of the Congress that the Government should aid, counsel, assist, and protect insofar as is possible, the interests of the small business concerns in order to preserve free competitive enterprise, to insure that a fair proportion of the total purchases and contracts for supplies and services for the Government be placed with small business enterprises, and to maintain and strengthen the overall economy of the Nation.

The policy of the Congress as set forth in Section 2 of the Small Business Act, as amended, is essentially the same as that quoted above.

During World War II and then again after the outbreak of fighting in Korea, Congress found that the existence of thousands of small business concerns was being threatened by war-induced shortages of materials coupled with an inability to obtain military contracts or financial assistance. There had always been complete agreement that the productive potential of smaller firms must be utilized if the United States is to remain strong. On the methods for guaranteeing an environment in which all fabricators could survive, there was less unanimity, however.

The Smaller War Plants Corporation of World War II was the first overall attempt to make small companies full partners in a mobilization period. Using the SWPC as a guide, the members of the Senate and House Small Business Committees pressed for a similar organization soon after North Korean troops invaded the Republic of Korea.

On July 31, 1951, the Small Defense Plants Administration was created by an amendment to the Defense Production Act of 1950 and was given primary responsibility in the field of channeling defense contracts to small producers. The SDPA was also granted the authority to recommend loans to the Reconstruction Finance Corporation. Furthermore, Section 714(f)(3) of the Defense Production Act provided that:

Whenever materials or supplies are allocated by law, a fair and equitable percentage thereof shall be allocated to small plants unable to obtain the necessary materials or supplies from usual sources. Such percentage shall be determined by the head of the lawful allocating authority after giving full consideration to the claims presented by the Small Defense Plants Administration.

By the middle of 1953, it became apparent that the dislocations of the Korean war had abated in seriousness and that the American economy was resuming a more "normal" character.

Nonetheless, many unsolved problems remained to plague the most resourceful small entrepreneur and Congress was convinced that it would be a mistake to scrap the mechanism developed to meet emergency crises when many substantial obstacles still strewed the path of smaller concerns merely because of their size.

SBA created

For those reasons, Representative William S. Hill, Chairman of the House Small Business Committee, and Edward J. Thye, as Chairman of the Senate Small Business Committee, introduced companion measures during the first session of the 83rd Congress to authorize the establishment of a permanent Small Business Administration.

Government procurement assistance

With only minor changes, the SBA, as established by the Thye-Hill bill, retained the powers given to the SDPA in obtaining a fair share of Government contracts for small business. The SBA was also authorized under Section 8(a), to take prime contracts from any department or agency and to provide for the performance of those contracts by subcontracting the work to individual producers or suppliers.

Secondly, the SBA was authorized to certify as to the competency of a low bidding small concern with reference to capacity and credit to perform the contract in question.

A third provision gave the SBA power to determine jointly with Government procurement officers the share of any supply action which should go to the small business segment of the producing industry. These were commonly called "Joint Determinations."

The Small Business Administration was authorized to undertake studies to determine the impact of materials, price and wage controls and to consult and cooperate with appropriate agencies in formulating regulations and orders which would be most equitable to all segments of the economy.

Lending programs authorized

During the 10 years prior to creation of the Small Business Administration, loans to small businesses accounted for over 90 percent of all favorable actions on business loans by the Reconstruction Finance Corporation.

Title I of Public Law 163 provided for the liquidation of the RFC by June 30, 1954, and an end to its lending authority on September 30, 1953.

Members of Congress and the President were convinced of the real need for a Government agency to provide financial assistance to firms unable to obtain loans at reasonable rates through private channels. Studies had shown that this "credit gap" existed and that state laws and other factors denied funds to worthy applicants which were needed for legitimate business purposes.

Therefore, the Small Business Administration was authorized to approve loans of up to \$150,000 to eligible small businesses unable to obtain adequate private financing. The general policy under which loan applications were to be approved or denied was to be established by a Loan Policy Board, composed of the Administrator of the SBA, as Chairman, the Secretary of the Treasury, and the Secretary of Commerce.

Loans could be made directly or in cooperation with banks or other lending institutions and could be made for a period of no longer than 10 years.

The purposes for which these loans could be made were spelled out in Section 207 (a):

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 essential civilian production or as may be necessary to insure a well-balanced national economy.

In addition, SBA was authorized to make disaster loans - a function formerly performed by the RFC. A revolving fund of \$25 million was established for this purpose.

Management and technical aid

A fourth major field of operation outlined in the Thye-Hill Small Business Act was the providing of technical and managerial assistance to small firms by the SBA.

The Small Business Committee of both the Senate and the House had found that many of the problems of independent businesses arose from lack of understanding of Government operations and the inability of smaller firms to keep up-to-date in production and marketing techniques.

Another extension

The mandate of the Small Business Administration under Public Law 163 expired on June 30, 1955. However, the need for having within the Federal establishment a single independent agency charged solely with fostering the welfare of small business was formally delegated when on August 9, 1955, President Eisenhower signed Public Law 268.

By extending for two years and strengthening Public Law 163 - which had brought into being the Small Business Administration on July 30, 1953 - Congress reaffirmed a national policy that acknowledged the indispensability of a thriving small business community as the foundation of our free enterprise economy.

The Small Business Act of 1955 raised the maximum amount permitted for individual loans from \$150,000 to \$250,000. In addition, it provided that interest on such loans should not exceed six percent per annum and should be set at the prevailing rate charged in the applicant's area of operation.

Furthermore, a new provision made it possible for a corporation formed by a group of small companies for the purpose of producing or securing raw materials or supplies to obtain credit in the amount of \$250,000 for each participating company. Thus, three companies forming a corporation for such purposes were entitled to apply for credit for a total amount of three times \$250,000 or \$750,000.

The formation of such corporations would not be deemed to be in conflict with the antitrust statutes. Moreover, in the area of disaster loans, authority was given to the Small Business Administration to make loans to those businesses which had suffered economic injury because of drought. All SBA disaster loans were to bear interest at the rate of three percent per annum.

Other amendments provided for -

- (a) Monthly reports by the Department of Defense to the President, the President of the Senate, and the Speaker

of the House of Representatives on the amount of appropriated money that had been used to increase the share of government procurement contracts to small businesses.

- (b) SBA certification of small companies as being officially recognized as "small business." Such certification was to be binding on all agencies of the Federal Government.
- (c) The establishment, at the discretion of the Administrator of the Small Business Administration, of regional offices in Hawaii, Puerto Rico, and Alaska.
- (d) Channeling a fair proportion of Government contracts to small business, including Government contracts for research and development.

SBA becomes permanent U. S. Agency

Economic history was made on July 11, 1958, when the Senate passed and sent to the White House the Small Business Act of 1958.

The major, if not epochal, feature of this legislation was a provision making the Small Business Administration a permanent agency of the Federal Government.

The significance of this legislation, so long sought by members of the Senate and House Small Business Committees, was that it signalized the acceptance by the Congress of small business as a distinct and vital element of the national economy.

In thus formalizing a philosophic concept first given tangible expression by the creation of the Smaller War Plants Corporation in the early days of World War II, Congress made it clear that independent small business enterprises were to be considered as one of this Nation's invaluable resources--as essential to our strength as our fertile farmlands, timber, mines and waterway systems.

The Small Business Act of 1958 also served to complement the Nation's antitrust statutes, the Sherman Act, the Clayton Act, the Federal Trade Commission Act, the Robinson-Patman Act, and other laws which help our free-enterprise economy to function with maximum benefit to all.

This legislation was a ringing reaffirmation of a public policy which insisted that our system of dynamic capitalism would continue to perform its work in a business atmosphere dominated by the ideal of free competition.

Thus, in providing a permanent agency of Government to promote the welfare of our smaller competing units, Congress took a step carefully calculated to strengthen those very enterprises without whose contribution the ideal of free competition would most surely wither.

Provisions of the new law

The Small Business Act of 1958 reduced the maximum rate of interest on Small Business Administration business loans from six percent to five and one-half percent, thus making it possible for small businessmen to obtain needed capital on more reasonable terms. The ceiling on loans to individual companies was raised from \$250,000 to \$350,000.

In addition, government procurement set-aside procedures were extended to include sales of government property, and SBA was given increased authority to help small firms obtain research and development contracts.

SBA authorized to license SBICs

The Small Business Investment Act of 1958 was truly landmark legislation. Since 1950, Congressional efforts had been directed toward closing a serious gap in the financing available to small firms.

The Act established a new Small Business Investment Division in SBA and gave to the agency new authority to license, regulate, and examine Small Business Investment Companies (SBICs). It also authorized the Agency to lend funds to SBICs as well as state and local development companies.

SBA also received conditional and temporary authority to charter SBICs but new legislation by some states made the use of this Federal authority unnecessary.

SBICs, in turn, were authorized by the Act to make long-term loans and to advance equity capital to small business concerns. SBA's Investment Division was to have no direct contact with small business borrowers who received funds from the SBA-licensed investment companies.

Some changes were made in the Investment Act by the Small Business Investment Act Amendments of 1960 (Public Law 86-502).

References to the "Territories" of Alaska and Hawaii were changed to include these areas as "states" and possessions of the United States, such as Guam, were included in the Act. Authority for

Small Business Investment Companies to act as depositories or fiscal agents for the government was also removed. Additional authority was provided for bank holding companies and their subsidiaries to invest one percent of the capital and surplus of each in the stock of SBICs and an exemption from the District of Columbia small-loan law was granted to SBICs.

Of prime significance among the 1960 amendments to the SBIC Act was the revision of Section 304. Under the new Section SBICs were authorized to advance equity capital to small firms by use of other forms of securities in addition to the convertible debentures permitted by the original law. Moreover, small business borrowers were "permitted" by new Section 304, rather than "compelled" as formerly required, to buy stock in their SBIC lenders.

Finally, under the new legislation, it was no longer to be a primary function of SBICs to provide equity capital. Lending was to be only one of their functions.

A composite picture

Amendments to the Small Business Act between July 1958 and October 1960 increased SBA's revolving fund by \$325 million and authorized the Agency to make grants to state agencies and educational institutions for studies, research, and counseling concerning the managing, financing, and operation of small business enterprises.

The Small Business Investment Act of 1958 provided for \$250 million of the increase in the revolving fund and authorized the use of this amount for the purposes of that Act.

In 1959 Public Law 86-367 added \$75 million to the revolving fund authorization for the purpose of making additional business loans.

The Small Business Act Amendments of 1961 (Public Law 87-305) and several other laws amending the Small Business Act, represent a truly significant step toward aiding and preserving the small business segment of the American economy.

Loans to small businesses displaced by federally-aided construction projects were provided.

The size of SBA's revolving fund was substantially increased and flexibility in its utilization provided.

Annual reports by the Attorney General on the effect upon small business of activities of the government became mandatory, and certain other changes of a more technical nature were made.

Of primary importance, however, was the creation of a joint DOD-SBA-GSA subcontracting program to aid small business suppliers in efforts to participate equitably as subcontractors and suppliers under government procurement contracts. This subcontracting program became a valuable weapon in continuing efforts to secure for small business a fair share of the government's procurement expenditures.

SBIC amendments

The Small Business Investment Act Amendments of 1961 (Public Law 87-341) accomplished these major changes:

1. To encourage the formation and growth of small business investment companies, SBA was authorized to purchase up to \$400,000

in subordinated debentures on a matching basis with private funds. These additional funds were made available not only to new companies but also to SBICs already licensed and operating.

2. SBA was authorized to lend no more than \$4 million to any one SBIC under the provisions of Section 303(b) of the Act.

3. Banks were authorized to invest up to two percent of their capital and surplus in SBIC stock--an increase from the previous one percent limitation.

4. SBICs were prohibited from lending or investing more than \$500,000 in any one small business concern, except with SBA approval.

5. SBA was given extensive power to investigate SBICs, and to suspend their licenses, and to issue cease and desist orders against them if necessary.

6. SBICs were authorized to cooperate with other investors and lenders, incorporated or unincorporated, in supplying funds to small business concerns. Prior law permitted such cooperation only with banks or other lending institutions.

7. SBA was given an additional \$75 million for its SBIC revolving fund.

Small Business Act amendments

Amendments to the Small Business Act enacted on July 25, 1962, (Public Law 87-550) represented significant steps forward in assisting and preserving the small business segment of the American economy.

The size of SBA's revolving fund was substantially increased from \$1,200 million to \$1,666 million. At the same time, "report ceilings" were established at appropriate levels for each program. These required SBA to inform the Appropriations and Banking and Currency Committees of the Senate and the House should these figures be reached.

The provisions allowed an increase in the amount and flexibility of aid available to small business firms.

Public Law 87-550 contained two further sections which, although not amending the Small Business Act, were directly related to its operation.

Section 1(b) expressed the sense of Congress that its committees should review the SBA business loan program at least once every two years, and that SBA should submit its estimated needs for such loans at least one year in advance of the date upon which approval is required. This facilitated an orderly and periodic surveillance by Congress of small business needs and the requirements of the agency.

The second section authorized SBA to give loan assistance to firms facing increased competition from imports. Eligibility was based upon a certification and referral by the Secretary of Commerce, pursuant to the Trade Expansion Act of 1962.

Appropriations for this purpose were to be separate from other SBA funds and subject to the terms of the Trade Expansion Act. This provision was to be of material assistance to American small businesses in an era of growing world trade.

Accomplishments August 1953 to November 1963

August 1, 1953 - January 31, 1954

For the purposes of the Small Business Act of 1953 Congress provided that "a small business concern shall be deemed to be one which is independently owned and operated and which is not dominant in its field of operation."

The responsibility for making a more refined and detailed definition was delegated to SBA. The agency immediately recognized that effective administration of government small business programs required variable size standards by kind of business activity. A single size standard would be unrealistic.

Less than a month after the Small Business Act of 1953 was passed SBA had worked out a set of standards to be used only as a guide until their adequacy was demonstrated during a trial period by field offices.

It was provided that SBA could deviate from the standards in a particular case since any uniform standard might fail to take into full account the size differences of concerns competing for business within a particular line or in different geographical regions or metropolitan areas.

It also was provided that if a different index of size such as "number of units produced" or "net worth" was determined to be more suitable, the SBA administrator with the advice of his Economic Adviser would apply a more suitable standard.

The detailed standards are set forth in SBA's 1st Semi-Annual Report dated January 31, 1954.

Despite a sharply reduced scale of government procurement during this period, SBA succeeded in maintaining a fair proportion of purchases for small business or at least in staving off further decline.

In the all-important area of finance SBA conceived that its task was to obtain readier access for the small businessman to obtain adequate sources of capital, as well as credit on reasonable terms.

Determined action was taken on the community level to widen the scope of bank lending to small firms. This project and the agency's direct lending program served to meet an increasing part of the financial needs of small concerns. Further, the financial counseling program in many instances obviated the necessity of government financing by showing the applicant how to obtain financing from private sources.

Despite the time required for processing applications, the difficulties in staffing and the time required for making the business community conscious of its lending role, SBA made 55 business loans amounting to \$3,755,900 during the first six-months of the agency's life.

Through expert advice in Washington and SBA's 31 field offices, SBA furnished engineering and production help as well as management and technical assistance to many small concerns. The agency published and distributed a wide range of publications in the management aid field, and also launched an experimental program of extension courses in business management.

A new product unit was established to give small businesses help and guidance in producing new lines whenever they were in civilian production or in military work and faced the necessity for reconversion.

February 1, 1954 - July 31, 1954

The demands of small concerns for assistance from SBA increased sharply during this six-month period.

The major call was for financial aid and 551 loans for \$31,000,562 were approved. Agency procedures were constantly streamlined to cut down loan processing time thus reducing the backlog of applications.

Regional directors were authorized to approve business loans up to \$50,000 as an aid to expediting loans to worthy small concerns. The increasing number of businesses calling on the agency for financial counseling were enabled through the help of SBA to secure needed financing from private sources. Bank participation was increased particularly in the case of the "deferred" loans.

In spite of a sharp decrease in defense and civilian government buying small business received a larger percentage share of total defense procurement in the second half of the fiscal year than it did in the previous year.

A highly important factor was the joint determination program between SBA, GSA and DOD. Further, progress was made in the technical and production assistance field including the

processing of thousands of requests by prime contractors for subcontractors, and the referral of thousands of subcontractors to prime contractors.

A cooperative publishing program was inaugurated with the Department of Commerce which resulted in considerable savings. An education program was given a trial run in cooperation with the University of Wisconsin and University of Richmond. With agency assistance both these institutions set up management courses of great potential value to operators of small firms.

In order to keep its operations geared to the needs of small concerns, SBA drew together a representative group of businessmen, bankers, attorneys and members of the small business community to act as its guides and counsellors at both the regional and national levels. These groups were divided into the National Board of Field Advisors and the National Council of Consultants. Meetings were held in Washington and throughout the country.

In order to effect maximum use of personnel functions these overall administrative activities were centralized. In larger agencies of government they are disbursed.

Working arrangements were made concerning mutual small business problems with the Department of Commerce, AEC and DOD. Arrangements with other government agencies were being negotiated. It was determined that in this way, the energies of the various departments of the government would be harnessed to produce the maximum benefits

for small business, and the problems of small business would have increasingly effective attention and study from the executive departments.

August 1, 1954 - January 31, 1955

The major demand upon SBA during this period continued to be in the financial area.

The total number of applications for business and disaster loans increased to 2,792, compared with 2,345 in the preceding six-month period. Total dollar amount of approvals was approximately the same as during the preceding period-\$31,880,746 as compared with \$31,933,902.

The time for processing loan applications was materially reduced. Efforts to streamline procedures were continued. Maximum effort was put on financial counseling as the lending facilities of the agency were designed to supplement, not compete with private sources.

Private banks participated in two-thirds of the loans made by the agency, and the proportion of participation loans on a deferred basis amounted to 50 percent of the total amount of loans made.

Loans were channeled principally to smaller members of the small business community. More than 88 percent of all loans to manufacturers went to concerns which employed fewer than 100 persons. About 32 percent in dollar amount of business loans were under \$50,000.

Both the number and value of government contracts awarded to small business showed a substantial increase over the previous six-month period. And the percentage of joint determinations initiated by SBA but later rejected by the military services declined sharply. From August 1, 1953 to January 31, 1955, SBA and military procurement agencies agreed to 3,414 joint determinations covering contracts valued at \$436,032,838. During the same period 1,894 contract awards resulted in 2,791 prime contracts to small firms.

A significant step with respect to SBA-DOD cooperation during this period was the appointment by SBA, at the request of DOD, of a liaison officer to participate at the planning level of the Defense Department in decisions concerning small business activities.

The program of management education was rapidly extended. Courses were offered in 39 educational institutions during the 1954-1955 school year, and some 1,800 businessmen completed these courses to increase their management knowledge.

January 1, 1955 - June 30, 1955

Continued progress was made in SBA's financial assistance program with emphasis on the agency's bank participation plans. The result: About two-thirds of all loans made by the agency were in participation with private banks, while about 75 percent of SBA's participation loans were made on a deferred basis. When SBA began its lending operations it took the agency 45 to 60 days to complete action on a loan application. As a result of streamlining procedures this period of time was reduced to two to three weeks.

Progress was also made in obtaining military contracts for small concerns through the joint determination program. During this six-month period there were 2,441 proposed military purchases totaling \$214,440,530, reserved for small business. This was attributable in part to improved cooperation with the military buying offices. Progress also resulted from new instructions issued by DOD in response to proposals made by SBA to strengthen the joint determination program.

Negotiations were conducted with other agencies of government with a view toward modifying the single 500 employee size definition applicable to government procurement. This was done in view of the successful application of the variable size standards utilized in the loan program.

Goals were set for the two year period ahead. They included:

- a. More effective cooperation between SBA and other agencies so that it could act more effectively as an advocate of the small business community in the national administration. This included tax recommendations designed to provide further relief for small business and recommendations to the Federal Trade Commission and the Antitrust Division of the Department of Justice in the interest of giving more protection to small business.

b. Aid by SBA to open the door for small business to more equity capital to be pushed. This included not only education of the small business owner as to the opportunities for tapping the securities markets, but also recommendations to the Securities and Exchange Commission in order to modify burdensome requirements.

c. Improving plans and procedures for channeling more small loans to very small businesses such as small retailers and wholesalers.

d. Improving relationships in making joint loans with development credit corporations--both local and state corporations--which were enjoying a period of great expectation in the Nation.

e. Increasing the small business share of procurement above the percentage then going to small firms.

f. Formulation of a successful program to enable small businesses to obtain a larger share of subcontracts.

g. Gearing the Products Assistance Program to aid small businesses in labor distress areas.

July 1, 1955 - December 31, 1955

During this period SBA approved 625 small business loans in the gross amount of \$30,332,390. This was 20 percent greater than

business loan approvals in the previous six-month period. The percentage of business loans involving participation with banks was increased to 66 percent.

Severe hurricanes and consequent floods in the late summer and fall of 1955 resulted in widespread damage to homes and businesses particularly in the Northeastern states. SBA immediately classified the localities as disaster areas eligible for assistance under the agency's disaster loan authority. Through the cooperation of local banks and through the transfer of personnel from the Washington, regional and branch offices, SBA was able to organize emergency offices in each of these areas within a few days after the disasters occurred. For the six-month period from July 1, through December 3, 1955 the agency approved 2,056 disaster loans aggregating \$29,290,391 to assist business and home owners. This compared with 813 disaster loans for \$4,733,423 during the similar period of 1954.

Marked progress was also made in the joint determination program under which government purchases were reserved for exclusive small business bidders. During this period, more than 2,100 purchases amounting to approximately \$192,800,000 were earmarked for competitive award to small firms. The number of procurements awarded to small firms increased even more sharply to 2,028.

Total awards by DOD to small concerns increased to \$1,382,759,000. Additional progress was expected as a result of an additional DOD directive calling for greater set-asides for small business concerns, which resulted in closer cooperation between SBA and the Defense Department.

January 1, 1956 - June 30, 1956

Lending activities became of increasing help to small business. During this period SBA approved 1,290 business loans in a gross amount of \$51,644,869 - a marked increase over the previous period. Both the number of applications and percentage of approvals increased sharply while the time for processing applications was reduced.

A significant development in the program of financial assistance was the inauguration of the Limited Loan Participation Program on January 1, 1956. This was designed especially to assist small retailers, wholesale distributors and service establishments. Under this plan, SBA would participate with a bank in loans to small retailers, wholesalers, service establishments or other businesses up to a maximum of \$15,000, or 75 percent of the total amount of the loan whichever was the lesser. Early experience under this program demonstrated that under this plan banks, with SBA cooperation, would be able to meet the financial needs of a considerably greater number of small business concerns than was theretofore possible.

In the area of government procurement more than 3,900 purchases, valued at \$304,864,565 were reserved for small business. This was an increase of \$91 million over the value of those proposed purchases set aside during the previous six-month period. Additional cooperative set-aside programs were established in the purchasing offices of the Armed Services Petroleum Purchasing Agency, VA, GSA, the Department of Agriculture and the Department of the Interior.

July 1, 1956 - December 31, 1956

SBA's Financial Assistance Program was characterized by a sharp increase in business loan applications during the last half of 1956. During this period the number of applications rose from 406 in June to a new all time high of 692 in October. The total of 3,337 business loan applications during this period was more than double that for the same months of the previous year. Business loan approvals also rose sharply, amounting to \$70,058,390 to 1,600 small business applicants. This period was marked also by extension of SBA's lending program to additional types of businesses, such as privately-owned hospitals and nursing homes and motion picture theaters; increased interest in the Limited Loan Participation Plan and a continued high percentage of bank participation loans.

The keystone of the agency's Procurement Assistance Program, the Joint Determination or Set-Aside Program, made good progress during this period. Government proposed purchases amounting to \$345,274,449 were set aside for exclusive award to small businesses representing an increase of 79 percent over those set aside during the same period of 1955.

Agreements were made with two additional agencies, the Department of Commerce and the Post Office Department. And SBA procurement representatives began to review proposed purchases, for set-aside purposes, at 53 additional military and Federal civilian agency purchasing offices.

Small Business Opportunity Meetings, designed to provide information on government buying methods and prime contract and subcontract opportunities were attended by 25,000 small business owners and managers.

Many of the activities of this agency during this period were of a cooperative nature with other agencies of the government, with SBA serving as a spokesman and advocate for small business. Among these activities was:

- Cooperation with other agencies in the work of the Cabinet Committee on Small Business which published its first Progress Report on August 7, 1956;
- Advice to the SEC on revisions of Regulation A so that the advantages of simplified regulation of securities issues could be extended to as many small businesses as possible;
- Cooperation with the Fish and Wildlife Service of the Department of the Interior in establishing a fisheries loan program;
- Cooperation with the Housing and Home Finance Agency in the development of a program of insurance against flood damages;
- Cooperation with the Farmers Home Administration, USDA in regard to drought disaster loans;
- Discussions with DOD with respect to advance payments on defense contracts in order to assist small firms doing business with the military services, and
- Participation in the work of the Interagency Task Force to define small business, which resulted in publication of the definition of size standards in December 1956.

January 1, 1957 - June 30, 1957

Again, marked progress was made in the financial assistance area when 1,936 business loans for \$89,035,954 were approved. The monthly average of 572 applications in Fiscal 1957 represented an increase of 68.2 percent over the monthly average of 340 in 1956, which in turn had reflected a 23.2 percent increase over the 1955 monthly average.

Highlighting the progress in the area of government procurement, set-aside actions again increased sharply. The number of procurements set aside during this period increased 80.9 percent compared to the last half of Fiscal Year 1956. The number of contract awards resulting from these set-asides increased by 84.2 percent. On a dollar value basis, procurements set aside for small business increased 30.9 percent and contract awards resulting from set asides increased by 79 percent.

Other phases of the agency's Procurement Assistance Program also showed significant increases in activity.

For example, contacts with prime contractors to develop subcontracting opportunities for small firms increased 18.8 percent in this period compared with the last half of Fiscal Year 1956, and the agency made 65.9 percent more referrals of subcontracting opportunities to small concerns.

The agency worked in collaboration with the SEC on a proposed revision of Regulation A. In addition, SBA set up a continuing liaison with the Commission to provide a constant review of small

business equity financing problems. SBA officials testified before the Senate Committee on Banking and Currency on a bill to increase from \$300,000 to \$500,000 the maximum amount of an issue of corporate securities which the SEC may exempt from registration.

Agency officials conferred with officials of the Civil Aeronautics Board about methods of improving the financial position of small feeder airlines by loans or reassignment of routes. They conferred also with representatives of the CAA about loans to private airports for hangar facilities.

Representatives of the agency also conferred with officials of the Interstate Commerce Commission regarding problems of small firms in the trucking industry, and established liaison with ICC to obtain from it needed credit information.

Officials of the agency also consulted with officials of the Federal Communications Commission to develop information concerning the problems of the smaller ultra-high frequency stations. They studied the impact of the proposed subscription television on the financial position of UHF stations which were predominantly small, and the further effect the authorization of subscription television would have on increased advertising opportunities for small business.

Close liaison was established with the Department of Agriculture on the drought programs of both SBA and USDA. Representatives of both conferred jointly with financial institutions in an effort to meet the dual credit needs of businessmen and farmers in drought areas. SBA's administrator was asked by the Agriculture Department

to serve along with the Under Secretaries of several government departments, as a member of the Committee for Rural Development Program. This committee was organized to develop policies to improve the economic position of low-income areas. A substantial percentage of SBA loans were made to small business concerns closely related to agriculture. SBA officials conferred with Agriculture representatives on problems confronting the poultry industry and the relationship of our loan program to those of lending programs of other agencies.

The agency also worked closely with the Housing and Home Finance Agency in connection with its Community Facilities Disposal Program. This program was designed to dispose of government-owned property located at Oak Ridge, Tennessee, and Richland, Washington (pursuant to the Atomic Energy Act of 1955).

SBA financial specialists processed all applications for commercial financing for prospective buyers of these properties. Where applicants were not eligible for assistance from SBA, Housing and Home Finance officials made the determination for financial assistance.

In cooperation with the Departments of Commerce and Justice, the Export-Import Bank, the Federal Trade Commission, the International Cooperation Administration, the Internal Revenue Service and faculty members of the Harvard University Graduate School of Business Administration, SBA developed information of value to small business concerns desiring to enter the international trade field. The agency issued a publication entitled "Pointers on International Trade," which received favorable comment and wide acceptance.

In the Disaster Loan Program, SBA worked in close cooperation with the Federal Civil Defense Administration, the Housing and Home Finance Agency and the American Red Cross in assuring assistance to disaster victims.

It also continued to cooperate with the Fish and Wildlife Service of the Department of the Interior in establishing and administering its Fisheries Loan Program and it developed the necessary credit information for financial aid. These were closed and administered through the agency's regional offices.

SBA also established a continuing liaison with the Antitrust Division of the Department of Justice whereby the agency obtained lists of inventions and patents made available for licensing to the public through judgments in antitrust cases, and published abstracts of these patents in the monthly "Products List Circular."

The agency also collaborated with the Business and Defense Services Administration of the Department of Commerce to assist small business concerns in obtaining access to scarce materials.

SBA actively cooperated with other Federal agencies in implementing recommendations of the President's Cabinet Committee on Small Business.

On July 15, 1957, the President wrote to the Chairman of the Committee on Ways and Means of the House of Representatives, suggesting that the committee favorably consider the following tax recommendations of the President's Cabinet Committee:

1. That businesses be given the right to utilize, for purchases of used property not exceeding \$50,000 in any one year, the formulas of accelerated depreciation that were made available to purchasers of new property by the Internal Revenue Code of 1954.

2. That corporations with, say, ten or fewer stockholders, be given the option of being taxed as if they were partnerships.

3. That the taxpayer be given the option of paying the estate tax over a period of up to ten years in cases where the estate consists largely of investments in closely held business concerns.

In addition, the President recommended one additional change in the law to permit an original investor in small business the right to deduct from his income, up to a maximum amount prescribed by Congress, a loss, if any, realized on a stock investment in such business.

At the time, the deduction of such losses from income was subject to the general limitation on net capital losses of \$1,000. This recommendation was of great significance by reason of the continuing difficulties encountered by small firms in obtaining equity capital. From SBA's investigation it was concluded that the proposed change would provide a great stimulus to investment of equity capital in eligible small firms.

In regard to the proposal of the Cabinet Committee that taxes imposed on business corporations be modified by reducing the tax rate from 30 percent to 20 percent on incomes up to \$25,000, the President stated that adoption of this recommendation would be ill-advised because of the substantial revenue loss that it would entail.

Also, in the absence of a general tax reduction, which the budgetary situation did not permit at the time, the President stated that a tax reduction of this character would discriminate against the many small businesses operating as partnerships or individual proprietorships.

In his letter the President gave a current status report on the ten additional recommendations made by his Cabinet Committee on Small Business. Some of these were carried out by the Executive Branch, while others had to await Congressional action. The President's review follows:

In its Recommendation No. 5, the Cabinet Committee proposed: That the President arrange for a comprehensive review of procurement policies and procedures of all departments and agencies, including the legislation pertaining thereto, with a view to facilitating and extending the participation of small businesses in work on government contracts.

On September 26, 1956, I directed the administrator of the General Services Administration to plan and conduct such a review, in cooperation with other major procurement agencies. The First Summary Report of the Task Force set up by the administrator of the General Services Administration under this Directive was issued on March 1, 1957. Several important improvements in procurement procedures have already been accomplished as a result of the Task Force efforts, and a comprehensive

proposal for amendments to the procurement laws has been developed by the Task Force and is currently being reviewed by the cognizant executive agencies. The purpose of the amendments being reviewed would be to bring about greater uniformity and simplification of government procurement procedures, and to improve the opportunities of small businesses to participate in government work.

In its Recommendation No. 6, the Cabinet Committee proposed: That the President direct departments and agencies engaged in extensive procurement to adopt procedures which would insure that a need for advance or progress payments by a bidder will not be treated as a handicap in awarding a contract, and which would facilitate and accelerate the making of such progress payments as may be requested by small suppliers under government contracts.

In my letter of August 18, 1956, I directed the procurement agencies to implement Recommendation No. 6. In order to ensure uniformity among the various agencies the General Services Administration on December 31, 1956, laid down a government-wide regulation prescribing policy and procedures in consonance with Recommendation No. 6. Federal agencies are taking steps to comply with this.

In its Recommendation No. 7, the Cabinet Committee proposed: That the Renegotiation Board clarify the fact that, although a contractor who subcontracts work may not reasonably expect to be allowed as large a profit thereon as if he had done the work himself, the practice of subcontracting--especially the extent to which subcontracts are placed with small businesses--is encouraged by giving it favorable consideration in determining allowable profits.

On September 24, 1956, the Renegotiation Board amended its regulations to give effect to this recommendation.

In its Recommendation No. 8, the Cabinet Committee proposed: That the life of the Small Business Administration, which is now scheduled to expire in mid-1957, be extended at the earliest opportunity.

Administration bills (S.1789 and H. R. 6645), would remove the time limit on the life of the Small Business Administration, thus giving it permanent status.

In its Recommendation No. 9, the Cabinet Committee proposed: That the maximum amount of an issue of corporate securities which the Securities and Exchange Commission may exempt from registration be increased from \$300,000 to \$500,000.

I have recommended this change. Legislation (S.810 and S.843) is now before the Congress to carry out this recommendation.

In its Recommendation No. 10, the Cabinet Committee proposed: That the President call a Conference on technical research, development and distribution, for the benefit of small business.

I have directed the Secretary of Commerce and the Administrator of the Small Business Administration to make plans for this conference.

These plans have been announced and a Conference on Technical and Distribution Research for the Benefit of Small Business will be held in Washington September 24-26.

In its Recommendation No. 11, the Cabinet Committee proposed: That legislation be enacted to enable closer Federal scrutiny of mergers.

Legislation to accomplish this object is before the Congress, and the Attorney General has outlined Administration views in testimony before the House Judiciary Committee.

In its Recommendation No. 12, the Cabinet Committee proposed: That procedural changes be made in the antitrust laws to facilitate their enforcement.

I have recommended three procedural changes in this area: first, that cease and desist orders of the Federal Trade Commission under the Clayton Act be final when issued, unless appealed to the Courts; second, that the Attorney General be given the power, where civil procedures are contemplated, to issue a civil investigative demand, thus making possible the production of documents before a complaint is filed, and without the need of grand jury proceedings; third, that the Federal Trade Commission, in merger cases where it believes a violation of the law is likely, be authorized to seek a restraining injunction before filing a formal complaint.

In its Recommendation No. 13, the Cabinet Committee proposed: That wage reporting by employers for purposes of social security records and income tax withholding be simplified.

Legislation (H. R. 8309) to give effect to this recommendation has been submitted to the Congress.

In its Recommendation No. 14, the Cabinet Committee proposed: That the Office of Statistical Standards for the Bureau of the Budget undertake a comprehensive review of the reports and statistics required of small businesses.

The Bureau of the Budget has under way a study designed to determine whether the reports and statistics which small business must now maintain for, or supply to, the government are unduly burdensome and, where necessary, to suggest remedial measures.

July 1, 1957 - December 31, 1957

The agency continued to work closely with SEC on ways and means to make equity capital more readily available to small business.

In November the agency arranged a conference with leaders in the business and investment community and officials of SEC. Out of the discussion came many proposals for statutory and administrative changes to benefit small business. Representatives of the agency also conferred with representatives of the CAA about financial assistance to small airlines, including loans to private airports for hangar facilities.

Discussions continued with members of the Federal Communications Commission concerning the complicated question of subscription television and its impact on small business concerns.

Close liaison continued with USDA on the drought financing program of SBA and USDA.

The agency also continued its liaison with the Antitrust Division of the Department of Justice, through which it obtained lists of inventions and patents made available for licensing to the public

through judgments in antitrust cases. The agency continued to publish abstracts of these patents in its monthly "Products List Circular" distributed to small business concerns.

Officials of the agency closely watched the development of antitrust legislation and the handling of specific complaints from small businesses under the antitrust law.

Conferences were held with officials of the Patent Office regarding fees for the filing of patents, and general government patent policy.

SBA conferred with the Bureau of Foreign Commerce in the Commerce Department in regard to the effect of high tariffs on small business concerns and brought to the attention of the United States Tariff Commission the effect of tariff increases on small firms.

SBA representation worked with HEW officials in the development of health insurance programs to be set up by small insurance companies, as well as a loan program for private hospitals, convalescent homes and clinics.

The agency continued to confer with representatives of the Labor Department in regard to amendments to labor laws which might improve the labor-management relations of small business concerns.

The financial and competitive problems confronting small bus and truck lines were discussed with the Interstate Commerce Commission.

Many individual cases relating to unfair trade practices were referred to the attention of the Federal Trade Commission both as individual matters and problems of general policy.

Recommendations were made to the Department of State in relation to the hardships imposed on small business due to exports of ferrous scrap and other materials in short supply.

And SBA discussed with the Department of the Treasury changes in the tax laws for the benefit of small business. Several management publications with reference to tax problems were issued by SBA.

Officials of the agency discussed with the Department of the Interior problems in connection with financial assistance for park concessionaires and financing of small oil storage tanks. SBA worked closely with members of the Federal Reserve Board on studies relating to the financing of small business.

Conferences were held with various Departments and Bureaus, including the DOD and the Bureau of the Census, on methods of improving the definition of small business.

Conferences and workshops also were held with representatives of the Urban Renewal Administration to discuss possible assistance to small business concerns displaced by new housing programs.

The agency worked continuously with the Council of Economic Advisers on studies of programs for assistance to small business. It also continued to actively cooperate with other agencies to carry out recommendations of the President's Cabinet Committee on Small Business and to develop additional programs for future implementation.

Many Federal agencies cooperated in the Business Opportunity Meetings cosponsored by SBA to inform small business owners and managers of government prime and subcontract opportunities. Ten such

meetings were held during the six-month period from July through December 1957. Agencies cooperating in this work included various installations of the Army, Navy, Air Force and joint military supply agencies, as well as such Federal civilian departments as Commerce, General Services Administration, Post Office, Interior and the Veterans Administration.

January 1, 1958 - June 30, 1958

During this period SBA's Financial Assistance and Procurement Assistance Programs both reached record levels. In this six-month period, 4,698 business loan applications requesting more than \$257 million were received, and 2,513 business loans for \$122 million were approved.

This compares with 3,527 applications for \$189 million and 1,936 business loan approvals for \$89 million in the same six-month period of 1957.

Government purchases set aside for small business in the fiscal year which ended June 30, 1958, totaled more than \$1 billion. This was the greatest dollar amount of set-asides in any fiscal year since start of the agency and was an increase of more than \$300 million over the the set-asides in the prior fiscal year. The set-aside program during fiscal year 1958 resulted in 18,149 contract awards, valued at \$677 million, to small business concerns, as compared with 13,416 contract awards for \$553 million in the previous fiscal year.

Many activities of this agency during the past six-month period were conducted in cooperation with other government agencies, with SBA serving as spokesman and advocate of small business.

In addition to continuing existing programs of cooperation between SBA and other government departments and agencies concerning matters in the interest of small business, the agency held conferences with the Departments of Commerce, Defense and Labor about a revision of the definition of "Regular Dealer" under the Walsh-Healy Public Contracts Act.

It also reviewed in collaboration with other agencies the labor standards provisions of government construction contracts in an effort to simplify the procedures and thus facilitate the participation of small businesses in government procurement. Agency employees also participated with the General Services Administration in the preparation of a single set of government procurement regulations.

SBA also instigated meetings and cooperated with the Department of Commerce, the General Services Administration and the Office of Defense and Civilian Mobilization in developing policies for leasing government machine tools.

Moreover, in connection with legislation under consideration by both Houses of Congress, the agency studied methods of providing small businesses with longer term loans and equity capital. Two research studies commissioned by the agency were helpful in Congressional consideration of these measures--one study dealt with state development corporations; the other with local development corporations in Minnesota where such corporations had operated successfully.

These studies were published by the Senate Committee on Banking and Currency in the committee print, "Development Corporations and Authorities."

Delegations from many European, Asiatic and South American countries visited SBA during this period. Composed mainly of small businessmen, government officials, bankers and executives of small industry, these delegations were provided detailed information on the various agency services. These visitors were particularly interested in the Financial Assistance Program, the production and technical assistance activities and the economic status of small business in the United States. In some instances they expressed an intention to try to enlist support for similar small business programs in their own countries.

July 1, 1958 - December 31, 1958

During this period the agency received a record-breaking number of business loan applications--4,981 requesting a total of \$282.8 million. And a record number of business loan applications were approved by SBA. Approvals totaled 2,628 applications for \$119.7 million. This activity compared with 3,200 applications for \$190.7 million and 1,501 loan approvals for \$73.4 million in the same six-months of 1957.

Government purchases earmarked for small business in this six-month period totaled \$428.5 million which was the greatest dollar amount of small business set-asides in the first half of any fiscal year since the agency was established, and was almost \$50 million more than the set asides in the first half of fiscal year 1958. The set-aside program also resulted in 10,521 contract awards totaling \$316 million, to small business concerns as compared with 5,705 awards for \$222 million in the same period of 1957.

With new responsibilities for increasing small business participation in sales of government property, SBA worked closely with those government agencies having disposal activities. A cooperative agreement was developed with the Department of Agriculture to assure small business an increased share of Federal timber, and the agency sought a similar agreement in forest land controlled by the Department of the Interior. It was determined to develop cooperative agreements with all other departments having responsibility for the sale of real and personal property.

The Small Business Investment Act was signed by President Eisenhower on August 21, 1958. Under the provisions of the Act SBA was authorized to license privately-owned and operated small business investment companies, and these companies in turn would provide equity-type capital and long term loans to small business concerns.

In addition the agency was granted new authority to assist state development companies and local development companies in the financing of small businesses in their areas.

Accordingly, SBA framed proposed regulations and published them in the Federal Register. Since this was a pioneering effort in the field, comments were invited from all concerned.

Agency officials consulted with or obtained opinions from professional societies such as the American Bar Association and the American Institute of Certified Public Accountants, small business associations, Members of Congress, state officials and others.

Final regulations were issued on December 4, 1958, scarcely three months after enactment of the law. It then was announced that applications for licenses would be accepted. In the short time remaining in 1958, a number of applications were received and reviewed by the agency.

The first of a series of public meetings was held in New York City on December 1 and 2, 1958 at which Senator John J. Sparkman, Chairman of the Senate Small Business Committee, staff members of Congressional committees, representatives of private investment companies and commercial banks, and officials of the Securities and Exchange Commission, Internal Revenue Service and SBA discussed the Small Business Investment Act and the regulations. The proceedings of this meeting were published by the Senate Banking and Currency Committee as a Senate document.

Under Title V of the Act, a number of applications for loans were received from local development companies. One loan was approved prior to the end of 1958 and other applications were processed. Preliminary negotiations were in progress with officials of several state development companies with regard to loans under Section 501.

The agency continued the various programs under which it had been acting as spokesman and advocate of small business.

For example, SBA's Office of Economic Adviser started work with the Commerce Department to determine the effect of increases in third-class mailing rates on the economy in general and on small business. The study was conducted in accordance with Section 209(a) of Public Law 85-426.

Three additional Business Opportunity Meetings were co-sponsored by this agency to inform small business owners and managers of opportunities to sell their products to the government and obtain subcontract work.

January 1, 1959 - June 30, 1959

The Supreme Court in Guss v. Utah Labor Relations Board, 353 U.S. 1, held that since the National Labor Relations Board had been vested with jurisdiction over labor disputes affecting interstate commerce, the states had been divested of all authority to deal with such cases. Where the National Board fails to exercise the jurisdiction granted to it, no forum exists for deciding these disputes. As a result some three million of the then four million small business concerns in the country had absolutely no forum in which to adjudicate their labor disputes.

SBA pressed within the Executive Branch, and before the Congress, for appropriate action to remedy this situation. The agency concluded that organizational picketing with the accompanying pressures upon suppliers and customers of the picketed concern often can amount to coercion of both the small business concern and its employees.

It was determined that whether a small business concern is the primary target of a secondary boycott or merely a customer or supplier dependent upon the primary target, the small business proprietor operating as most do on limited capital, can not long survive against this practice. Therefore, SBA urged stricter control of organizational picketing and secondary boycotts.

Small business owners had expressed concern over the increasing use of management contracts and the weapons system concept of contracting utilized by the military services.

The Senate Select Committee on Small Business held hearings on this subject on April 22, 23, and 24, 1959. A number of defense contractors appeared at these hearings. The House Armed Services Investigations Subcommittee also held a hearing on June 17, 1959, on negotiated procurement and the use of the weapons system.

SBA studied these problems in an effort to develop recommendations for the procurement agencies. It was discovered that increased use of the weapons system of contracting tended to place much government procurement beyond the reach of SBA's set-aside and other procurement programs and it was determined that for this reason, if for no other, the subject merited continuing intensive study.

Government purchases earmarked for small business in this period by SBA in joint cooperation with the Department of Defense, and cooperating Federal civilian agencies totaled \$714.2 million.

This was the greatest dollar amount of small business set-asides in the second half of any fiscal year since the start of the agency and was \$30 million more than that set aside in the second half of fiscal year 1958.

The set-aside program also resulted in 14,279 contract awards, valued at \$533 million, to small business concerns in this period as compared with 12,444 contract awards for \$455 million in the same period of 1958.

In this six-month period SBA hit another high in its Financial Assistance Program when it received 5,232 business loan applications for \$308.9 million. The agency also approved a record number of business loans--2,954 for \$147.3 million.

This lending activity compares with 4,698 applications for \$257.4 million and 2,513 loan approvals for \$121.6 million in the same six-months period of 1958.

SBA continued to work with the Securities & Exchange Commission on matters relating to the licensing and regulation of small business investment companies operating under the Small Business Investment Act of 1958.

The agency continued its cooperation with the various agencies and departments of the Federal Government in connection with matters affecting small business concerns.

Two additional business opportunity meetings were held during this period.

July 1, 1959 - December 31, 1959

In this period, 1,579 business loans for \$69,479,000 and 320 disaster loans for \$2,005,000 were approved by SBA. Four thousand and two business loan applications for \$242,829,000 were received in this period compared with the high of 5,232 loan applications for \$308,009,000 reached in the previous period.

The slackening of demand for credit during this period possibly reflected the economic slow-down and uncertainty due to the steel strike. The cash position of business, large and small,

improved during this period because of the conversion of inventories into finished goods and cash rather than the use of cash to purchase inventories, including steel.

During this period, 51 proposals to form small business investment companies were received by the Investment Division, and 46 licenses were issued. Since the inception of the program in December 1958, a cumulative total of 143 applications had been received and 62 licenses had been issued.

And in the procurement field SBA and cooperating government agencies jointly set aside approximately \$473 million of proposed government procurements for award to small business concerns. This showed an increase of \$45 million over the same period of FY 1959 and was the largest amount set aside for small business during the first half of any fiscal year since the beginning of the agency in August 1953.

SBA continued during this period to cosponsor small business opportunity meetings. Information on how to sell to the government and on-the-spot assistance for small businesses were presented by top government purchasing officials, visual displays, sample bid sets, and by exhibits or products purchased by Federal agencies.

Special exhibits by prime contractors of items for which subcontractors are sought were featured.

In addition, SBA procurement specialists and government contracting officials provided procurement guidance and assisted individual concerns in obtaining listing on appropriate bidder's lists.

Information regarding sales of surplus government property and research and development bidding opportunities took top billing.

The timber set-aside program was kicked off on May 1, 1959 and by the end of December set-asides were initiated for 173 sales for an estimated 400 million board feet of timber. The value was estimated at \$8.4 million. Operating procedures provided for a semi-annual review by SBA property sales specialists and the forest manager of the proposed forest cutting plant.

During this survey, the historical pattern of timber sales was analyzed for the distribution of awards to small and large business concerns. Proposed timber sales for the ensuing six-month period were then evaluated and set-asides made in accordance with prescribed criteria as necessary to insure that small business concerns had the exclusive opportunity to bid on certain sales.

January 1, 1960 - June 30, 1960

The agency received 4,329 business loan applications for \$263,752,000 during this period, and approved 2,091 loans for \$98,887,000.

These totals compared with 4,002 applications for \$242,829,000 and 1,579 loan approvals for \$69,479,000 in the previous six-month period. SBA also received 349 disaster loan applications for \$4,172,000 and approved 305 loans for \$2,510,000. These totals compared with 411 loan applications for \$3,840,000 and 320 approvals for \$2,005,000 in the previous period.

In order to give all possible assistance to small business concerns affected by urban renewal or highway relocation projects, high priority was given to loan applications from these businesses. Each regional office was directed to appoint a liaison representative to work closely with other Federal agencies and local and state authorities in connection with the Federal and urban renewal programs. A committee of senior agency officials was appointed to study procedural aspects of the agency's business and disaster lending programs with a view to developing and recommending changes or improvements.

From January through June 1960, banks participated in 62.3 percent of the loans approved by SBA compared with 60.6 percent in the previous six months. Immediate participations totaled 1,120 and deferred participations 182; the previous six months totals were 760 and 197 respectively.

At the end of this six months period which coincides with the end of the fiscal year 1960, SBA's Investment Division had in force a total of 108 licenses to small business investment companies, with combined capital, including funds from public offerings, of \$70,402,364 for investment in small businesses.

Of this total, SBA had committed \$11,200,000 or 15.9 percent, while the \$59,202,364 balance or 84.1 percent came from private sources. Thus, for each dollar of government funds private sources supplied more than five dollars.

Of the \$11,200,000 committed by SBA \$4,537,400 had been requested for disbursement by licensees. As of June 30, 1960, loans approved to state and local development companies for the benefit of small businesses totaled 52 for a total of \$7,057,309. Nearly half of this financing of small businesses under Title V of the Small Business Investment Act of 1958 took place in the six months ending June 30, 1960, indicating a noticeable acceleration in this lending program.

The agency's programs of government procurement and property sales continued to advance during this period with the following significant developments:

- SBA and cooperating government agencies jointly set aside approximately \$630,413,000 of proposed government procurements for award to small business concerns.

During this period, 13,163 prime contracts were awarded to small business concerns with a total value of \$484,924,485. These were contracts awarded as a direct result of the set-aside program.

In the fiscal year 1960, 24,152 prime contracts valued at an all-time high of \$878,168,714 were awarded under the set-aside program. This compared with 24,800 contracts valued at \$848,570,318 awarded to small business during fiscal year 1959.

On a cumulative basis since the start of the agency's set-aside program in 1953, 93,648 prime contracts totaling \$3,596,338,336 had gone to small business.

● During this period SBA negotiated 36 agreements with prime contractors, enabling small businesses to obtain a greater share of business through subcontracts.

● The activities of the set-aside program for the sale of timber in Federal forests resulted in 160 set-asides for 368.3 million board feet of saw timber, with an estimated value of \$16.7 million. Since timber set-asides are made on an annual basis, these figures related to fiscal year 1960.

The agency issued a directory entitled "A List of Small Business Concerns Interested in Performing Research and Development." This directory contained 3,286 separate listings distributed over 33 main divisions and showed the research and development interests of 2,674 small business concerns.

The Products List Circular, which provided information on government-owned patents available on a non-exclusive royalty-free basis and on patents owned by individuals available through purchase, license or other commercial arrangements, was distributed to 12,666 industrial concerns, trade associations and individuals on request.

During this period SBA continued its management and research assistance program consisting of publications, individual counselling, conferences, administrative management courses, and research. Five significant developments occurred as follows:

1. The agency published 43 new titles on management subjects pertaining to small business needs and interests.

2. The counselling and conference activities included growing reference library services, two experimental seminars on foreign trade, and increased emphasis on customer management relations work.

3. Management development made significant gains in cosponsored administrative management courses. The number of courses offered owners and managers of small businesses during the period was 33 percent above the same six months of the preceding year.

4. The agency made its second annual series of grants. It gave awards for 53 projects involving 54 separate studies. Internal streamlining further systemized administrative procedures to improve management research efficiency.

5. Better field service was developed as a result of a modest increase in regional staffs carrying on management and research assistance work.

July 1, 1960 - December 31, 1960

Particularly noteworthy during this period were several major SBA activities. These included:

A step-up in the rate of licensing of small business investment companies and in the number of proposals received for formation of such companies;

A continuing demand for agency loans by small business concerns;

Substantial increases in the dollar volume of government contracts set aside for small business and in Certificates of Competency issued to small businesses bidding on government purchases or sales, and

An increase in disaster loan activity resulting largely from Hurricane Donna which caused extensive damage along the Eastern Seaboard in September.

This reporting period also saw the accomplishment of the following objectives:

With respect to the program of timber set-asides for small business the agency executed an agreement with the Forest Service of the Department of Agriculture to facilitate SBA financial assistance to small loggers and sawmill operators for the construction of access roads. Small operators frequently are unable to bid on government sales of timber because of inability to finance the construction of primary access roads. The agreement was designed to make it possible for a greater number of small operators to bid on these sales. The second objective achieved followed from SBA's study of the agency's bank participation program to determine whether changes should be made that would increase bank participation in term loans and thus make additional private funds available to small firms.

The study resulted in the adoption of the Early Maturities Bank Participation Loan Plan, which permitted banks to take early maturities on term loans. The agency hoped by this procedure to add to the nongovernmental loan funds available to small business and to stimulate greater interest among banks in term-lending to small business on their own initiative.

This period also saw the initiation of a series of studies designed to develop basic data on economic and competitive factors which govern success or failure of individual small enterprises.

A variety of projects were started to disclose useful information about small businesses engaged in manufacturing in the electronics, dairy products, pharmaceutical and scientific electrical measurement instruments industries, and in such service trades as restaurants and gasoline filling stations.

During this period the financial assistance program was highlighted by the following:

- SBA received 4,524 business loan applications for \$267,815,000 and approved 1,921 loans for \$96,262,000.
- The agency also received 2,393 disaster loan applications for \$27,790,000 and approved 1,832 applications for \$15,313,000.

During this period about \$667,669,000 in proposed government purchases were set aside for award to small business bidders. This was an increase of \$195,146,000 over the same period of fiscal year 1960, and was the greatest dollar amount of proposed government purchases set aside for small business during the first half of any fiscal year since the start of the agency.

The joint set-aside program was applied to construction procurements at military installations. Although the program did not begin at most installations until the second quarter of the fiscal year it resulted in an estimated 2,100 proposed construction awards amounting to about \$120,000,000 being set aside for exclusive award to small business bidders.

SBA's set-aside program for the sale of timber from Federal forests to small business resulted during this period in 95 set-aside sales valued at \$3,100,000. These proposed timber sales covered an estimated 134,831,000 board feet of sawed timber.

SBA continued during this period to cooperate with other Federal agencies and state and local business groups in arranging small business opportunities meetings. During this period, the agency cosponsored or participated in 27 such meetings.

January 1, 1961 - June 30, 1961

During this period SBA gave record assistance to small firms in obtaining financing and government contracts and in strengthening their management.

Without exception the aid given to small firms through each major SBA program was greater in January to June 1961 than in any previous six-month period since the start of the agency in 1953.

Among significant gains were the following:

- Business loan applications received by the agency, and business loans approved by it, each increased about 47 percent compared with the same period of 1960.

- Proposed government purchases set aside for bidding by small business through joint action of SBA and purchasing agencies increased by 81 percent over the first half of 1960 and contract awards to small firms under the program rose by 69 percent.

- SBA licensed 128 additional investment companies to provide equity capital and long-term loans to small business, compared with 48 companies licensed from January to June 1960.

This record volume of SBA aid to small businesses resulted primarily from objectives set by the agency.

Specifically, it was determined that SBA should make all its programs more effective, and more helpful to small business, than ever before; that it should give maximum aid to small businesses in communities in areas of substantial unemployment, and that through this expansion, improvement and acceleration of its programs, it would help attain the President's goals of recovery for economically depressed areas and more rapid growth of the national economy.

Expansion and acceleration of SBA assistance reflected a determination in both the Executive and Legislative Branches of the Federal Government to give small businesses the fullest measure of assistance in order that they might prosper and grow.

On numerous occasions the President had expressed his keen interest in the welfare of small business and his conviction that the government must do all in its power to help small firms individually and to create an economic climate in which small business could flourish.

As an important step in this regard a White House Committee on Small Business was established of which the Administrator of SBA became Chairman. The Committee included top officials of 11 government departments and agencies.

The President directed the new Committee to "develop additional means for sustaining and broadening the small business sector of the economy" and for overcoming obstacles to small business growth.

The Congress was similarly determined that small business should be aided and encouraged. This was evidenced by pending or approved legislation to increase SBA assistance to small business and by the outstanding service in behalf of small business performed by the Senate Select Committee on Small Business, the House Committee on Small Business and by many individual members of Congress.

There was growing cooperation among SBA and other government agencies whose actions vitally affect small business. Interagency relationships were strengthened at both the policy-making and operating levels.

More specifically, SBA during this period received 6,356 business loan applications for \$403,901,000 and approved 3,068 loans for \$154,170,000.

This compared with 4,524 applications for \$267,815,000 and 1,921 approvals for \$96,262,000 in the preceding six-month period. From January to June 1960, 4,329 applications for \$263,752,000 were received and 2,091 of these were approved for \$98,887,000.

During the six-month period ending June 1961, SBA received 911 disaster loan applications for \$12,419,000^{1/} and approved 946 ^{1/} loans for \$10,423,000.

^{1/} Totals include some loans pending as of January 1, 1961.

Highlights of SBA's Procurement and Technical Assistance Program were:

1. Twenty-two thousand three hundred and twenty proposed government purchases totaling \$998,464,102 were jointly set aside for exclusive bid by small businesses.

2. Twenty-two thousand three hundred and sixty-one prime contracts amounting to more than \$746.8 million were awarded to small concerns as a direct result of SBA's set-aside program.

3. The agency directed its field offices to assign the highest priority and all available manpower to its Contracts Assistance Program. Field offices were directed to give special attention to helping small firms share in the President's program to increase job opportunities by accelerating scheduled government purchasing actions.

4. The agency established closer liaison with military and civilian buying departments and agencies. One major action was the appointment of SBA representatives to work with the Assistant Secretaries of the Army, the Navy and the Air Force responsible for procurement.

5. The agency scheduled meetings with representatives of major defense prime contractors, industry associations, and government agencies to plan on joint action to increase subcontract awards to small business.

July 1, 1961 - December 31, 1961

More small concerns benefited during this period as a result of continuing effort by SBA to make its services more helpful to the small business community. As a result of expansion and improvement of the agency's services small concerns were given a greater measure of assistance than at any previous six-month period in SBA's history.

Some highlights of the period were:

1. Business loans: SBA approved a record 3,768 loans for more than \$215 million to help small concerns expand, modernize and improve their operations. Contributing to the increased volume of loan activity was a new "simplified participation loan plan" which by years-end accounted for nearly one-fourth of all loan applications received by SBA.

2. Government contracts: Through joint action by SBA and government purchasing agencies, more than \$1 billion of proposed government purchases were set aside for competitive bidding by small concerns. DOD, GSA and SBA also began a new (Congressionally authorized) program to increase subcontracting opportunities for small business.

3. Small business investment companies: SBA licensed 145 additional privately-owned SBICs to provide long-term loans and equity capital to small firms.

4. Disaster loans: SBA approved more than 3,700 disaster loans to help restore or replace businesses and homes damaged by

such disasters as Hurricane Carla, or to aid small firms that suffered economic injury from drought or excessive rainfall. These loans also went to small concerns being displaced by Federally aided construction projects.

5. Community-area development: The agency began to play an expanding role in helping communities increase their employment and income. Under authority delegated to it by the Secretary of Commerce, SBA began processing all applications for area redevelopment administration loans for job-creating industrial and commercial projects, and began providing communities and areas technical assistance with economic plans and projects. Under its own Small Business Investment Act lending authority SBA also approved more than 40 loans to state and local development companies to help them finance small business.

6. Small business management: Because management weaknesses were found to be the principal cause of business failure, SBA placed increased emphasis during this period on helping small businessmen strengthen their management abilities. As one part of its broad program of courses, conferences, publications, counselling and research, the agency cosponsored more than 160 administrative management courses for small businessmen.

7. Foreign trade: SBA stepped up its effort to encourage and help small firms to engage in foreign trade, a field of vast promise which has been largely neglected by small business. During the period the agency participated in 11 conferences through which foreign trade information was provided to small business owners and managers.

Continued expansion of the agency's services to small business during this period was made possible by several factors. These included Congressional amendment of the Small Business Act and the Small Business Investment Act to increase SBA's authorities and responsibilities; a continuing program to improve the operation and administration of SBA and to make its policies and procedures more responsive to the needs of small business; closer liaison with other agencies whose policies and activities affect small business, and an intensified program to inform small firms of the many services available to them from SBA.

January 1, 1962 - December 31, 1962

In 1962 SBA made substantial progress toward achieving a stronger, healthier small business community. Highlights of the agency's activities in the year were:

1. Business loans: SBA approved nearly 6,000 loans for more than \$300 million to help small firms expand, modernize and improve their operations. The number of loan applications received and number of loans approved were second only to the agency's business lending activity in 1961. SBA and the American Bankers Association developed a new bank-SBA participation loan plan which was to be of great help in meeting the credit needs of small firms.

2. Government contracts: Through joint action by the agency and government purchasing agencies, a record total of \$2.2 billion of proposed government purchases were earmarked for competitive bidding by small concerns. These set-asides numbering 44,174 resulted in 54,179 contract awards totaling \$1.8 billion. The

set-aside program--the highest small business share year of overall government purchasing since fiscal year 1957--helped contribute to a significant increase in the small business share of military purchasing. In fiscal year 1962 contract awards to small firms amounted to 19.3 percent of the total dollar value of all government contracts. Of this, 17.7 percent of the total value were military contracts. The respective figures for the previous fiscal year were 17.6 and 15.9 percent.

3. Small Business Investment Companies: SBA licensed more than 200 additional SBICs to provide long-term loans and equity capital to small concerns. By the close of the year, SBICs had well over a half billion dollars of capital for use in small business loans and investments, and had stepped up their rate of financing small firms. As of the year-end they had made more than 6,900 small business loans or investments totaling about \$360 million.

4. Disaster loans: SBA approved about 3,200 loans to assist victims of storms and similar natural disasters.

5. Community area development: The agency cooperated with ARA and other Federal agencies as well as with state and local authorities to help communities establish or expand job creating industrial and commercial projects. SBA also approved more than 100 loans to state and local development companies to aid them in financing small businesses.

6. Small business management: SBA intensified its help to small businessmen in overcoming management deficiencies and building stronger more profitable enterprises. It worked with large firms and trade associations, helping them guide their small customers, suppliers and members toward improved management. The agency also broadened its programs of management counseling, publications, courses, conferences and research.

7. Foreign trade: Because expansion of foreign trade is considered vital to the Nation SBA accelerated its program of assisting and encouraging small firms in developing markets abroad.

Summary 1962

While endeavoring to give all possible service to small business in 1962 SBA also sought to increase efficiency in its operations--in short, to provide maximum service at minimum cost.

Toward this end, it made comprehensive studies of its operating procedures and administration. These studies resulted in better methods for quicker service for small businessmen, higher SBA product activity, and a reduction in required agency expenditures.

In 1962 SBA placed renewed emphasis on its functions as spokesman and advocate for small business within the councils of the Federal Government.

It strengthened its relationships with other agencies and played a major role in the work of the White House Committee on Small Business. As an essential part of its work the White House Committee coordinates diverse federal activities and programs to assist with specific small business problems.

For example, the Committee carefully studied the tax problems of small business and then recommended that SBA and the Internal Revenue Service cosponsor a series of meetings to inform small businessmen of the important tax aspects of their management decisions. SBA and IRS followed up by holding 22 tax management conferences for small businessmen.

January 1, 1963 - December 31, 1963

Some of SBA's programs were expanded and adjusted during 1963; others were added to make the agency's services more helpful. Highlights of activities during the year included:

1. Minority program: For the first time in its history SBA instituted a program for minority groups to insure them every opportunity to receive full assistance under the agency's programs and services. A Special Assistant to the Administrator was named to head the program and charged specifically with informing minority groups of the availability of SBA's services.

In addition to implementing this program and SBA's equality policy, the Special Assistant for Minority Groups represents SBA on the President's Committee on Equal Employment Opportunity and the White House Sub-Cabinet Group on Civil Rights.

At years-end a pilot project was readied for low income areas of Philadelphia County whereby very small businesses could receive loans up to \$6,000 for six years at four percent interest. These were called "6X6" loans.

2. Small Business Investment Companies: SBA licensed 65 additional SBICs in 1963 with total capitalization of \$22.3 million to provide long-term loans and equity capital to small firms. By the end of the year 16 licenses had been canceled, and the 692 SBICs in operation were based in 42 states, the District of Columbia, Guam, Puerto Rico and the Virgin Islands. These companies had nearly \$596 million in funds for use in small business loans and investments at the close of 1963. This included nearly \$118 million in SBA funds meaning a ratio of four to one of private funds versus Federal funds invested in the program.

3. Community area development: SBA approved 115 loans for \$18.2 million to local development companies. An estimated 6,000 new job opportunities resulted. Approximately 30 percent of the 115 approved loans went for business development in the distressed Appalachian area. The agency cooperated with ARA, other federal agencies and state and local authorities to help communities establish or expand job-creating industrial and commercial projects. During the year SBA completed processing loans for more than \$92 million to 198 redevelopment projects approved by ARA--nearly double the number and almost four times the dollar value of such loans processed by the agency in 1962.

4. Business loans: Important developments in the financial activities of the agency included conversion of SBA's deferred bank participation program into a loan guarantee plan and a reduction in SBA service fees for immediate participation loans made and serviced

by banks. The agency also developed a revised small loan program for very small firms (those with one or two employees) and a loan program for small minority-owned retail and service establishments. During the year SBA approved nearly 5,000 for about \$300 million. Of these banks participated in more than 65 percent of all business loans approved.

5. Disaster loans: SBA approved 2,503 disaster loans for \$30.1 million to aid disaster victims or to assist small firms that suffered economic injury from drought or excessive rain-fall or through displacement by Federally-aided construction projects.

6. Government contracts: A record total of \$2.4 billion in proposed government purchases were set aside for competitive bidding by small firms through the joint action of the SBA and military and civilian purchasing agencies. These set-asides resulted in 48,664 contracts valued at \$1.9 billion awarded to small business bidders. In fiscal 1963 contracts to small firms amounted to 16.8 percent of the total dollar value of all government contracts, and 15.8 percent of the value of military contracts. Figures for the prior fiscal year were 19.3 and 17.7 percent, respectively.

7. Small business management: The continued up-swing in the Nation's economy brought new changes in urban and rural markets, development of new products, and new methods of production and distribution. To help small firms adjust to and profit from these changes SBA broadened its management assistance to small firms. During 1963 the agency introduced a new one-day "workshop" program

for persons planning to start their own businesses. It also broadened its program of management counseling, publications, courses, conferences and research.

8. Improved operations and administration: Organizational realignments and functional changes designed to improve SBA's programs and to increase agency efficiency were put into effect in 1963. Major changes included the creation of the positions of Executive Administrator and establishment of an Office of Audits. Other changes included consolidation of all loan appraisal functions under the Deputy Administrator for Financial Assistance and creation of an Office of Assistant Administrator for Administration.

During the year SBA developed a standardized plan for field office processing of loan applications; placed major emphasis on training top and middle managers; standardized and reduced a number of delegations of authority; assigned resident auditors to each of the agency's regional offices, and established a unit in the Office of General Counsel to coordinate interagency programs on behalf of small business.

Accomplishments - November 1963 - November 1968

January 1, 1964 - December 31, 1964

In 1964 new liberalized and streamlined programs resulted in record assistance to small firms. SBA made more loans to small businesses, helped them obtain more government contracts and gave them more and broader management assistance than in any other year since the start of the agency.

SBA emphasized greater cooperation with communities in meeting the needs of small business, and urged community initiative and action in strengthening local economies. This emphasis on community action and self-help contributed a new high in loans to local development companies. This emphasized activity resulted in part from a push from the Economic Opportunity Act of 1964, which assigned SBA an important role in overcoming the "War on Poverty."

To give better and faster service to small businessmen and at the same time reduce costs SBA gave its field offices broader lending authority. Highlights of the years activities included:

1. Business loans: The agency shattered the previous 1961 record with approval of 10,707 loans for \$425.8 million. In 1961 SBA approved 6,836 loans for \$369.4 million. A chief factor in the upsurge of loans was the liberalized small loan program which accounted for more than 40 percent of loan approvals. The unprecedented demand for business aid, combined with assistance to Alaska's earthquake victims, put a heavy drain on SBA's loan revolving fund. As a result, on November 10, 1964, SBA limited its direct loans to \$15,000 and its share of immediate bank

participation loans to \$50,000. To build its revolving fund, the agency launched an intensive drive to sell "matured loans" to banks and other financial institutions.

2. "6X6" Program: To help very small retail and service enterprises, SBA established a pilot lending program. It involved loans of up to \$6,000 for as long as six years. The program was especially helpful to the Nation's minority businessmen. By the end of the year SBA had approved 286 loans for more than \$1.2 million to assist Negro businessmen and women. The success of the program resulted in an expanded version and its inclusion in the Economic Opportunity Act.

The "6X6" program also provided management training, essential in upgrading and encouraging small business ownership.

3. Management Assistance: This part of the SBA's activities was highlighted in 1964 by the establishment of SCORE-the Service Corps of Retired Executives. Under this program retired business and professional leaders volunteered to counsel small firms. SCORE was kicked off on October 5, 1964 and by December nearly 2,000 retired executives had volunteered their services. SCORE concentrates on small businesses with fewer than 25 employees. The year also was marked by a record attendance of 28,000 small businessmen and women in SBA cosponsored management courses. The agency also expanded its programs of counseling, publications, conferences and research.

4. Small Business Investment Companies: The SBIC program was strengthened and improved and the outlook for the industry became much

brighter. Congress amended the Small Business Investment Act to permit SBA to lend an SBIC through purchase of debentures, up to \$700,000 rather than the former limit of \$400,000. Congress also removed the \$500,000 ceiling on the amount that an SBIC may invest in a single small business. SBA changed some of its regulations to give SBICs greater flexibility. These SBA-licensed companies had disbursed \$220 million in small business loans by March 31, 1964. SBICs then had combined assets of about \$750 million and had invested over \$500 million in more than 10,000 small companies.

5. Community development: SBA community cooperation resulted in an estimated 7,800 new job opportunities created under the local development company loan program. The agency approved a new high of 200 development loans totaling \$30.7 million to top the 1963 record of 115 loans for \$18.2 million. The big increase came from participation by states. Development loans assisted substantially in the economic development of areas of persistent unemployment. For example, nearly one-fourth of the approved loans went to the Appalachian region.

6. Government contracts: An all-time high of \$3 billion in proposed government purchases was earmarked for competitive bidding by small firms as a result of SBA's set-aside program. These set-asides resulted in 58,000 prime government contracts valued at \$2.3 billion awarded to small business bidders. In 1963 the set-aside value was \$2.4 billion covering awards of 49,000 prime contracts valued at \$1.9 billion. One major development in 1964 was the expansion of SBA's voluntary subcontracting program, which was

kicked-off in May 1963. Twenty-nine of the Nation's largest defense contractors cooperated with SBA and DOD in 1964 to increase their subcontracting awards to small firms. This voluntary subcontracting program worked so well that additional large contractors were invited to participate. On SBA's recommendation the Federal Communications Commission adopted regulations which would give small firms a greater chance to share in prime and subcontracts for the growing Communications Satellite Program.

Another major event in 1964 was a study conducted by SBA to determine advantages or disadvantages of the agency's set-aside program.

SBA studied 57 government purchases which were purchased under contract from small firms because (a) they were set aside for small business or because (b) SBA acted to have the firms brought into competition.

These 57 cases revealed that the government saved more than \$7 million on the purchases. The savings represented the difference between the small firms' bids and the prices which the specific government purchasing agencies previously paid for the same items.

7. Disaster loans: In 1964 a series of disasters lead by the devastating Alaska earthquake on Good Friday pushed SBA's disaster assistance to a record yearly dollar total of \$91.7 million for 4,009 loans. About \$61 million of this went to Alaska alone--more than twice the amount approved in any previous disaster.

The magnitude of the destruction and the urgent need for action also lead to new SBA policies designed to speed loan processing and provide the most effective assistance to Alaskan homeowners and businessmen.

In addition to the \$61 million in disaster loans to Alaska, SBA approved \$4.7 million in disaster loans in other states affected by the earthquake and tidal waves.

8. War on poverty: The Economic Opportunity Act assigned to SBA an important role in aiding the 30 million Americans trapped by poverty. The Act recognized the major role that SBA can play in erasing the blight of poverty by establishing a program of loans up to \$25,000 for as long as 15 years to small firms in needy communities. To carry out its part of the program SBA established an Office of Economic Opportunity Assistance to direct the agency's war on poverty activities. By the end of 1964 the agency had made nine economic opportunity loans (EOL) to small businessmen in Pennsylvania and Louisiana.

January 1, 1965 - December 31, 1965

Business loan applications and SBA approvals reached record highs in 1965. The agency received 20,409 applications and approved 13,506 loans for \$408.9 million. The previous high was in 1964 when 17,854 applications were received and 10,707 loans were approved for \$425.8 million.

Loan applications mounted so steadily during 1965 that SBA's credit staff was unable to consider them on a current basis and as a result of intense lending activity the agency's revolving fund was seriously depleted.

Faced with a growing back-log of applications and a shortage of lending funds late in the year, SBA was forced to place a temporary ban on new applications. This moratorium took effect on October 11, 1965.

Exempted from the moratorium were bank loans made with an SBA guaranty of up to 90 percent of the outstanding balance. Because the agency maintained a loss reserve of only 10 percent of the guaranteed portion these loans required minimum funds.

The moratorium on applications for direct and immediate participation loans helped bank-agency relations. Because SBA would consider only applications for guaranteed loans, banks were encouraged to make more loans of this type, often to customers they otherwise could not have assisted.

During the last six months of 1965 the agency approved 1,381 guaranteed loans for \$65.4 million. During the comparable period of 1964 only 390 loans totaling \$16 million were approved. Only 684 guaranteed loans were made during all of 1964; only 461 were approved in 1963. The 1,381 loans approved during the last half of 1965 represented more than one-fourth of the 4,759 loans of all types approved in 1963.

Although the loan fund grew critically short late in the year, the shortage had been present to some extent before then. As previously noted, in November 1964 it was found necessary to limit direct loans to \$15,000 and the agency's share of immediate participation loans to \$50,000. These limitations continued to

May 19, 1965 when a Congressional appropriation of \$150 million to the revolving fund permitted lending at higher levels.

However, projected demand for the balance of the calendar year indicated the agency still could not lend the maximum amounts permitted by law. Accordingly, it placed a ceiling of \$100,000 on direct loans and on its share of immediate participation loans involving less than 25-percent bank participation. This limitation was in effect when the agency stopped accepting applications for direct and immediate participation loans in October.

Curtailement of the loan program in October cut dollar requirements by more than 25 percent. At the same time it enabled the agency to make 90 percent of the loans it would have made had there been no controls.

SBA's operations were limited in 1965 by a second factor: the ceiling Congress placed on the maximum amount of loans outstanding at any one time. The authorization for business and disaster loans was \$1,375 million at the beginning of the year, of which all but \$47.2 million had been committed by year-end. Legislation was proposed to raise the authorized minimum by \$125 million.

In an effort to make full use of available funds and to foster a closer small business-bank relationship, the SBA took these actions in 1965:

- Lowered the fee charged to banks for SBA guarantees to one-half of one percent.

- Adopted a provision in all direct and immediate participation loans authorizing an increase in the interest rate on SBA's

share of such loans in the event they are purchased by a bank. This was done to increase the saleability of SBA loans. However, the borrower's interests were protected by the requirement that the interest rate be reasonable and in no case exceed 7-1/2 percent.

- Hired 25 retired bankers with extensive contacts in the banking field to help sell banks seasoned SBA loans or have them take over loans on an SBA guaranty basis.

- Stepped up its efforts to have banks make small business loans without the agency's participation, take larger shares of bank-SBA loans and make more loans with an SBA guaranty.

These actions led to sale or conversion of \$35 million in loans on a guaranteed basis during the year.

New records also were set during 1965 in proposed government purchases set aside for small businesses, and in resulting contract awards. At mid-year, DOD and BOB agreed to a change in the joint procurement set-aside program. Under the new plan SBA and various purchasing agency employees set goals for small business awards.

SBA was to review the purchasing practices of major government agencies to check their progress in awarding contracts to small firms.

The new program kicked-off in November and the purchasing policies of five major DOD offices had been reviewed by the end of the year.

From January to June--the last reporting period for the government-wide joint program--29,358 proposed purchases valued

at nearly \$1.7 billion were earmarked for award to small business. This represented an increase of \$10.6 million over the first six months of 1964.

These set asides resulted in 36,079 contract awards totaling more than \$1.4 billion--up \$33.1 million.

In other procurement highlights of 1965, more large prime contractors joined in the agency's voluntary subcontracting program for small business. Thirty-nine of the Nation's largest prime contractors were now participating. And SBA's Certificates of Competency helped low-bidding small businesses obtain 199 contracts. Acceptance of their bids saved taxpayers \$4 million.

SBA extended management assistance to a record number of small firms in 1965, a result of improvements in expansion of the program and the recognition by more small businessmen of the services provided by the agency.

During the year management courses, workshops and counseling were made a key part of the agency's contribution to the war on poverty. SBA assisted applicants for economic opportunity loans as well as other businessmen located in poverty-stricken areas. The Service Corps of Retired Executives (SCORE) helped 10,635 firms overcome management problems and the agency's management specialists counseled more than 34,000 small business owners and managers who needed guidance--an increase of 5,100 over 1964.

The administrative management course program was broadened to include smaller colleges as cosponsors and to make courses

available in additional parts of the country. More than 4.3 million copies of SBA's management publications were distributed or sold to small businessmen and others interested in management.

The year 1965 was particularly good for the SBIC, both in profit for the industry and stepped-up financing for small businesses. The agency recognized the growing maturity of SBICs and their increasing ability to provide deserving small businesses with the equity capital and long-term financing they needed. SBA gave SBICs greater freedom in their operations through more than a dozen significant regulatory changes. The following excerpts tell the story:

The New York Times on December 26, 1965 reported:

For small business investment companies (SBICs), this has been a year of quietly developing strength. More interest and capital were two words that summed up the programs of SBICs during 1965. Both spelled out an easier year ahead for the money lending companies.

Value Line Investment Survey on December 24, 1965 said:

The small business investment company industry is now exhibiting increasing vigor--a development which has gone largely unrecognized by the investment community. Perhaps the most significant development affecting the small business investment company industry is the wide asset value gains now being scored throughout the group. More than a quarter of the publicly-owned SBICs are now on a regular dividend paying basis and additional companies should soon follow suit.

Baron's National Business and Financial Weekly on November 22, 1965 editorialized:

In most quarters optimism is the order of the day. It is based largely on the fact that the SBICs, after a shaky beginning, have proven their mettle...

Natural disasters struck many parts of the Nation in 1965. Storms, floods and an earthquake took a heavy toll.

During 1965 the agency helped victims of 63 disasters in 29 states rebuild or replace their lost or damaged homes, businesses and other property. The hardest hit areas, Louisiana and other Southern states, were lashed by giant Hurricane Betsy in early September. In Louisiana, and wherever else disaster struck during the year, SBA moved quickly to give assistance.

By the year's end, the agency had given the greatest measure of disaster assistance in history. Some 26,310 loans totaling \$206.9 million were approved during the year exceeding the number approved by SBA in all previous years combined.

In 1965, SBA rolled up its sleeves and plunged headlong into the war on poverty.

Small business development centers were set up in 35 communities. Loans to 832 small and needy businessmen for nearly \$10.2 million were approved and an estimated 1,300 new jobs for the poor resulted.

For the first time business and community leaders gathered in Washington to define the community's role in building equal business opportunities for the poor.

January 1, 1966 - December 31, 1966

The year was marked by dramatic changes in SBA's business loan program. It began with a moratorium, imposed in October 1965 but lifted in May 1966. During this time, the agency accepted applications for bank guaranteed loans only.

Prior to the moratorium the demand for assistance had been very heavy. A backlog of applications began to build up. An additional \$160 million appropriated by Congress for fiscal year 1966, primarily to aid the victims of Hurricane Betsy, was quickly loaned and the revolving fund nearly depleted. The agency fast approached its authorized ceiling. The moratorium then was declared (October 1965).

By early February 1966, the backlog was cleared up. The agency turned to "selling" banks on its guarantee program. Since SBA did not initially advance funds under the program it would guaranty up to \$350,000 of a bank loan to a small concern. Every loan of this type conserved government funds while at the same time it generated direct private credit rather than public credit to small concerns. During 1966, the agency approved 2,958 guaranteed loans totaling more than \$159.5 million.

In May 1966 the moratorium was ended. The agency began accepting applications for direct loans up to \$50,000, immediate participation loans with up to \$100,000 as SBA's share and guaranteed loans up to \$350,000.

Since it became apparent that the Nation would benefit most from SBA's programs if the agency placed emphasis on assisting those small firms which did the most to help meet national goals and community needs, a set of lending objectives was established.

The loans considered most beneficial were those to plants manufacturing defense materials, those engaged in the control or

abatement of air and water pollution, businesses which created job opportunities, businesses which assisted in the development of depressed areas, and concerns offering new products or processes, among others.

On September 1, 1966, the direct loan ceiling was raised from \$50,000 to \$100,000 and the ceiling on the agency's share of an immediate participation loan increased from \$100,000 to \$150,000.

These ceilings, together with the maximum \$350,000 SBA share of guaranteed loans, permitted the agency to meet the maximum loan amounts needed by over 90 percent of its loan applicants.

In 1966, the agency received 10,100 applications and approved a total of 7,004 business loans in the amount of \$270,683,000. This was a sharp drop from 1965 when 20,409 applications were received and 13,506 approved for \$408.9 million. The decrease reflected the nine-month moratorium. However, 42 percent of all loans approved in 1966 were in the guaranteed category and this was the highest percentage in the agency's history.

During most of 1966 SBA made economic opportunity loans under Title IV of the Economic Opportunity Act of 1964 only in cities with established small business development centers. However, in the fall Congress authorized SBA to administer the economic opportunity loan program.

A detailed study of the entire Title IV program resulted in extensive changes. The program was open to the entire country through SBA field offices in all 50 states. It was expanded to provide

assistance to those whose incomes were above subsistence level but who nevertheless had been denied the opportunity to acquire the necessary financing to operate a small business.

Again in an effort to take the program to those who have the greatest potential need, particularly those in small rural areas, SBA organized an intensive "outreach" program and established working arrangements with the Farmers Home Administration of the Agriculture Department and local community and civic organizations. SBA made 1,995 economic opportunity loans in 1966 amounting to more than \$18.4 million

During the year, 1,888 management sessions were held in which small business owners and managers received group training. Businessmen and women attended these sessions. They numbered some 75,000 people. This was a 31 percent increase in the number of courses held in 1965.

The agency also encouraged trade associations and large business firms to provide management training for their small business members, suppliers and dealers. Initial reaction of large organizations to this program, known as the Association and Industry Management Services, indicated that it would be extremely productive.

During 1966 the agency emphasized training for minority groups. It also participated in vocational rehabilitation programs in two Federal prisons, one in Virginia and one in Washington.

And more than 3.5 million copies of its free publications

were distributed to small business owners and managers, to advisors to small business firms and to high schools and colleges for use in management courses. Twelve new publications were published during this period.

Just as the SBA dropped its joint set-aside program in July 1965, in favor of a unilateral agreement with the DOD, the same unilateral arrangement was completed in March 1966 with civilian procurement agencies.

Arrangements were made for SBA to review small business programs and examine contract files on a "sampling" basis at major DOD procurement centers. The program was limited to the small business programs of the largest DOD purchasing centers. It involved reviews by "surveillance" teams.

After carefully observing the operation of the unilateral program for several months, the agency was not convinced that it was the most effective way to help small business share in government procurement.

Therefore, in August, a full review of the set-aside program was conducted. The study was undertaken by the SBA, NASA, AEC, BOB, DOD and GSA.

As an adjunct to the study the available 12 SBA representatives were stationed at major DOD and civilian agencies. The result: To shape the future course of procurement assistance by SBA.

In 1966, a formidable task faced SBA. Following reports of improper operations by some SBICs and possible loss of government

funds, an immediate investigation and a complete and comprehensive appraisal of the program was made. Examination of every SBIC which had gone unexamined in the preceding six months was immediately made. When these were completed (within 120 days) realistic reserves for loss of government funds were established on a case-by-case basis.

New requirements were instituted under which SBICs must qualify for government financing and new procedures were adopted regarding approval and disbursement of funds to SBICs.

The pace of compliance and enforcement actions quickened. Through June 30, 1966 only 42 investigations of SBICs had been requested. In the last six months of 1966, 54 additional requests were made.

Comprehensive and successful efforts were made to obtain additional enforcement powers from Congress to deal with companies violating SBA regulations.

An intensive study revealed that dollar-wise, \$1 million is the minimum effective size at which an SBIC can successfully and profitably operate and carry out the intended purpose of the Act.

During 1966, only eight new licenses were granted, and on December 31, 1966, 648 companies remained in the industry.

January 1, 1967 - December 31, 1967

Nineteen hundred and sixty-seven was a pinnacle year for the agency. In total lending activity the year was the biggest in the agency's history. It also was the year in which SBA achieved urgent and sweeping reforms of the SBIC industry, expanded small

business participation in Federal procurement and gave new and stronger emphasis to SBA's partnership responsibility in community economic development.

More particularly, 9,518 loans, totaling some \$482.7 million were approved. These loans made in hundreds of smaller communities as well as metropolitan areas were building local economies.

The agency continued the ceilings of \$100,000 for direct loans and \$150,000 as its share of immediate participation loans. The statutory ceiling of \$350,000, as SBA's share of guaranteed loans, remained unchanged.

In 1967, the agency geared its lending towards balanced economic growth at local levels. It stressed local initiative in planning economic development. Its goal: To assist communities.

The Small Business Investment Act Amendments of 1967, signed into law October 11 by President Johnson, significantly affected the future of the SBIC program.

These amendments stressed the importance of venture capital for small business, increased the amount of government funds available to small business investment companies, permitted creation of an advisory board to help SBA execute the program, gave the agency additional discretion in approving new SBICs, limited bank ownership but expanded amounts banks could invest in SBICs, and required the agency to examine SBICs annually.

In 1967, 121 SBICs surrendered their licenses and 30 were in the final stages of the surrender process. Many companies

returned licenses under actions brought by the agency for regulatory reasons. Others offered their licenses voluntarily. SBIC mergers accounted for three returned licenses.

The total number of SBICs in operation was reduced from 648 in December 1966 to 568 in December 1967.

As government prime and subcontracts went to smaller concerns throughout the country during 1967, more and more communities participated.

The agency's set-aside program, eliminated in 1965, was reinstated in November 1967. This resulted from a study into the unilateral procedure already discussed.

The "Steering Committee on Small Business Set-Aside Program" composed of representatives of the BOB, DOD, GSA, NASA, AEC, and the SBA, revealed that the program should concern itself with a great deal more than set-asides.

In addition to carrying out its set-aside authority on procurements not already earmarked for small business by purchasing agencies it was recommended that SBA:

- Appeal to the Secretarial level or agency head on rejections or withdrawals of appropriate joint or unilateral set-asides.
- Assist small concerns with their problems at purchasing installations.
- Make periodic surveillance reviews of purchasing procedures of procurement installations as they relate to small business.

- Recommend that appropriate sole-source procurements be made competitive and that portions of large planned procurements be broken down and purchased directly to allow for small firm competition.

- Locate small business sources for new competitive procurements where small business competition has been inadequate.

- Provide assistance on contract administration problems.

- Counsel firms on selling to the government and

- Recommend that restrictive specifications, bidding clauses and unreasonable delivery schedules be changed to permit small business competition.

SBA procurement center representatives located at military and civilian agency purchasing offices carry out the program. At the end of 1967, 18 were assigned to major military purchasing agencies. The program actually demands 45 SBA representatives. Even this is not at "full strength."

In 1967, over \$4 billion in subcontracts were awarded to small business bidders by DOD prime contractors cooperating in the subcontracting program. Other firms awarded an additional \$2.7 billion to small concerns--nearly half as much.

SBA gave greater emphasis in 1967 to management assistance, and personal interviews with small businessmen increased accordingly. During the year, approximately 35,000 business owners and managers attended cosponsored management training conferences. SBA workshops for prospective small business owners involved 9,700 attendees and the agency held one-day clinics on specific management problems and geared management training to community action programs.

During the year 3.3 million copies of SBA publications were distributed. The agency added 21 new technical publications, while 11 others were revised.

In 1967, production was completed on 17 motion picture films for the Management Assistance Program. These and four other newly-acquired films were shown in small business management training programs, foreign trade conferences and in the orientation and training of SCORE counsellors. A series of ten films and TV tapes directed to economic opportunity loan recipients and prospective or beginning small businessmen were also produced.

Executive recruitment was assigned to the Office of Equal Employment Opportunity within the year. This program emphasized recruitment for middle and upper grades and management internships. Recruiting visits were made to 44 colleges and universities across the country, including several of the accredited Negro colleges.

SBA's program to up-grade opportunities for women employees was also assigned to the Office of Equal Employment Opportunity which informed minority group members of the services and opportunities available to them at the SBA, and developed a field program to secure suitable housing for SBA's minority employees.

Major changes were made in the organization and administration of the Advisory Council Program. Guidelines for membership were established. More than 1,600 council members served their communities and the agency in 1967 playing major roles in the communication process between the citizen and the SBA.

CHAPTER III

ORGANIZATIONAL CHANGES: NOVEMBER 1963 - NOVEMBER 1968

As noted above, SBA developed as an outgrowth of the responsibilities previously vested in the Small Defense Plants Administration. That agency primarily assisted small businesses to participate in the defense production of goods and services. With the shifting emphasis of the economy on civilian goods and services following the Korean conflict, the need for a comprehensive peacetime agency to serve and represent the nation's small business community was recognized by the Congress.

As discussed earlier, SBA was created on a temporary basis on July 30, 1953, to provide, among other things, business loans to all small businesses, in addition to continuing the procurement and defense-oriented programs of SDPA.

It was established as a permanent agency on July 18, 1958, and the scope of its programs was broadened and increased. New avenues of financing were provided for small business with the adoption of the Small Business Investment Act of 1958.

To carry out these program operations, field offices were established throughout the country. The SDPA field office locations were retained by SBA (see Volume II, Documents 1 and 2), as these

cities comprised the commercial and financial centers of the areas to be covered, in addition to their proximity to defense installations and government procurement centers. However, boundaries of the regional offices, in some instances, were redistributed or expanded, and an additional regional office was established.

The management of the agency was vested in an Administrator, appointed by the President, by and with the advice and consent of the Senate, and three deputy administrators, appointed by the Administrator to assist him in the execution of the functions of the agency.

A Loan Policy Board, consisting of the Administrator, as chairman, the Secretary of the Treasury, and the Secretary of Commerce, was charged with establishing general loan policy.

Internal Organization

The organization of SBA followed and appropriate action was taken according to the functions vested in the agency by Congress, with responsibility for financial assistance, procurement and technical assistance programs under deputy administrators.

The performance of these functions was supported by other divisions of the agency, such as that of Deputy Administrator for Administration, General Counsel, Economic Adviser, and the Director for Public Information.

A noteworthy addition to the organization was the Investment Division, which was established in August of 1958, with the signing of the Small Business Investment Act by the President. The first Deputy Administrator for Investment was sworn in December 15, 1958.

During the next four or five years, the organizational and functional alignment of the agency underwent a number of changes to adapt to the increasing momentum of SBA programs and activities. Business and disaster loan offices were reorganized to speed up the processing of loans and provide more effective loan servicing, and measures were taken to streamline administrative and program operations.

The trend toward decentralization of the agency responsibilities was given new impetus during this period. This contributed to the efficiency of its operations and aims which would be emphasized by President Johnson in the fall of 1963.

Although much of the final decision-making authority, particularly on sizeable loans and certificates of competency, was retained at the Washington headquarters level; regional directors were given increasingly greater loan approval, procurement and other program responsibilities, and field personnel played an increasingly active role in agency fiscal operations and personnel actions.

In August 1963, the agency's Administrator reviewed the organizational and staffing structure of the agency to assure that the far-reaching cost reduction and manpower utilization goals envisioned by the President would be met within the agency.

Those goals later outlined by President Johnson in a directive of November 30, 1963, called upon all departments and agencies of the Federal Government to achieve tighter cost control, increased utilization of manpower and improvement in government operations. Programs

established for this purpose are still a continuing part of SBA's efforts toward cost reduction and improved program operations.

The first changes occurred in October 1963, when the Administrator initiated a major realignment of SBA organization and functions in the Washington Office. These changes were based on proposals made by Management Analysis Staff and Assistant Administrator (Controller), as a result of several internal management studies. They included:

- Establishment of the position of Executive Administrator, to enable the Administrator to concentrate more effectively on decision-making, overall planning, policy-making and establishing agency goals. This official was responsible to the Administrator for the day-to-day operations of the agency.

- Establishment of a position of Special Assistant for Minority Groups to assure a more equitable treatment for minority employees and minority individuals seeking SBA assistance.

- Establishment of an Office of Audits to carry out financial and program audits and investigative programs of the agency, functions formerly located in other organizational units.

- Consolidation of all loan appraisal functions under the Deputy Administrator for Financial Assistance to achieve a more efficient work organization.

- Establishment of an Office of Assistant Administrator for Administration to direct the administrative management operations of the agency, functions formerly divided between the Assistant Administrator (Management) and the Assistant Administrator

(Controller). These positions were established during 1961, when the position of Deputy Administrator for Administration was abolished.

- Establishment of an Interagency Branch in the Office of General Counsel to study the effect of Federal laws, programs and regulations on the competitive strength of small business and to make recommendations to other Federal agencies on the adjustment of their programs and regulations to meet the needs of the country's small firms.

In addition, all technical phases of the Area Redevelopment Program were centralized under the supervision of the Special Assistant for Area Redevelopment, carrying out responsibilities delegated by the Secretary of Commerce to SBA.

These functions were realigned, where appropriate, to conform to the Washington changes. The functional responsibilities of all Washington, regional and branch offices after realignment, are shown in Volume II, Document 3.

During the remainder of 1963 through the following year, emphasis was given by the Administrator to review SBA's field organization with the view of placing greater operational responsibility in the field, especially at the local branch office level.

With the expansion of the agency, large operating branch offices were created, and regional offices increasingly assumed a dual responsibility: Supervision of the subordinate branch offices and loan operations for the immediate area.

Regional office staff also performed procurement and management assistance functions for the entire region. As a result of this mixture of operation and supervision, neither function was being performed satisfactorily.

Contributing to the problem was the over-centralization of authority in the Washington office.

The need for reorganization of the field offices and delegation of authority to field levels had been recognized by SBA and Bureau of Budget officials, and a number of recommendations had been made for separation of supervisory from operating functions. The Budget Bureau and the Administration generally had suggested that the number of regions being utilized by SBA in its field organization should be reduced.

In consideration of these recommendations, Management Analysis Staff conducted a study to determine the need for 15 regional offices.

A test was started in the Dallas Regional Office of an organizational separation of supervisory and operating functions. Based on a proposal by the regional director, a pilot branch office was established to carry out financial assistance activities in the Dallas area. A later review would be made to determine the impact on supervisory activities in the regional office. If successful, the plan would be considered for adoption in other regions.

Findings and recommendations from these studies were held pending a comprehensive review which was to be conducted by the Joint Management Improvement and Manpower Review Team during January-March 1964.

The team, comprised of representatives of Budget Bureau, Civil Service Commission and SBA, was established as a result of a Presidential memorandum of October 11, 1962, to the heads of departments and agencies. It outlined a program for improving manpower control and utilization in the executive branch, and, among other actions, provided that "the Bureau of the Budget, the Civil Service Commission and the departments and agencies will undertake a systematic program of manpower inspections and reviews."

The memorandum stated further that "the inspections will be designed to test the effectiveness of the agency systems for manpower analysis and control and to assist the departments and agencies in discovering opportunities for better use of manpower resources that are available. The results of these reviews will be reported to the head of each agency promptly, for immediate attention and for such action as is necessary."

In furtherance of the President's memorandum, the Bureau of the Budget issued Circular A-44 on October 31, 1962, spelling out the elements of an effective manpower program. After he assumed office, President Johnson directed that the program for improved manpower control and utilization developed in response to the October 11, 1962, memorandum be pressed vigorously. He has called upon all departments and agencies to do all that they can to reduce costs without adversely affecting necessary programs.

The joint review of SBA management practices and manpower utilization was conducted as part of this program. It included a study

of the agency's general management system and of three programs in some detail. As a result of the management study, the joint survey team found these conditions to exist relative to the headquarters-field organization:

No clear delineation of the nature of work and responsibility to be carried by each level; duplications of functions and activities involving two or more levels; operating work and supervision of branch offices intertwined at the regional office level; too many regional and branch offices for the work that existed; not enough authority delegated to field levels and too much supervision provided over the loan program within some of the branch offices.

The team recommended that the work of headquarters should be confined to policymaking, planning, standards setting, evaluation and legislation while principal functions of regional offices should be to exercise supervisory guidance, decisions on major matters and provision of management assistance. It was recommended that branch offices operate the SBA program in the area covered except for functions not decentralized because of inadequate workload or lack of specialized competence. The criteria for establishment and retention of branch offices would be these:

- (1) Locate all operating work possible at this level;
- (2) Locate branch offices in the centers of small business population so as to be near the greatest number of clients;
- (3) At least in the industrial areas, include procurement assistance responsibility and, in areas where there are relatively

great numbers of small businesses, include management assistance responsibility;

(4) Establish offices so that there will be sufficient workload to support a full complement of staff needed to perform the various functions, at least in the financial administration program;

(5) Locate the offices so as to minimize travel time and costs.

The team further recommended establishment of a branch office in certain of the regional cities similar to the pilot operation conducted in Dallas, Texas.

Assuming that the branch office functions would be separated from the supervisory functions, the team suggested that the criteria to determine when and where regional offices should be located would probably include:

- Actual workload as represented by the number of branches in the area, and loan and other workload represented by the region as a whole.

- Potential workload as indicated by the total small business population in the area, and

- Geographic location.

On the basis of its analysis of three possible regional patterns against these criteria, the team recommended a reduction in the number of regional offices to seven or eight regions.

The team's findings, analyses and recommendations for improvements in SBA's organizational structure are detailed in their

official report dated March 31, 1964, which was submitted to the SBA Administrator in April 1964.

In line with these proposals, field offices were given broader lending, contracts assistance and other authority. An intensive study of the total field operation was started and by the end of the year plans were developed for decentralizing all major program operations and for reducing the number of offices conducting supervisory activities.

During 1964, the Administrator took the initial step of separating all operational work and supervisory functions by creating branch offices in certain of the regional office cities.

Dallas was the forerunner in this operation, but its separation was entirely in financial assistance. A few of the other offices effected the separation, but with the completion of revised field plans, the offices which had not progressed too far were requested to delay any further action.

The number of regional offices were reduced from 15 to 13, in line with recommendations included in the SBA management and manpower report.

Effective July 1, 1964, the San Francisco and Los Angeles regions were consolidated, with Los Angeles designated as the regional office. The San Francisco Branch Office continued to render essentially the same scope of service as was previously available to the small businessmen in that area. The Cleveland Regional Office was converted to a branch office of the Richmond Region on

December 1, 1964. At the same time, the State of Kentucky, which had been under the supervisory jurisdiction of Cleveland, was transferred to the Atlanta Region.

On January 4, 1965, plans for a new type of field organization were announced. An area plan schedule and a press release dated January 10, 1965, are set forth in Volume II, Document 4. They reflect the steps which were taken in announcing and implementing the new area organization plan and explain some of the considerations used as guidelines in its development.

By February 1, 1965, these changes were in effect:

All branch offices with the exception of seven of the smaller offices were upgraded to regional office status. The new regional offices were given broader authority, and, in many instances, personnel and facilities to provide additional services to smaller firms.

The geographical jurisdiction and supervisory functions of existing regional offices were greatly reduced to free them for loan processing and other operations. However, the delegation of authority to them to take final action was increased materially.

Delegations of Authority to Field

Eight area offices were set up to supervise the regional offices and to act as an extension of the Washington Office for management, direction, planning, coordination, and supervision of programs within their geographical areas. Area administrators also recommended program goals and objectives based on local economic trends and their

impact on small businesses. As a result SBA programs were more closely tailored to the specific needs of local areas, loans were processed faster and other SBA services became more readily available to small business.

Chapter II, SBA-100, Administrative Manual, dated March 12, 1965, is set forth in Volume II, Document 5. This explains the types and relationships of the offices following the reorganization and the standards for their establishment. It also indicates specific states and counties served by each office.

Area Administrators effected full delegation of authority to regional directors for performance of all major operations in the field by June 30, 1965, with the exception of a few small regional offices where staffing problems prohibited full delegation. For all practical purposes, SBA's field reorganization was completed at that time. (See Volume II, Document 6.)

SBA's new field establishment was complemented by improvements in Washington. These changes implemented a number of recommendations made by the review team as a result of its study of SBA programs. (The study excluded the Investment program):

Reorganization--Agency-wide

On February 1, 1965, the procurement and management assistance programs were consolidated into a single component under the direction of a Deputy Administrator for Procurement and Management Assistance. Duplication and overlapping functions were eliminated, and personnel were trained to work on both management and contract assistance.

There also was a redirection of the prime contracting program. SBA and procuring agencies were active partners in establishing small business set-aside goals. SBA eliminated 32 procurement center representative positions by the end of the year (1965).

The Office of Foreign Trade, established in 1963, was abolished on the theory the Bureau of International Commerce, Department of Commerce, is better equipped to help small firms with exporting. SBA, however, worked with Commerce to promote conferences, workshops and courses for small firms. The agency is still conducting this liaison.

Other than the Investment Division, transfer of most operational work was accomplished from Washington to regional offices, leaving the Washington offices free to concentrate on planning and policy development.

Other improvements in the Washington and field offices were implemented, as a result of studies and recommendations by program officials. These involved:

A reorganization of the Investment Division permitted the entire range of SBIC transactions, except licensing, to be conducted by the same organizational unit, providing a "one-stop" service for SBIC's, as well as for field personnel. An SBIC Program Coordinator position was established at area level to promote and coordinate the SBIC program within the area.

In addition, SBIC examiners were moved to the field to gain a better understanding of regional problems, prepare more comprehensive and meaningful reports and save man-hours and travel expenses.

The Office of Special Assistant for Field Operations was upgraded to an Office of Assistant Administrator for Field Operations, responsible for coordinating all field activities and keeping the Administrator fully informed of field operations.

Effective April 15, 1965, an improved organization and functional alignment for carrying out SBA's delegate responsibilities under the ARA loan program, established independent and self-contained ARA divisions in selected regional offices where the program was highly concentrated.

There was an interesting addition to the SBA field structure in December of 1965.

For the first time in the history of the SBA disaster program, fully-staffed disaster field offices were established in Louisiana to handle the thousands of loan requests caused by Hurricane Betsy.

A production line disbursement procedure was established with check requests being written in the field offices. Previously, all checks had been written from Washington. To permit immediate disbursement of loans, a fiscal office was established in New Orleans and arrangements made with the Treasury Department to assign a disbursing officer to issue loan checks locally rather than in Washington.

A further change resulted from enactment of the Public Works and Economic Development Act of 1965. The Economic Development Administration Division was established in the field offices continuing the program initiated under the abolished Area Redevelopment Administration.

Increased delegations of authority to the field for approval of loans were extended on a progressive basis so that there were virtually

no limitations on approval actions by the regional directors, subject, of course, to the agency's statutory dollar limits on lending authority. The increased field delegations eliminated extensive review actions that were performed at the Washington level and accomplished the principal goal of the agency in providing more efficient and expedient service to the public at the local level. Substantially reduced paperwork and red tape resulted which contributed immeasurably to greater manpower utilization by allowing reassignment of employees (who previously performed functions that were eliminated) to processing of the agency's increasing load of applications, which were running at an all-time high.

On May 19, 1966, a new SBA Administrator was appointed. He gave new impetus to the President's goals for extensive cost reductions and operational improvements. These goals were reemphasized by the President in his directive of May 24 to the heads of all departments and agencies.

It called for strong support of the Joint Financial Management Improvement Program developed by the Bureau of the Budget and the Comptroller General as essential in carrying out a basic pledge of the President's administration--"to get a dollar's value for a dollar spent."

The President urged the agency head "to think of minimal costs and cost reduction as profit...to think in terms of his profit as a result of how he uses all the resources entrusted to him."

Translating the President's goals into agency objectives, SBA

gave priority to determining the efficient allocation of its limited resources, to provide maximum service to the small business community. As a major aspect of this program, organizational changes were again instituted which greatly enhanced the effectiveness of SBA operations.

In the field there was no uniform organizational structure prescribed for regional offices below the division level. Some offices merged their loan processing and loan servicing sections, leaving liquidation functions separate, while other offices either merged loan servicing and liquidation, with loan processing kept separate. In some cases, all three sections were kept separate. Early in 1965, the Detroit Regional Office proposed a "team" or "group" concept of operation in their loan program and was authorized by the Washington Office to conduct a pilot operation for a one-year period. In September of 1965, the Rocky Mountain Area also adopted a loan team concept plan for all regional offices within the area, which was similar to the Detroit Regional Office plan.

Task Force Formed to Study Field Structure

With this variance in the internal structures of the regional offices, there was a wide difference in the operating efficiency of the offices, and it was difficult to develop standardized procedures which would be applied uniformly throughout the field.

In October 1965, a task force consisting of representatives of the Office of General Counsel, Loan Administration and Management Analysis, was established to study loan administration functions.

The task force conducted an evaluation of the Detroit Regional Office "group" concept for loan processing and administration.

In spite of the disadvantages and problems brought out in the evaluation, the task force believed that the concept had merit and should be pursued. As a result, a standardized organizational plan designed to be implemented in all SBA field offices over a long-range period was developed. The plan generally follows the "loan officer" concept used by most commercial banks, placing more responsibility on the loan specialists and giving them more authority to make decisions and take final action. In addition, it relieves the financial specialists of the more routine and detailed work.

This organizational plan for financial assistance operations in the regional offices, together with the task force evaluation of the Detroit operation, was submitted to the SBA Administrator in May 1966, as part of the loan administration study report. The excerpted plan and task force findings are given in Volume II, Document 7.

The plan as approved by the Administrator, was issued on a temporary basis in B1/ND 705, September 1, 1966, to permit solution of problems encountered in implementation of the new organizational structure. It was established on a permanent basis by National Directive 705-1, December 15, 1966.

The field offices were instructed to establish teams to provide specialized financial and management assistance to small firms. This organizational change assured, for the first time in SBA, a co-

ordinated approach to such assistance.

Each team processes, closes and services loans for which it is responsible, including business loans, economic opportunity loans, disaster loans, rehabilitation loans for the Department of Housing and Urban Development, and lease guarantees.

The teams are self-contained units, each member developing the capability of performing any necessary processing, servicing or closing activity. Team members also become familiar with the economic conditions and the business development potential in their territories, which enables them to provide maximum service to small businesses in their areas. To speed loan approvals, team leaders were given the authority to approve or decline applications for direct and participation loans not in excess of \$50,000 as SBA's share.

Strong emphasis was given to management counseling, and management specialists are assigned to work with the teams in the regional offices. The activity is still one of SBA's major functions. Teams also offer management assistance to borrowers and to those whose applications have been denied.

As part of the new regional office structure, Accounting, Clerical, Training (ACT) Divisions were established to obtain maximum utilization of clerical personnel and to utilize their skills to relieve team members of many of their semi-technical or quasi-professional duties. In August 1967, additional authority was delegated to the ACT Division Chiefs to take final action on a number of loan processing and servicing transactions.

Higher grade loan specialists devote their time to more difficult tasks, which has contributed to increased production in handling their expanding workload.

The new field organization was complemented by other major improvements. These involved centralization at area level of full authority to process and service sections 501 and 502 development company loans, control of liquidation of loans under all SBA lending programs, and specialized procurement assistance programs of certificates of competency, research and development, property sales, subcontracting, prime contracting and facilities inventories.

These actions promoted more effective use of both Washington and field personnel, permitting mobility in assigning program specialists to areas where their specialized services are most required, and freeing Washington economic development staff from section 502 loan-making activities and decisions, to concentrate on policy, planning and evaluation responsibilities.

By the end of 1966, the Office of Assistant Administrator for Field Operations was abolished.

Central Office Supervision

Vigorous support in achieving management improvement aims came with the appointment of a Deputy Administrator in December 1966. This new position, established by PL 89-779 enacted by Congress in November 1966, filled a management void created with the abolishment of the Executive Administrator position in June of that year.

In addition to assisting the Administrator in directing the programs of SBA, the Deputy Administrator serves as head of the agency

in the absence of the Administrator--the first official with legislative authority to act in this capacity.

The legislation also established three associate administrator positions in lieu of the former deputy administrator jobs with responsibility for financial assistance, procurement and management assistance and investment division programs.

Recognizing the increasing importance of the planning-programming-budgeting (PPB) system to the accomplishment of the President's aims, an SBA Program Advisory Council under the chairmanship of the Deputy Administrator was established in March 1967. The council, which is comprised of key management officials, exercises major responsibilities in the development, implementation and operation of the PPB system.

A major reorganization also was effected in March to provide special attention to highly specialized economic research and analysis necessary for effective implementation of the PPB system. An organizational entity was established under an Assistant Administrator for Planning, Research and Analysis, with prime and full-time responsibility for directing and executing the agency's research and cost-benefit analysis programs. The analytical efforts of this organization is enabling management to make fuller use of agency resources.

As part of the March 1967 reorganization, a new Office of Reports was set up under the Assistant Administrator for Administration to provide centralized control of the agencywide management

reporting system. The office serves as a data center, coordinating all sources of data and providing information that otherwise would have to be obtained from field offices. As a result, more meaningful and essential program information and data now are reported to management and other elements.

Other important changes during 1966-67 included:

A reorganization of the Investment Division in January 1967 introduced the team concept in Investment Operations and centralized SBIC supervision in Washington, eliminating the need for field staff in this program.

Area SBIC offices were abolished and a staff member in each field office was designated SBIC Information Officer in addition to his other duties.

A further change to improve program operations was implemented with a consolidation of the centralized Investment offices. As a result of these actions, duties previously assigned full-time field staffs are being performed effectively in Washington with no increase in staff.

To provide increased service to the public, the Administrator directed the establishment of a lease guarantee division to effectively direct lease guarantee program operations. These operations were later expanded when legislation was enacted January 11, 1968, removing certain limitations in guaranteeing the payment of rentals due under leases made to small firms.

To assure full compliance on the part of SBA borrowers with

the agency's policy of nondiscrimination, responsibility for this program was transferred to the Assistant Administrator for Administration, establishing an Equal Opportunity Staff office under his immediate jurisdiction. The office plans, directs and coordinates programs of recipient compliance and those designed to assure minorities equal access to all SBA programs.

A reassignment in early 1968 of the economic development program activities from the area to the regional offices was undertaken. Development Company Assistance Divisions were established in the regional offices and authority was delegated to regional directors to approve and decline development company loans and carry out related program activities. With this complete decentralization of operations, efficiencies have been effected in the use of field staff resulting in more efficient service to the small business community.

The agency's equal opportunity program became a highlight. In September 1968, the Special Assistant for Equal Employment Opportunity was given new responsibilities for an executive recruiting program. This office also handled assignments for the Administrator in discrimination cases. The office was retitled as the Office of Special Assistant for Equal Employment Opportunity and Executive Recruiting.

Other accomplishments to improve program operations and further assist the nation's small businesses were put into effect.

On January 17, 1968, establishment of two additional branch offices in Harlingen, Texas, and Fairbanks, Alaska was approved. Proposals to set up permanent offices in these cities were made by the respective area administrators, based primarily on the heavy volume of disaster loans to be serviced as a result of the Hurricane Beulah and Fairbanks Flood disasters. Studies were made by Organization and Management staffers, who recommended that the proposed offices be established on the basis of these criteria:

- (1) the continuing cost of servicing these disaster loans if transferred to established offices, and
- (2) the potential need for SBA service.

The establishment of these offices raised the field structure to 8 area, 62 regional, and 13 branch offices, a total of 83 field offices serving the public throughout the country. Volume II, Document 8 reflects the numerous changes made in the field to meet the growing demand by the small business community for SBA services and assistance.

CHAPTER IV

PROGRAM CHANGES: NOVEMBER 1963 - NOVEMBER 1968

Financial Assistance Program

Business loans

In late 1963, SBA directed efforts to new programs designed to assist very small business firms whose financial needs were not being met. This program, called the Revised Small Loan (RSL) Program, was in addition to the "6x6" program which was being developed especially for minority businessmen. The "6x6" program is discussed elsewhere in this history.

The RSL Program was adopted in January 1964. Key features of the new loan program included maximum maturity of six years, with less emphasis on normal credit criteria.

In the first four months, almost one-fourth of all business loans were in the RSL category. Eventually thousands of very small firms were assisted.

After the Economic Opportunity Loan Program became operational in late 1964, the RSL program was phased out as being no longer required as a separate program.

During the last three months of 1965 and the first five months of 1966, SBA was operating under a moratorium on direct and

immediate participation loans. This moratorium was imposed because of a severe shortage of funds caused primarily by the large number of disaster loans approved to victims of Hurricane Betsy, which struck in Louisiana and nearby areas.

During this eight-month period, the agency redoubled its efforts to induce banks to make long-term loans to small firms on a guaranteed basis, with gratifying results. In the last six months of 1965, and while the moratorium was in effect, nearly twice as many guaranteed loans were made compared with the entire year of 1964, and nearly three times as many as in 1963.

In 1966, the number increased still further, from 2,702 guaranteed in 1965, to 2,958 in 1966, despite the fact that the moratorium was lifted by the President in May 1966. In 1967, the number dropped slightly, to 2,643.

In order to stimulate further the interest of banks in making loans on a guaranteed basis, SBA, in cooperation with a large California bank and a large life insurance company, developed a Simplified Bank Loan Guaranty Plan (SBLG). Under the plan, participating banks sign only one agreement with SBA, along with other simplifications. The new plan was announced in the spring of 1967.

Partially as the result of this plan, 3,676 guaranteed loans were made in fiscal year 1968, by far the largest number of any year since the beginning of the agency.

In 1966, another special program was devised to make

"innovation loans" to product developers. And in 1967, two new programs were established to assist both new and used machine tool users. These latter two programs were developed as the result of requests for such plans from machine tool associations.

As the result of a legislative change in 1964, the agency was enabled to make displaced business loans to assist small firms to build or purchase a building in which to relocate, even though they may have rented prior to displacement. The legislation was enacted after complaints from the public to the Congress that the scope of previous legislation was too narrow to allow SBA to effectively assist small firms injured by Federal renewal and highway activity.

Lease Guarantees

By far the most comprehensive addition to SBA's programs, however, was the passage and implementation of lease guarantee legislation. The original legislation, passed in 1965, enabled displaced business loan and economic opportunity loan applicants to apply for an SBA guarantee of a lease on their business property. Such guarantees, made either directly by the agency or in participation with insurance companies, result in small firms being able to compete with larger ones, or those with triple A credit ratings, in obtaining space in shopping centers and industrial parks.

Additional legislation sponsored by the Chairman of the Senate Small Business Committee passed in late 1967 extended the eligibility to all small firms eligible to apply for SBA loans.

From the beginning of the program through July 1968, there were 72 leases guaranteed in the amount of \$24.2 million.

Disaster Loans

As of November 1963, SBA's disaster loan program provided for loans only to the extent of proven damage or loss from a catastrophe without upgrading the applicant's property. The objective was to restore disaster victims as nearly as possible, to pre-disaster status. Loans were made at three percent per annum with a maximum maturity of 20 years.

Following the Alaska earthquake on Good Friday in March 1964, a number of temporary administrative changes were made to allow leeway to most quickly and effectively restore the major business and residential sections of Alaska to pre-disaster condition. Such changes, before being made, were cleared with a special Federal Reconstruction and Development Planning Commission for Alaska, established by Presidential order. The Chairman was Senator Clinton P. Anderson and the membership was comprised of the Secretaries of Defense, Interior, Agriculture, Commerce, Labor, and HEW; the Administrators of Federal Aviation Agency, Housing and Home Finance, and SBA, and the Director, Office of Emergency Planning. All administrative deviations made were not applied to subsequent disasters elsewhere.

Among the changes was one where authority in hardship cases to refinance existing mortgages for home owners and long and short term debt for hard-pressed business firms was granted.

Later, the Alaska Omnibus Act was amended to permit SBA to extend the term of home loans from 20 to 30 years when necessary to create repayment ability. This change, sponsored by SBA, had the approval of the Alaska Commission.

In December 1964, a special provision was made by Congress to permit SBA to make 30-year loans to home owners suffering extensive damage from floods in California, Idaho, Washington and Oregon. The Small Business Act was amended in 1965 to permit 30-year home and business loans on all SBA disasters with an additional five years maturity in certain hardship cases. This change was requested by SBA because longer term loans were deemed necessary in some cases to establish repayment ability for those unable to comply under the 20-year limitation for repayment.

Following Hurricane Betsy in September 1965, which devastated the City of New Orleans and parts of the Southeastern United States, a special Southeast Hurricane Relief Act was enacted. This provided for the "forgiveness" of up to \$1,800 of the amount of loans made to those suffering damage from floods where there was no insurance recovery.

This bill originated in the Public Works Committee and had the approval of SBA and BOB. Although the Act was passed sometime after many SBA loans had been made, the provisions were put into effect retroactively. On July 29, 1967, President Johnson directed SBA to make disaster loan assistance under Section 7(b)(1) of the Small Business Act to victims of the riots which occurred in Detroit in late July. This was the first time such assistance had been made

available to victims of riot or civil disorders. Subsequently on July 31, 1967, a similar declaration was made by the Agency to assist victims of similar type disorders which had occurred in Newark, New Jersey.

A change was made by SBA shortly before the disastrous flood of September 1967 in Fairbanks, Alaska, to permit refinancing of mortgage debt in certain proven hardship cases.

This authority to the field applied only to disasters prior to March 19, 1968, at which time it was discontinued as being too liberal. In line with the general idea of fiscal restraint to be imposed upon all segments of the government, and with the guidance of BOB, certain other limitations were adopted. These included:

Loans to businesses, and others classed as business entities, were limited to \$100,000 for direct loans or \$100,000 for SBA's share of immediate participation loans.

SBA may guarantee not to exceed 90 percent of a loan made by a commercial lender, which may be for the total amount of the proven injury.

Loans to home owners for realty, replacement or repair, were limited to \$20,000 for SBA's share. An additional amount of \$10,000 is available to repair or replace personal items. However, the maximum for realty and personal items combined cannot exceed \$25,000 for SBA's share to any one household.

In addition, business and personal funds and credit available from commercial sources must be used to the greatest extent feasible prior to obtaining SBA disaster funds.

State and Local Development Company Loans

SBA's loan programs to state and local development companies have been effective weapons in the campaign to provide full employment for the nation. These programs have created jobs for those who need them now and those about to enter our growing work force.

Under Section 501 of the Small Business Investment Act of 1958, as amended, the agency approves loans to eligible state development companies for the general purpose of providing long-term loans and equity financing to small firms. Under Section 502 of the Act, the agency makes loans to local development companies for use in helping specific small businesses to expand or modernize their facilities, or in helping new small firms get started.

A total of 1,805 local development company loans were made to assist small businesses since the program started in 1958, through June 30, 1968. Of these 1,484 were made during the past five years. These local development company loans total \$375.5 million, but \$307.3 million of this was loaned during the past five years. The current rate of lending is over four-and-one-half times that of the first five years.

The loan programs have been used, primarily, in financing small businesses located in rural areas and the smaller communities

of the nation. However, recent inroads have been made in placing these loans in ghetto areas in large cities as a means of relieving chronic and substantial unemployment and underemployment and this thrust has become a major program goal.

In 1963, the SBA mission for development company loan programs was concerned with certain questions, which had become perennial. They included:

1. What are the major problems now facing small business firms?
2. Which problem areas are becoming more serious--which are easing?
3. How much impact does SBA development company assistance have upon the growth of small firms or the economy of a community?
4. How can these programs be made more effective?

Answers to these questions could not be summarized precisely and quickly, but the following observations were clear:

1. Most economic indicators reflected a continued upward trend in business volume.
2. Small businesses that could expand to meet business demands would prosper.
3. Most small businesses did not have the substantial cash outlays required for plant expansion or new plant construction and equipment.
4. Long-term financing was not available from conventional sources.

5. Delays would only result in increased construction costs and price increases for machinery and equipment.
6. Unemployment was decreasing and the skilled labor force was about fully employed.
7. Smaller communities were facing continued out-migration of skilled and potentially skilled labor.
8. Development company assistance programs have provided the long-term financial assistance needed by small business firms.
9. The growth of these firms had stabilized and expanded the economy of many communities.
10. Demand for local development company loans increased in 1963, continuing an uptrend which began after Congress amended the Small Business Investment Act in 1961, pursuant to recommendations of the Chief, Development Company Loan Division, to liberalize loans to assist small businesses by raising the maximum SBA loan limitation from \$250,000 to \$350,000, and extending the maximum loan term from 10 years to 25 years. However, the record of accomplishment proved conclusively that these programs were moving too slowly and the small number of loans being approved each year had no appreciable effect on the large number of communities in need of economic development. New program direction was needed to activate, in particular, the local development loan program.

During the five-year period prior to June 30, 1968, SBA placed sustained emphasis on promotion of the local development program. As a local, self-help activity, it emphasizes community leadership in financing new and expanding small business concerns as a base for healthy economic growth. It provides strength to lagging local economies by combining the resources of the community, local lending institutions, state development authorities, other Federal agencies, and SBA, to create job opportunities.

The key to success of the program was determined to be "community involvement," for citizens personally involved and committed to the aims of the local development company they have helped create, are able to achieve more through cohesive action. Some of the most rewarding changes in the administration of this program during this period included:

- (a) Increased training of field personnel to bring the program to those communities interested in stimulating their local economy.

- (b) Providing a greater inducement to local banks and other lending institutions to participate in local development projects by inaugurating the "First Mortgage Plan" and pointing up the benefits of SBA's "Guaranty Plan."

- (c) Directing the 502 program primarily to those smaller communities with lagging economic growth rates.

- (d) Encouraging those communities dependent solely on a single industry to diversify their economy.

Perhaps the most important policy change occurred in 1967 when delegated authority to approve and/or decline Section 501 and Section 502 loans went to the eight SBA Area Administrators and was redelegated to the eight Area Coordinators for the Economic Development Program.

This action was preceded by a legislative change amending the Small Business Investment Act, by transferring the authority of the Administrator under the Act from the Office of Associate Administrator for Investment (where it was assigned a secondary role) to the Office of Associate Administrator for Financial Assistance (where it received the identity it deserved and autonomy it needed).

A further decentralization occurred on July 1, 1968, when authority to approve and/or decline development company loans was redelegated from the eight SBA Area Administrators to the 62 SBA Regional Directors. This most recent delegation of authority was intended to increase the volume of 502 loans in all sections of the country, and to expedite the processing, closing and servicing of development company loans.

SBA has no other lending programs where the benefits to a community can be measured so readily by increased employment, payroll, business volume and corresponding factors. The future of SBA's development company loan programs appears exceptionally bright.

Economic Opportunity Loans

SBA played a significant role in the war on poverty.

The authority to make Economic Opportunity Loans was delegated to SBA under Title IV of the Economic Opportunity Act of 1964. Financing for these loans was obtained from the revolving fund established by the Small Business Act. The Office of Economic Opportunity received grant authority to establish nonprofit agencies to screen prospective applicants for EOLs and refer them to SBA.

Direct and participation loans for as much as \$25,000 for as long as 15 years were authorized. The applicant's participation in a management training program, in some instances, could be required as a condition for financial assistance.

Eligibility requirements as a small business concern were those set forth in the Small Business Size Standard Regulation. This new loan program carried more relaxed credit and collateral requirements than the SBA business loan program.

In 1966, the Congress amended Title IV of the Economic Opportunity Act to give direct responsibility to SBA for Title IV loans. The responsibility for that portion of the program dealing with the Small Business Development Centers was retained by the Director of OEO.

These Small Business Development Centers (SBDCs) were private, nonprofit corporations set up to provide management training and counseling for EOL applicants. Until 1966, moreover, SBDCs shared the responsibility for processing loan applications and for the outreach activities.

"Outreach" was intended to establish a relationship between SBA personnel and the economically disadvantaged within the community

where they live and work. The board of directors was representative of the community in which they were located, including in their membership, clergy, bankers, union leaders, and representatives of the local community. Most SBDCs were funded by OEO although a few were funded by the Economic Development Administration or they were staffed by volunteers.

SBA financial assistance personnel assisted OEO staff in establishing SBDCs, worked out joint directives for eligibility criteria, and shared with OEO the general supervision of the Title IV program. Although the 1966 amendments to the EO Act changed the loan portion of Title IV from a delegated program to one of direct SBA responsibility, the two agencies maintained liaison as OEO continued to fund SBDCs during their lengthy phase-out period.

The 1966 amendments to Title IV, transferring direct responsibility for loans made under this Title to SBA, reconciled the problems engendered by the division of management control over the loan making process. SBA assumed complete responsibility for the processing part of the loan making function which gave effective control over the entire EOL program.

In the month following passage of the new legislation, the agency made the program available nationwide through SBA's 73 field offices. At the same time a completely new concept for the EOL program was announced. Under the new concept, the program was expanded to include not only those in "poverty" status, but also those whose incomes were above marginal levels but had been denied the opportunity to compete in business on equal terms.

Appraisals

Interagency agreements were developed in May of 1967. Problems had existed in attempting to serve small businesses through SBA's appraisal program in remote sections of the country. Finding it costly and time consuming to dispatch SBA appraisal personnel to evaluate assets in remote areas for loan security reasons SBA entered into reciprocal agreements with other government agencies whereby SBA utilizes their appraisers to the greatest extent possible. This, in turn, saves the government expense and expedites loan processing actions.

A procedure was developed by the agency in December 1967, after a study of the collateral held in the portfolio. This procedure is for a twofold purpose:

- (1) To ascertain if an overabundance of collateral is held, and
- (2) To determine if closer security and servicing action is necessary on borrowers, when collateral is considered to be "thin" or of marginal value in relationship to the outstanding balance of loan.

When re-appraisals are made that indicate collateral can be released from the agency's mortgage documents without jeopardizing the government's position, the small businesses' creditability is improved. This can lead toward small business being able to seek other sources of credit subsequent to governmental assistance.

Loan Liquidation and Disposal

The Liquidation and Disposal mission of maximum recovery in minimum time is basically the same today as it has been since its inception. Since 1963, however, it has been more clearly defined and

assures that no borrower is subjected to liquidation until all appropriate financial assistance, counseling, and other resources of the agency have been brought to bear on the borrower's problems and that there is no reasonable alternative to enforced liquidation.

In 1963 practically all liquidation activities were directed by the Central Office staff since almost all authority was centralized at that level. The day-to-day functions on such loans were carried out by specialized liquidation staffs, supported by counsel, located in 15 regional offices throughout the United States. Matters involving litigation by or against the agency resulting from these liquidation activities were prosecuted or defended by the various United States Attorneys under the guidance of the Department of Justice.

In 1963 a determination was made to use all resources of the agency to save a borrower before referral to liquidation. It was not predicated on a study of the situation. It was the result of management information reflecting a high rate of case workout by SBA's liquidators following the referral of such cases for foreclosure. Also, it reflected the agency's idea that counseling (management, financial, etc.) should be provided to assist SBA borrowers.

As the workload increased and the liquidation specialists became more proficient, authority to consummate liquidation was gradually transferred to the field offices in lieu of employing additional specialists at the Central Office level. By September 1, 1966, practically all authority for decisions on liquidation and property disposal matters had been delegated to the field.

In the interest of expediting property disposals and utilizing the full government capability in this activity, SBA entered into a written agreement with GSA on June 2, 1967, under which that Administration would provide sales services, as requested, for real property SBA acquired. In addition, working procedures for handling of loan liquidations for EDA (of the Department of Commerce) were implemented under a revised Memorandum of Understanding with that agency.

In the implementation of Presidential direction, care is being taken to assure that the disposal of assets acquired in liquidation is in keeping with the "Model City" program, with full consideration of vitally needed payrolls and the economy of the communities involved. As an example, in connection with the liquidation of a loan made to a warehouse company in Pennsylvania, prompt and considerate handling by the Middle Atlantic Area and the agency's Central Office resulted in special arrangements which preserved the firm and one hundred needed jobs. The borrower's counsel commended the agency to the President in a letter dated March 13, 1968.

The Federal Claims Collection Act of 1966 resulted from suggested legislation by the Department of Justice and the GAO. It is binding on all government agencies involved with monetary claims, and permits unilateral agency action to effect settlements thereby reducing the number of claims referred to the Department of Justice for litigation.

The agency's approach to liquidation has been modified to conform to the Federal Claims Collection Act of 1966. The implementing Joint Rules and Regulations of the Department of Justice and GAO detail requirements for collection effort short of litigation, allowing better utilization of collection techniques and the consideration of compromise where appropriate.