Contents

The Administrator's Message ........................................... 2
The Year in Brief ............................................................ 10
The State of Small Business ............................................. 12
Financial Assistance ....................................................... 24
Management Assistance ................................................... 37
Procurement Assistance .................................................... 44
Assistance to Minorities ................................................... 51
Advocacy .................................................................. 54
The People of SBA ............................................................. 58
Contents Appendix/Volume II .......................................... 68

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The Administrator's Message

This 1976 Annual Report to the President and the Congress, the Small Business Administration's 23rd, covers the activities and accomplishments of the Agency from July 1975 through June 1976. The transition period between the Government's changing fiscal years, July through September 1976, will be reported in the Agency's next Annual Report.

In the same year as the Declaration of Independence, another significant document appeared on the American scene—a book on international economic principles by a Scotsman named Adam Smith, "The Wealth of Nations". He believed that the best economic policy comprised free competition, efficient production, the incentive of profit, minimum government interference—all within a democratic society. Smith saw the system as being self-regulating and functioning "naturally", led by what he called "an invisible hand".

The appearance of Smith's work was coincidental, and the young country did not know it was to become the training ground for the free enterprise, capitalistic system he preached.

The American economy has undergone unpredictable changes since 1776—from 13 "united states" of less than 3 million persons in an economy dominated by small scale farmers, merchants, and craftsmen to a Nation with 70 times more people, a $1.5 trillion gross national product, and a reputation synonymous with the world's "biggest" everything.

Small Business Survival

Threading through this magnificent development—and surviving, so far—are those same kinds of people in "small business"—relatively unorganized, relatively unrecognized—yet still representing a large portion of the Nation's enterprise, productivity, and employment.

Numerically, small businesses are 97% of all business, a massive 13 million small enterprises, including approximately 3 million farms. Directly or indirectly, they provide the livelihood for more than one-half of our population. Each year, there is a net growth of those who risk establishing a new business venture. The early American instincts of the entrepreneur are still with us.

Despite their numbers, small businesses clearly are in an economically disadvantageous position. Their individual smallness handicaps them in an environment of big government, big corporations, and big unions. Individually, they lack the resources to cope with inequitable taxes, government over-regulation, limited access to credit and venture capital, paperwork, new technology, lack of good management, monopoly and unfair trade practices, and labor organized on a national scale.
A National Commitment

As we begin our third century, what we need is a new national commitment to small business. We must meet its problems directly and positively, give it the right economic environment for greater impetus and productivity. This Agency and the Administration are responding.

The SBA is committed to small business exclusively, and it is a record of performance, not promises, that shows in this Report. The record reflects the economic upturn that has swept over the Nation during the past 12 months. The Agency made the second highest dollar amount of business loan approvals in its history—more than $2 billion, a rise of 30% over the previous year. These loans assisted in the creation and maintenance of approximately 288,000 jobs.

Since 1970, the Agency has approved more than $11 billion in business loans, which is 69% of all the approvals made by SBA since it was created 23 years ago.

Some time during the year, the SBA passed the $20 billion mark of all-time loans to business, victims of natural disasters, and Small Business Investment Companies.

The amount of SBA's other services in financial, management, and procurement assistance, in help to minorities and other disadvantaged, and in advocating the cause of small business also was at a higher level this year.

Presidential Actions

President Ford, personally participating in SBA's "Bicentennial Salute to Small Business" in May, told an overflow audience:

"To ensure that small business in America survives and thrives in the future, as it has in the past, I have proposed legislation to raise the estate-tax exemption from $60,000 to $150,000, stretch out the payments at low interest rates over 25 years, and exempt from taxation the transfer of your businesses from husband to wife.

"To help you obtain the capital you need to grow and create the new jobs America needs, I have also proposed the retention of the $50,000 corporate surcharge exemption, a 2% reduction in the maximum corporate income tax rate, and a 33% increase in SBA's major loan guarantee program".

The President is also concerned about "the needless regulations of Government" affecting small business. He introduced legislation for regulatory reform of the Federal bureaucracy to (1) ensure that government policies do not infringe unnecessarily on individual choice and initiative or in the free marketplace, (2) find better ways to achieve our valid economic, health, and safety goals at minimal costs, (3) ensure that government policies and programs
benefit the public interest rather than special interests, and (4) assure that regulatory policies are equitably enforced.

The President also directed that all Federal agencies cut the burden of paperwork on the public by the end of the year, and I am pleased to report that the SBA responded with a 28% reduction.

When President Ford swore me in as Administrator, he at the same time appointed me to the President's Economic Policy Board, which includes his top economic advisers and most of his Cabinet. I am chairman of a new Small Business Task Force on that Board. It is the first time that an SBA Administrator has ever received such recognition by any President. It is a milestone that assures small business a voice at the highest Federal decision-making level.

Future Plan for Action

As for SBA's future commitment to small business, I have a "Plan for Action". People are losing faith in many of our institutions because they "don't work". In this Plan, we will use every tool at our command to make sure that SBA "works" in the new fiscal year, and that our constituency knows that it works.

The Plan is aimed at two crucial issues in our economy. One, there is the immediate challenge to generate productive jobs and reduce the high level of unemployment. Second, we must make more capital available to small business so it can grow and prosper. To help these situations, this Plan is aimed at improving the quality and delivery of our services and at stimulating the private sector—particularly the financial community—to supply more of its resources to small business. We place particular emphasis on those actions which will generate jobs.

Loan Acceleration

The Agency's major financial assistance effort in recent years has been its Guaranty Bank Loan program, which now accounts for nearly 90% of our annual business loan portfolio. We are dealing with about 8,500 banks, and generating an annual volume of more than $1.8 billion to small businesses.

On a pilot basis with selected banks throughout the country, we are speeding up our guaranty loan processing time to permit the issuance of our guaranty to a bank within two working days. We will begin the program with about 20 selected banks, large and small, drawn from all SBA regions.

The benefits of this program are exciting. It will speed up the loan payout to the small business person by at least several weeks. It should produce a loan portfolio of relatively sound quality since the credit aspects of these loans are pre-defined and will be certified by the lender.

This accelerated plan is intended to supplement our present guaranty program,
President Ford addresses small business leaders at national SBA conference.
not supplant it. When fully implemented, we anticipate it will account for at least one-third of our total business loan guaranty activity.

SBA has always been in the posture of soliciting the banks to make such loans, and many banks think of the SBA program as only a community responsibility. We must change these conditions. The Guaranty Loan program should be sufficiently attractive to make banks actively seek us out. There should be a conscious decision by bank management to allocate a substantial portion of the bank’s resources to small business lending.

**Additional Bank Incentives**

We have developed several other new bank incentives to accomplish this:

1. Under a procedure dubbed “Operation Streamline”, we have simplified, refined, and accelerated all of our loan processing and closing procedures—cutting down the red tape and paperwork in the system;

2. I recently approved an amendment to our regulations to allow participating banks to apply a quarterly fluctuating interest rate to their SBA guaranty loans, following the cost of money, rather than being held to a fixed rate;

3. I propose to adopt another change in our regulations that will abandon the penalty of terminating the SBA guarantee when a lender inadvertently fails to give us the required notice of a borrower default. Instead, SBA would honor the guarantee of the principal amount, and the lender would lose only the interest. This change is necessary to preserve the integrity of SBA’s guarantee.

With such a streamlined operation in the new fiscal year, we have set as a goal a 25% increase in the number of participating banks and one-half billion dollars more in guaranteed loans to small business.

**National Secondary Market**

Another important element in the Plan for Action is a new national secondary market program for the sale of the guaranteed portion of SBA-guaranteed loans. We have had a limited secondary market program in operation for several years, restricted primarily to local investors, and it has been plagued by red tape and procedural problems.

We are putting into operation a new transfer agreement which does several things: it establishes a more simplified and uniform system for selling the guaranteed portion of a loan; it assures complete guaranty coverage for the innocent purchaser of such a security; it provides a standardized method of lender remittance of the payments to the owner of the security; it defines more precisely both the lender’s and SBA’s obligations in such a transaction.
I have also modified our regulations to simplify the requirements of an SBA
loan document inspection prior to a secondary market sale.

And we are not going to stop there. We are moving to create a "certificate"
which can be freely traded in the marketplace, making the secondary market
process even more liquid.

All these revisions are backed up by a new official opinion of our General
Counsel as to the "full faith and credit" of our guaranty.

Thus, it is now much easier for participating lenders to sell the guaranteed
portions of their SBA guaranteed loans in the investor marketplace, increase
their yield on SBA loans, and re-invest the proceeds in other small business
loans. And, most important, there is no additional cost to small business.

Further, instead of just relying on the traditional resources of the banking
community, we now have opened the door to other investors, including
insurance companies and pension and profit-sharing funds, which are restricted
to dealing with U.S. "full faith and credit" securities.

Neighborhood Revitalization

Another major goal in the Plan is the restoration of the older urban
neighborhoods of America. As a result of the President's concern for the
economic difficulties in such cities, he recently appointed a Cabinet-level
Presidential Committee on Urban Development and Neighborhood
Revitalization, and I am pleased to be a member of that Committee.

The Committee's job is to coordinate the delivery of present Federal programs
and to recommend necessary changes, including new legislation. Current
programs that are effective would be continued. Thus, SBA's "502" program,
under which the Agency helps communities by providing Local Development
Companies with financing to assist small businesses, will be applied to urban
areas in the same way it has been operating successfully in small communities
and rural areas.

I will be proposing shortly new SBA regulations that will make commercial
building firms and homebuilders eligible for loans to finance construction or
rehabilitation projects for sale or rent.

More Venture Capital

We must open up more sources of venture capital, and that is another key of the
Plan For Action. The lack of small business access to venture capital is serious.
The SBA-licensed Small Business Investment Companies (SBICs) have been
able to fill only a small fraction of the need—$135 million in the last year
reported. I believe the SBIC program has a far greater potential than it has
shown in its 18-year history, and I am forming a special 16-member task force—
investment bankers, venture capitalists, small business persons, and others—to
analyze the venture capital industry from a knowledgeable, market-oriented perspective and come up with their recommendations.

It is time for the Congress, the Administration, our own Agency, and the SBICs themselves either to create a meaningful, effective venture capital financing program for small business or to forget having a Government program at all. I call for a new commitment, crossing all jurisdictions, to establish a workable system so that small business may realistically compete with the resources of major corporations.

Management Assistance

In another important area of the Plan we will offer more low-cost Management Assistance across the board—recruiting more volunteers in SCORE/ACE, professional associations, and universities. The latter includes implementation of the University Business Development Center (UBDC) concept of opening up the entire resources of universities to new and existing businesses.

A person who does not have management skills will take our money and dissipate it and not employ very many people in the process. The tragedy of our schools today is that there are too few courses offered in free enterprise or the real meaning of how to run a business. Most business schools seem to prepare one to be the executive vice president of a giant corporation. In real life, most people get to be executive vice president, first mate, and janitor of their own relatively small businesses. Preparation for small business is part of the role the SBA can play in working with the educational system.

Other Assistance Areas

Minority enterprises need increasing help, and the Plan seeks to integrate all our program activities more fully into the small businesses of blacks, Spanish-Americans and all other minorities, using an “account executive” approach, i.e., a total package of all our programs to those seeking help.

We are increasing our advocacy and public information programs because our surveys reveal that the services SBA has to offer are known to only a small percentage of the small business community. This includes “Project 1776”, a major drive for 1,776 speaking engagements and other appearances by SBA management at business and civic forums by the end of this Bicentennial year.

Our basic goal in Procurement Assistance is to accelerate small business’ share of government contracts and subcontracts through increased and more effective liaison with procuring agencies and large prime contractors. Finding such government markets is one of the most valuable services we can provide to businesses—contracts do not have to be paid back.

We are going to develop an aggressive program to identify international markets and joint venture opportunities for small businesses with export potential. In my travels aboard, I found the common complaint by foreigners is
that there are few American salesmen trying to sell American goods, which are in demand. Small firms can capture those sales just as well as large.

The SBA will conduct an International Symposium on Small Business in November 1976 for an exchange of ideas, concepts, information and results of research, including the potential of increased trade relations. Over 100 countries have been invited to this Washington, D.C. conference, which will be co-sponsored by the Department of Commerce, Department of State, National Federation of Independent Business, and the American Assembly of Collegiate Schools of Business.

**Freedom at Stake**

I enter a new year for the Small Business Administration with a deep sense of responsibility toward helping the heart of American economic enterprise—small business. For it is not just the businesses that are in jeopardy, but our whole way of life. It is my belief that small business is the voice of economic freedom in America, and that it is essential to the preservation of all the other freedoms we cherish so much. Since they are inseparable, if we lose one, it is inevitable that we will lose the others. We therefore have a solemn duty, an obligation, to assist and strengthen our small business community.

Mitchell P. Kobelinski
Administrator
The Year
In Brief

Economic Conditions

On balance, Fiscal Year 1976 was a good year for small business. It responded to Administration efforts to stimulate economic recovery through the private sector, and control inflation. There was significant activity to correct the biases in the tax laws against small business. The number of small businesses showed a healthy increase. New incorporations rose sharply, and fewer businesses failed. Availability of bank funds for loans was better. The cost of money, both short- and long-term, was lower. Credit from finance companies increased significantly. The housing industry advanced moderately. Retail sales and manufacturing profits improved.

Loans Approved

Small business received the second highest dollar amount of loan approvals in the Agency's history, nearly $2.1 billion, an increase of 30% over the previous year. It resulted in the creation and maintenance of approximately 288,000 jobs among the new and existing businesses assisted.

Financial Assistance

Total SBA financial assistance to small business, representing business loans, disaster loans, surety bond guarantees, investment company funding, and other SBA programs, was approximately $3.2 billion.

Current Portfolio

During the year, the Agency passed the $20 billion mark in total business, disaster, and investment company loans historically. In that period, 826,370 loans have been approved. The current portfolio of loans outstanding is 233,165 amounting to $7.4 billion.

Help for Minorities

The Agency's assistance to minority persons rose. Efforts were increased in behalf of American Indians. The Agency made 5,544 minority business loans for $262 million, more than 14% better than the previous year. 8(a) government contracts to the socially or economically disadvantaged grew to $369 million. Venture capital and management assistance were also at a higher level.

Management Counseling

Management assistance to owners and managers of small firms through individual counseling or training in seminars totalled more than 300,000, an increase of 17%. The University Business Development Center concept of opening up the entire resources of colleges to business persons was launched. At the same time, the number of universities participating in the Small Business
effectively. The end product is a series of 55 research reports.

In its review of the problems of small business, the SEE Study concludes that, by almost every measure, small firms fare worse under changing economic conditions than do large businesses. "Most of the problems affecting small businesses are those which affect the entire business spectrum, yet these problems become magnified in inverse ratio to the size of the business establishment".

The study cites the interrelationship of management and financing problems. "The characteristic combination of ownership and personal control found in small businesses means that the energy, time, and attention of the owner/manager are often thinly spread. Frequently, the owner/manager, lacking diversified talents, fails to exercise the highest quality of management insofar as he is bound by tradition and is sometimes insensitive to the need for change in business policies and practices.

"Generally speaking, financing of small businesses offers greater risks to lenders and investors than many alternative investments. The most important factor affecting risk—management ability and the depth thereof—is difficult to assess, particularly in new enterprises where there is no record of performance to judge. Repeated surveys in the past seem to indicate that lenders and investors put great emphasis on a firm being well established and having a proven earning record extending over several years. Many small businesses cannot meet these requirements.

"Small firms as a group typically experience a greater incidence of financial difficulty than do large firms. This is evidenced by loan experience and business discontinuances. In some cases, funds may be unavailable or available only on terms which are unacceptable to the owner/manager because of cost or of conflict with his desire to retain an exclusive control of his enterprise. Further, while proven managerial competence demonstrated over years of profitable operation is the principal criterion used by lenders in making investment decisions, it is true that considerable weight is given to the security of 'largeness' and the risk of 'smallness'.

"The problems facing small business appear to have increased rather than diminished during the past years. Based on these trends, it is projected that life will get harder rather than easier for the small businessman during the next decade."
Financial Assistance

This year saw the end of a two-year period of declining business loan volume in SBA's financial assistance programs to small firms.

From an all-time peak in 1973, when the volume was 33,948 loans for $2.2 billion, there was a drop during the next two years. However, in FY 1976, loanmaking rebounded to 26,078 loans for nearly $2.1 billion, exceeding in dollars the previous year's total by 30%. Loans to put new businesses into operation represented 28% of the number.

The average loan size was somewhat higher than previous years, probably due primarily to inflationary trends. These volumes include loans made under the Agency's four business-type loan programs: regular 7(a) business loans, Economic Opportunity loans, Development Company loans, and Displaced Business loans.

Direct loans approved by the Agency were valued at approximately $219 million.

By quarter, business loans gained steadily:

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Number</th>
<th>Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>July-Sept.</td>
<td>6,035</td>
<td>$477</td>
</tr>
<tr>
<td>Oct.-Dec.</td>
<td>6,268</td>
<td>512</td>
</tr>
<tr>
<td>Jan.-Mar.</td>
<td>6,536</td>
<td>510</td>
</tr>
<tr>
<td>Apr.-June</td>
<td>7,239</td>
<td>572</td>
</tr>
<tr>
<td>Total</td>
<td>26,078</td>
<td>$2,071</td>
</tr>
</tbody>
</table>

Saving Lives Is Good Business

An Associated Press dispatch from Lima, Ohio, tells of 12 persons evacuated from a dormitory for the mentally retarded "when smoke detectors in the building were triggered" before it was destroyed by fire . . . . A New Jersey fire chief is quoted that a family of five "would be dead if it hadn't been for their smoke detector alarm . . . ."

There is file full of such stories at Statitrol Corporation of Lakewood (Denver), Colorado. The common denominator is that the smoke detectors in those stories are their product. The lives and property saved are the bonus that the company's president, Duane Pearsall, considers more rewarding than profits. His efforts won SBA's National Small Business Person of the Year award for 1976.

The latest chapter of the Pearsall story is such a rapidly escalating success that he already has "graduated" out of the small business class. Earlier in time, with a commercial engineering degree in his pocket, he worked in the air conditioning and heating control field, always probing to develop a new product. But, after 20 years' endeavor, he found himself near bankruptcy.
Increases Reflect Economic Trend

The year's increase is attributable to, first and foremost, the steady improvement in the general economy. Secondly, and of great importance, was the renewed willingness of the nation's banks to participate in the SBA guaranty program. As has been often stated, small firms are the first to be hurt in a general economic slump, and this was true in the turnover in 1974. And, while small firms may not be the first to make a comeback when the economy begins to improve, the banks obviously overcame their reluctance to make loans to "smalls" during 1976 with the SBA guaranty, at least to a considerable degree.

Minorities Show Gain

The Agency's efforts to assist 'minority small businesses also resulted in an increase in loan volume. From the 5,368 loans made the previous year, totalling $229 million, the volume rose to 5,544 loans for $262 million. This was a 21% proportion of total SBA business loan approvals and 13% of the dollar volume.

SBA increased its emphasis on making loans to businesses owned by women, even though the record in previous years was reasonably impressive. In FY 1975, the Agency approved 2,192 loans totalling $108 million; this increased in FY 1976 to 2,981 loans totalling $168 million. This volume represented 11% of the total number of loans made and 8% of the dollars approved. Women-owned businesses comprise just over 4% of all businesses.
New Legislation

In June 1976, the President signed Public Law 94-305, which contained far-reaching changes in the overall SBA financing program. Key features were:

1. authorizing business loans of up to 20 years in those cases where the purpose of the loan is to acquire real property or construct facilities;
2. raising the business loan ceiling to any one borrower to $500,000 under the guaranty program;
3. raising the ceiling for direct, immediate participation or guaranty economic opportunity loans to $100,000;
4. raising the ceiling for Development Company loans, direct, immediate participation, or guaranty, to $500,000;
5. authorizing Development Company loan proceeds to be used for acquiring existing facilities;
6. changing the interest rate on all disaster and economic injury loans to a cost-to-the-Government formula rate;
7. authorizing a new pollution control financing program under a tax-exempt bond financing arrangement;
8. authorization for banks to own 100% of the stock of Small Business Investment Companies and permitting the organization of SBICs as limited partnerships, with corporate general partners;
9. authorizing an additional SBIC layer of leverage ($3 for each $1 of private capital and in equity-oriented SBICs $4 for each $1);
10. increasing the maximum leverage for any one SBIC to $35 million and

To Pearsall, that simply meant “one more time.” He began making a mechanism for neutralizing static charges in the air, for which there was a good market. The principle of such devices is generating ions—electrically-charged molecules—and during the production of these air ionizers, it was accidentally discovered that smoke, such as from a worker’s cigarette, could interrupt the effectiveness of the device.

Pearsall turned that defect into an asset—using ionization to detect smoke—and it was the beginning of making a fire alarm system that is common item in the home today.

The first several years after the discovery proved to be another financial struggle in producing and marketing an untried product. There were 10 employees (including his wife, Marjorie, who doubled as secretary, and Lyman Blackwell, his idea man and inventor) working out of what Pearsall describes as a “hole in the wall.”
allowing the SBIC to guarantee up to 100% of the obligations of small business concerns; and

11. making small farms and agriculture related industries eligible for all SBA programs, including loans, if such financial assistance is not available on reasonable terms from non-Federal sources.

Many of these changes were implemented immediately; others, specifically farmer assistance and pollution control financing, were expected to take some time to implement fully.

**Business Loan Programs**

7(a) Business Loans: SBA’s largest business-type loan program, its regular 7(a) loans, showed a considerable increase in volume. Compared to 18,184 loans totalling $1.44 billion approved last year, the Agency approved 21,997 loans for $1.92 billion in 1976. Some 88% of these loans were made with private lender participation under the guaranty plan.

Economic Opportunity Loans: SBA makes loans to the socially or economically disadvantaged, including members of minority groups, under Section 7(i) of the Small Business Act. This program also showed an increase in activity, with 3,651 loans totalling $86.1 million being approved; this compares with 3,613 loans in the previous fiscal year totalling $76.4 million. Nearly all of the increase was in guaranteed loans, thus the banks demonstrated their increasing willingness to share in assistance to the disadvantaged, and obviating the need for more direct Federal dollar outlays.

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*The Company offers employment opportunities to youth, the elderly, war veterans, the handicapped, minorities.*
Displaced Business Loans: Dollar volume, at $25.1 million in these loans to small firms injured by Federally-aided construction projects, remained the same as in the previous year, $25.6 million. However, there was a drop in number, from 186 to 132.

Local Development Company (502) loans: This program provides loans for the benefit of small businesses through a local development company, and aiding communities by establishing payrolls and new employment opportunities for new businesses, as well as preserving jobs with companies who might otherwise cease operations. The "502" loan can also assist with the purchase of land, buildings and equipment or expansion and modernization of existing facilities. During the year, 294 loans were approved for $36.4 million, compared to 358 loans made for $45.1 million during 1975.

State Development Company (501) loans: This program permits SBA to further assist the economy of communities. The "501" state development companies must be chartered under special state enabling legislation. In 1976, there were 4 loans approved for $2.0 million, while in 1975 approvals were 7 for $6.4 million.

Revolving Line of Credit loans: The Agency may make loans under this plan to assist small business obtain a line of credit from their banks to fulfill construction or other contracts, for up to 18 months, by guaranteeing the line made by the bank. There was a considerable decrease in program activity from 1975 to 1976—from 539 loans for $58 million to 395 loans for $43.5 million. For this reason, and problem areas relating to the plan, SBA is reviewing the program for possible future revision.

Then, beginning in 1970, good news. The SBA gave Pearsall a helping hand when he says he "needed it most"—a loan from a Small Business Investment Company (followed by two loans from the Agency). He also introduced a new, more perfected detector, the first of the current series for home and industry named "SmokeGard." At the same time, the UL (Underwriters' Laboratories) put its national seal of approval on the product.

The last 6-year period has proved to be not only the making of the Pearsall organization, but the start of a new worldwide industry in which many firms are now competing. The majority of homebuilding codes in the U.S. now require installation of such a fire detection device.
Loans to Veterans: SBA continued to assist war veterans. During the year, 1,468 such loans were made amounting to $66 million; this compares favorably to 1,166 for $40 million approved the previous year.

Handicapped Assistance loans: Under Section 7(h) of the Small Business Act loans are made to handicapped individuals and to nonprofit organizations employing the handicapped for business purposes. The volume of this program nearly doubled from 1975 (79 loans for $7 million) to 1976 (162 loans for $11.5 million).

Disaster Loan Programs

Physical Disaster loans: One of the Agency's oldest and largest loan programs is to homeowners, business firms, and others suffering physical damage as the result of floods, hurricanes, tornadoes, and other natural disasters.

During 1976 there were 104 declared disasters involving areas in 42 states and Trust Territories in the Pacific, and SBA made some 20,408 loans totalling $136 million. This compares to 9,114 loans totalling $127 million in the previous year. The largest single disaster, in terms of numbers of SBA loans, was Hurricane Eloise in October 1975, which caused widespread damage in Puerto Rico, the Florida panhandle, and in Wilkes-Barre and Harrisburg, Pennsylvania. The Agency approved a total of 1,187 loans to Eloise victims in the amount of $13 million.
Nonphysical Disaster loans: SBA may approve loans to small firms suffering from Government requirements and other circumstances not caused by the firm itself. These range from air and water pollution control standards, consumer protection requirements, occupational safety and health standards, the closing of military bases, and energy shortages. In 1975 there were 1,279 such loans, totalling $120 million. In 1976 there was a marked decrease, to 252 loans totalling $44 million. The major cause was the sharp drop in the number of "energy crisis" loans during the year, although the Emergency Energy Shortage program was the highest of the group, 124 loans for $20 million.

Guarantee Programs

The Surety Bond Guarantee program remains most active and continues to demonstrate a high level of acceptance within the surety industry itself. This program indirectly provides assistance to small contractors who would not ordinarily be able, for a variety of reasons, to secure bid, performance, and payment bonds through established surety bond industry channels. The SBA assistance for the required bonding consists of a 90% guarantee of potential losses of the surety on contract bonds issued to small contractors.

With over 100 surety bonding companies participating during the year, 29,138 guarantees were approved and 13,535 contracts obtained for a total value $868 million. This compares to 21,202 guarantees for 11,595 contracts of $760 million the previous year.

The Lease Guarantee program was designed to provide small businessmen

In 1972, Statitol's sales were $853,000 . . . Two years later, they jumped to $6 million . . . This fiscal year they topped $10 million. The projection for fiscal 1977 is over $20 million. At the same time, Pearsall will be employing 1,000 people, paying out $6 million in salaries, making $6 million in purchases, investing $2 1/2 million in capital expenditures, and paying over $2 million in taxes.
with the credit required to compete on a more equal basis with large business for space on prime industrial and commercial property. The demand for the program has consistently diminished over the past few years, indicating there is very little, if any, need to continue it. Only 41 commitments were issued for rent guarantees of $15 million, compared to 110 for $37 million in 1975.

No new applications will be approved after September 30, 1976, since no additional funds have been appropriated to operate the program beyond that time.

**Setting Interest Rates**

SBA set maximum allowable interest rates for immediate participation and guaranteed loans and its revolving line of credit. The rates are based on a continuous survey of the market for fixed income securities, both Federal and private, and on the prevailing rate for loans as determined by SBA field personnel. The rates are reviewed quarterly and adjusted at that time, and at other periods if warranted.

SBA made two changes in the interest rates during FY 1976. The rates prevailing in the last quarter of FY 1975 of 10½% on guaranteed loans and 9½% on immediate participation loans were continued for the first quarter of FY 1976. On October 1, due to the increase in market rates, maximum rates were increased to 10% and 9%, respectively, for the two categories. These rates prevailed until April 1 when the rates were reduced to 10½% and 9½% respectively, due to lower rates prevailing in the market.

Management concentrates on diversifying its product line and expanding markets abroad.
It should be noted that the loans made to small businesses do not necessarily carry the maximum interest rate. During fiscal year 1976, the weighted average interest rate on guaranteed loans was 10.12%. There also was a geographical pattern to the interest rates on guaranteed loans with SBA Regions I, II, IX, and X generally having weighted average rates close to the maximum and Regions VI and VII having weighted average rates well below the maximum.

The interest rate on direct loans is by statute based on the cost of money to the Government at the end of the fiscal year. The rate for direct loans during 1976 was 6%.

Financial Community Liaison

SBA continued its program to develop private lender participation in its loan activities. This effort included SBA participation in bank meetings and seminars and conducting workshops to familiarize lenders with the advantages of using SBA programs. Particular emphasis was placed on familiarization with the advantages of the secondary market for the guaranteed portion of SBA loans.

The educational program for the American Institute of Certified Public Accountants continued with high acceptance. A total of 16 workshops attended by 528 CPAs servicing small business clients were held during the year.

If others credit his success to perseverance, Pearsall gives the bows to his fellow workers, old and new. He is known as an "employees' employer." His management is people-oriented, his style informal and participative. He believes in giving employees a chance to grow with the company into management positions. He pays high wages, and shares his profits. There are no time clocks. He assembles all the employees monthly for a chat about what goes on in the company. He attracts above-average people. He gets above-average response in ingenuity and productivity.

"Indeed, I have gained so much," reflects Pearsall.
Secondary Market

SBA continued to stimulate activity in a secondary market for the guaranteed portion of SBA loans. A bank can sell the guaranteed portion in the investor marketplace, and the proceeds from the sale can be reinvested in other small businesses. Being able to liquidate such loans quickly can influence banks to be less reluctant to make the longer term loans needed and desired by small business. The difference between the market rate for the guaranteed portion and the rate paid by the borrower creates an attractive profit to the lender.

New document review guidelines and a new secondary participation guaranty agreement were announced during the fiscal year to make transactions easier and less time consuming. Additional investment banking firms became active in developing and increasing the secondary market.

Activity during the year showed results of these efforts. Despite high liquidity in the banks, with a resulting disinterest in selling the loans, volume of sales increased to $111.6 million in contrast with the $92.9 million in 1974 and $94.6 million in 1975.

Portfolio Management
Business Loan Delinquency Rates:

<table>
<thead>
<tr>
<th>Month Ending</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>September, 1975</td>
<td>4.6</td>
</tr>
<tr>
<td>December, 1975</td>
<td>4.0</td>
</tr>
<tr>
<td>March, 1976</td>
<td>3.8</td>
</tr>
<tr>
<td>June, 1976</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Duane Pearsall has graduated into big business but sticks to his employee-oriented principles.
A declining pattern of delinquency in SBA’s business loan portfolio is attributable to various factors. An improved economy with its attendant increase in business and sales beginning early in 1976 had a significant effect on collection trends. Recognizing the national impact of these economic factors on repayments, the Agency’s positive collection efforts were based on the following:

In October, 1975, the administrator mandated that the overall trouble rate be significantly reduced by December. That priority continued throughout the fiscal year.

Portfolio management personnel have emphasized financial counselling efforts to prevent defaults by borrowers and, in close cooperation with management assistance personnel, provided management evaluations and guidance to borrowers. Increased referrals to management assistance personnel created additional positive servicing results.

Added emphasis on loan default notices was provided by virtue of a Comptroller General’s opinion in February. This proved helpful in keeping the Agency well informed regarding the status of its guaranty portfolio.

A trend of fewer defaults because of earlier, remedial servicing appears to be developing, since purchases of guaranteed loans decreased within the past year.

A substantial increase in deferments developed, apparently due to efforts of field personnel to help businessmen through this period of economic distress. While, as a “benevolent creditor,” SBA relaxed its collection procedures prudently, firmer actions are presently being pursued, appropriate to the improved economy.

Liquidations Stable

A level trend of loans in liquidation during the fiscal year reflected a continued emphasis on this activity. In this regard, SBA has attempted to provide the most equitable treatment to the citizens it serves while, at the same time, seeking the best return for the Government.

The number of loans being liquidated during the year, as a percent of loans outstanding, were maintained in a relatively static condition from 4.4% in September to 4.3% in June.

Indicative of the general improvement in the liquidation activity, recoveries on loans in the “most critical” class increased significantly, in fact, by approximately 50% over the fiscal 1975 rate.

Portfolio Review

Portfolio review procedures involve making annual examinations of each SBA field office having and maintaining a portfolio of loans. During the year, 46 field offices were examined to identify field implementation problems in the
finance and investment programs and to specify appropriate corrective measures. Operations are conducted from Washington, D.C., Atlanta, and Denver. In order to strengthen and broaden the examination of all field activities during early fiscal 1977, the Atlanta office will be absorbed into the Denver office.

Program Changes

In December, the President signed S. 555 (P.L. 94-63) changing the interest rate on SBA disaster loans made under Section 7(b)(1), (2) and (4) of the Small Business Act so that the rate charged on all direct disaster type loans made under Section 7(b) would be the same.

At the same time, the President signed H.R. 5541 (P.L. 94-190), the Small Business Emergency Relief Act, to provide emergency relief for small businesses suffering serious financial loss because of the energy crisis or rapid and unexpected rises in Government contract costs. The law authorizes the head of any executive agency to terminate for the convenience of the Government any fixed-price contract or to modify a contract under certain limited circumstances. This law applies only to contracts entered into from August 15, 1971, through October 31, 1974. The authority to grant relief terminates on September 30, 1976.

Proposal for Small Builders

In a June statement before a joint hearing of the Senate Select Committee on Small Business and the Small Business Subcommittee of the Senate Committee on Banking, Housing & Urban Affairs, the Administrator outlined a change in SBA’s policy of not providing assistance where the real property would be held by homebuilders primarily for future sale. The Administrator announced SBA’s intention to structure, by regulation, a non-duplicative business loan program which would allow assistance to small business concerns for residential or commercial construction for future sale, and for public underground and surface improvements to land when related to such construction. The proposal would also permit the guarantee of loans for the acquisition and rehabilitation of existing residential and commercial structures. To implement this change, amendments to regulations governing SBA’s 7(a) business loan program are to be published in the Federal Register for public comment.

SBIC Investment Program

Under the Small Business Investment Act of 1958, as amended, SBA licenses, regulates, and provides financial leverage to privately owned and operated investment companies formed for the purpose of providing venture capital and other financing and management assistance to small business.

The firms assisted by such Small Business Investment Companies (SBICs) tend to be newer, innovative-type firms and the financing of them can subject an SBIC to risks substantially higher than those inherent in businesses financed under the Agency’s regular lending program.
During FY 1976, SBICs provided $122 million of financing to small business, which is 3% higher than in 1975.

Since the program began in 1958, the SBIC industry has provided in excess of $2.6 billion to small business concerns through some 48,000 disbursements. In the SBIC fiscal year ending March 31, 1975, loans and investments were outstanding to 5,000 small businesses and amounted to some $575 million.

Three-Year Summary

<table>
<thead>
<tr>
<th>FY 1974</th>
<th>FY 1975</th>
<th>FY 1976</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating SBICs</td>
<td>270</td>
<td>261</td>
</tr>
<tr>
<td>Private Capital</td>
<td>$384.7M</td>
<td>$388.1M</td>
</tr>
<tr>
<td>SBA Leverage</td>
<td>$457.1M</td>
<td>$457.1M</td>
</tr>
<tr>
<td>Number of Small Business Financings</td>
<td>1,744</td>
<td>1,525</td>
</tr>
<tr>
<td>Amount of Small Business Financings</td>
<td>$171.4M</td>
<td>$117.8M</td>
</tr>
</tbody>
</table>

301(d) Companies

The companion program to SBICs—Minority Enterprise Small Business Investment Companies—(known officially as Section 301(d) SBICs and familiarly as MESBICs) are licensed to operate exclusively in behalf of minority small businesses. Their progress is reviewed in detail in the Minority Assistance chapter of this Annual Report.

Program Evaluation

An Agency evaluation of the SBIC program was conducted during the year, covering all years since the inception of the program in 1958. While the findings of the study indicated that there is a continuing need for the type of assistance provided by SBICs, a general decline in the program was found. The conclusions, in general, are that the small business community needs more equity capital. The study recommends that the program be modified to improve SBIC capitalization and viability and that, subsequent to the modifications, the program should be closely followed to determine its worth.

Portfolio and Loss Rate

In its 23 years of operation, the Agency has approved a total of 828,863 business, disaster, and investment company loans for $20.8 billion. At the end of this fiscal year, the portfolio of loans outstanding amounted to 233,165 valued at $7.4 billion.

The Agency's cumulative loss rate—actual losses on all loans from 1953 through June 1976—stood at 3.76%, compared to 3.23% at the end of fiscal 1975. It is estimated that the "ultimate" loss rate—all actual losses to date plus projected future losses on current outstanding loans—will total 6.22%.
Management Assistance

During the year, the Management Assistance programs were adjusted and fine-tuned to the needs of the small business community as innovations were introduced to improve the scope and delivery of services provided. More than 302,000 small business persons participated in SBA counseling and training, an increase of 17% over the previous year.

Management counseling emphasized the expansion of assistance to current and prospective clients, and continuous or long-term, indepth counseling. Although the preponderance of business ills can be traced to the lack of management skills on the part of owners/managers, every case is different and every applicant for required counseling received individual, personalized assistance.

SCORE Returns to Agency

Early in the year, an Executive Order was signed by the President transferring to SBA all functions of the Service Corps of Retired Executives (SCORE) and Active Corps of Executives (ACE). Since July 1971, these volunteer management assistance organizations had been administered by the ACTION agency, with SBA supervising the case work. SCORE was originally organized by SBA in 1964 as a means of tapping business expertise for the benefit of new entrepreneurs and small businesses struggling with management problems. ACE was organized by SBA in 1968.

SCORE/ACE has now grown to approximately 9,000 members operating from 300 chapters through the country. During the year, the number of their counseling cases rose to 68,624, a 28% increase over 1975. In a special effort to

Actively Retired

The philosophy of Ian Fleming Ferguson of Chicago is: “Don’t get too big and wealthy.” He has yet to find one such person who is satisfied and has peace of mind, and Ferguson has been around.

He is an admitted blithe spirit, who, at 72, is a member of SBA’s renowned Service Corps of Retired Executives, commonly known as SCORE, and who this year took SBA’s prize as the Nation’s best.

Vigorous Ian Ferguson belies his 72 years.
aid SBA clients, SCORE/ACE expanded their assistance from 10% of total SBA actions at the beginning of the year to 25% at the end of the year.

The scope of the SCORE organization is in the process of being further enlarged through its working with such other organizations and agencies as AARP, OSHA, FEA, and FDA. The Federal Energy Administration, for example, has requested that SCORE provide assistance to small business owners on the problems of energy cost reduction. Counseling and educational program also will be devoted to compliance with new government regulations and the prevention of crime.

**Business Development Centers**

The Agency's newest program, the University Business Development Centers (UBDC), is a university-based concept for the delivery of joint government, academic, and private sector services to benefit the general economy, small business, the university, faculty, and students. It is designed to provide one-stop, comprehensive management, technical, and financial assistance to small business.

The UBDC links up proven programs of 15 or 20 Federal agencies that can work in concert with a university, professional and trade associations, and other parts of the private sector to create a mechanism which can do for small and medium-size businesses what the agricultural colleges and the Cooperative Extension Service have done for the farmer.
The UBDCs hope to utilize the Economic Development Administration's University Center program; the Department of Health, Education and Welfare's Cooperative Education program; and SBA's SCORE/ACE volunteer and Small Business Institute programs.

The first pilot UBDCs will be implemented early in FY 1977 at the University of West Florida, University of Maine, University of Missouri, Rutgers University, California State University, Chico, and California State Polytechnic University, Pomona. To date, a total of 25 universities have expressed an interest in the establishment of UBDCs.

**SBI Schools Expand**

Meanwhile, the Agency's eminently successful Small Business Institute program continued advancing. During the year, there were 385 universities providing student teams counseling small businesses, compared to 338 schools reported the previous year.

The SBI program is under the direction of some 2,000 business school faculty members, with over 20,000 students participating for at least one semester of counseling small business clients.

Although there was only a limited increase by number of cases handled, the quality and volume of the SBI program increased in the following ways: (1) additional universities provided a better geographical coverage—thus better meeting the needs of SBA clients; (2) increased faculty and student participation

*Ferguson hops around entire Chicago area counseling businesses.*
enhanced the versatility and effectiveness of the program; (3) expansion of the program beyond business schools has introduced multi-disciplines in the program; for example, six university engineering schools are now participating in SBI.

**Students Advise 8,000 Businesses**

Some 8,000 small businesses “in trouble” came under scrutiny of SBI students. Typical was the case of a company in Salt Lake City. It had been in business for 10 years, starting with an investment of $6,000 and growing to current annual sales of more than one-half million dollars. This growth, however, was in jeopardy because of a buildup of poor management procedures.

The principal problems at Company “X” included loose accounting procedures. It had inadequate cash flow to meet the payroll, to buy supplies efficiently, and to pay other normal operating expenses. The student team found that because of the tight money situation, the company was unable to order required parts, which at times stopped production. The lack of cash also forced them to buy in small quantities with no discount. Poor credit rating, caused by bad checks, forced suppliers to sell to them only on a c.o.d. basis. There was no control on purchases, resulting in unnecessary inventory. Cash received and purchases were loosely handled, resulting in books out of balance. The majority of accounts receivable were too far overdue.

An SBI team from the University of Utah cleaned up some of the problems at Company “X” and, for its effective handling of the case, won SBA’s
"Outstanding National SBI Case" of the year award. Runners up were student teams from Penn State University, the University of Portland (Oregon), the College of St. Thomas (Minnesota), and Worcester Polytechnic Institute (Massachusetts).

Call Contract Service Grows

The Call Contracting program authorizes the SBA to place contracts with firms qualified to provide management and technical help to small businesses designated by the Agency. Activity under the program expanded from 2,843 cases in FY 75 to 4,400 in FY 76. SBA district offices are now pursuing the program on a local basis rather than through the regional offices. This has greatly speeded up response time in tight situations and program service nationally.

An evaluation of this contracting program during the year by Price Waterhouse and Company reached the overall conclusion that the management assistance offered had a success rate which was not only acceptable but compared favorably with that of the consultant industry as a whole.

Professional Associations Aid

During FY 1976, agreements were developed, or renewed, with 10 professional associations who agreed to volunteer the services of their members to counsel small business. The groups include the National Association of Accountants,
the National Association of Minority CPA Firms, and the National Business and Professional Woman’s Association.

**Business Training Courses**

SBA continued to provide for the building of “inner resources” among actual and potential small business persons by means of training courses, conferences, workshops, and business problem-clinics. In co-sponsorship arrangements with communities, colleges, chambers of commerce, and others, valuable training for business was made available in every state. More individuals sought and received training help than ever before—183,630 as compared to 154,829 in the previous year. With special recruitment efforts, attendance increases were achieved among minorities, women, and veterans.

In particular, the one-day Prebusiness Workshop program was received enthusiastically. Not only did the attendance increase nationally, almost 32% over last fiscal year, but an independent evaluation indicated they were extremely valuable for persons facing the issues of starting a new business. In some cases the workshops were tailored to special situations. For example, when the California Department of Transportation faced an 800-person reduction in its workforce, a special workshop was arranged to help the employees decide if an independent business venture was a viable career option.

**Training for Refugees**

In response to the influx of Vietnamese refugees to this country, a special series of small business seminars was developed and conducted at the four U.S. refugee camps during a two-month period. About 4,600 Vietnamese and Cambodian nationals attended general sessions that acquainted them with American business conditions and opportunities. Subsequently, approximately 2,480 participated in workshops to explore questions about how to start and operate a small business, and many refugees received additional individual counseling.

**Five Million Publications**

More than five million copies of 250 different business management publications, produced by SBA, were distributed during the year. The bulk of these publications are distributed free of charge to persons interested in particular issues or problems of managing a business. Others are available as “for sale” items from the Government Printing Office. New publications that meet specific business needs are continually being developed. Among these in 1976 were “Tourism and Outdoor Recreation,” and “Training Salesmen to Serve Industrial Markets.” Older publications, which have proved “best sellers,” are continually updated. As an example, the eighth edition of “A Handbook of Small Business Finance” was issued during 1976. Over 275,000 copies of this booklet have been purchased since it first appeared in 1954.
International Trade Program

In cooperation with local Department of Commerce field offices and other government agencies and private institutions, 5,394 small business owners/managers attended 110 international trade training programs cosponsored by SBA during the year. Preliminary export marketing counseling was provided to 2,063 small businesses. The Agency is exploring the establishment of an Office of International Trade with both central office staff and field representatives. One of the responsibilities of this unit would be to coordinate Agency efforts with the Department of Commerce, the Export-Import Bank, and others in order to help identify international marketing opportunities for small and medium-sized businesses with export potential. Such an office would bring together the international activity of the Department of Commerce and the small business outreach available through the many SBA offices around the country.

Conrail Study

Conrail, a government-subsidized private corporation, began operation of some 20,000 miles of rail lines in the Northeast and Midwest regions of the country April 1, as a result of reorganization under the Railroad Revitalization and Regulatory Act of 1976. It is the beginning of an all-out nationwide effort to rehabilitate the country’s railway system and restructure it on a more economically feasible basis.

In anticipation of the growing impact of this reorganization on the small business community, some exploratory programs have been launched by SBA to determine the potential difficulties and/or opportunities the impending changes may cause for SBA clients and other small businesses, and to explore what steps may be taken for their assistance. The impact of the projected changes on small business is expected to be both negative and positive. Commercial businesses and manufacturers near lines to be discontinued will suffer economic dislocations from the loss of their present rail freight service. At the same time, extensive new markets and business opportunities may become available in such fields as transportation, warehousing, highway construction, and rehabilitation of the physical plants, rail beds, track, and equipment of the nation’s railroads.

SBA has initiated joint planning for the coordination of Federal assistance with the Economic Development Administration, the Farmers Home Administration, and the Federal Railroad Administration. SBA is also cooperating with the Department of Transportation in a major research study on the impact of the abandonment of light density lines on rail shipments and shippers.
Procurement Assistance

The responsibility of the SBA's procurement assistance programs is to obtain a fair proportion of Government contracts and subcontracts for small business in accordance with the policy declared by Congress in the Small Business Act.

Fiscal Year 1976 appears to have been another fruitful one for small business and for the Agency in carrying out its avowed purpose of obtaining an increasingly larger share of Government contract dollars each year for small business. Through the Federal contracting programs, SBA projects $18.9 billion worth of prime and subcontracts will be awarded to small business. This constitutes a projected increase of 3.3% over the total awards to small business last year. Final official statistics will not be available until the second quarter of FY 1977.

Prime Contract Awards

Based on mid-1976 performance, the Department of Defense is ahead of its FY 1975 small business program, and the projection is for continuing a steady growth since 1971. At the mid-year point, the civilian agency awards to small business are lagging behind 1975, but a moderate increase is projected by the end of this year regardless.

Combining these two reports, the projected 1976 total Federal awards to small business are in the area of $13.2 billion, up slightly from the $12.7 billion awarded to small business in 1975 and continuing the uninterrupted growth in awards since 1970. While inflation may have played a minor part in this growth, an increase is projected in the percentage of all Federal prime procurement

A View From East Aurora

There is only one way to survive as a small contractor competing against large contractors. You have to turn out a top product at less cost. Then you can enjoy being as small as you want.

The way they do it at Carleton Controls Corporation of East Aurora, New York, as explained by co-founder John Carleton Goodell, is, first, to run the tightest of ships, practicing some of that old-fashioned thriftiness many operators lose sight of.

"At first I was not only the president, but the salesman, and I also cut the grass," he says. "We're a bunch of competent switch hitters who can do everything in the plant, keeping the payroll trim by wearing many hats, watching that elusive thing called 'overhead', and generally working in a Spartan way.

Do not discount the smallness of John Goodell's operation. He beats you with efficiency.
dollars which go to the small business sector from the 1975 all-time record of 23.2% to 23.95% for 1976, which is a true growth.

The gains cited above would not have been possible without the small business set-aside program operated by SBA and the Federal agencies participating in the programs. A set-aside is a Government requirement which is reserved either totally or partially for exclusive competition among small business concerns when adequate competition can be expected from small firms to assure fair and reasonable prices.

Subcontracts Remain Steady

During the first half of the year, small business concerns obtained $2.24 billion in Department of Defense subcontracts, which amounted to 36.6% of all such subcontracts. The DOD subcontract awards to small firms through FY 1976 are estimated to be about $5.0 billion and amount to about 37.5%. Subcontract awards to small firms from non-defense agencies are expected to amount to nearly $700 million, bringing total subcontracts to $5.7 billion, or approximately the same dollar volume as in the previous year.

National Contracting Winners

In the Agency's annual national competition Arkwin Industries, Inc. of Westbury, N.Y., was named the Small Business Subcontractor of the Year and Carleton Controls Corp., of East Aurora, N.Y., the Small Business Prime Contractor of the Year.
Certificates of Competency

If a contracting officer proposes to reject a low bid by a small business firm because he questions the firm's ability to perform the contract on the grounds of capacity or credit, the case is referred to SBA, as required by procurement regulations. This means that the small firm has an appeal procedure whereby it does not lose out in the event of an erroneous determination. If SBA's investigation reveals that the small business is competent to perform the contract, the agency issues a Certificate of Competency (COC).

During the year, 277 contract awards resulted from the COC program. These totaled over $35 million, which would have been awarded to other than the low bidding small concern. As a further result, the Government achieved a saving of $5.9 million. This represents the additional costs which would have been incurred had each of these contracts gone to the next higher bidder.

This saving, plus a projected saving of $8.9 million in the Agency's prime contracts program, will exceed the cost of operating SBA's procurement program for the year by about $5 million.

Business Development

Under the authority of Section 8(a) of the Small Business Act, the SBA serves as prime contractor for selected Federal procurement requirements, then subcontracts to firms owned and controlled by socially or economically disadvantaged persons.

"We also believe in plowing back our profits into the business, thereby developing our own working capital, rather than borrowing and depending on outside money sources."

Goodell says that these are some of the business fundamentals, often overlooked, that can mean the difference between a handsome profit or closing the doors. Careful financial discipline allowed Carleton to expand 30% right in the middle of the recent economic recession. It brought in a nice profit of 10% for 1975.

"The other factor in staying alive is keeping up your standards," Goodell continues. "We have no patented products to lean on. But we do produce No. 1 technical quality, low cost, and on-target delivery. Our philosophy is 'Manufacture quality into our products, not inspect it in.'" Remarkably, the company records attest that Carleton has never had a dissatisfied customer or a product failure.

Goodell and George Ord started the firm in a backyard garage 20 years ago, were soon joined by Richard Cummins, and this trio still remain working partners today. Their first production item was a torch ignition system to restart "flamed-out" aircraft jet engines. At that time, re-igniting such an engine in flight with a sparkplug was "like trying to light a cigarette in a hurricane."
state, a land of both retirement and business action, of copper and grapefruit, of luxurious resorts and Indian reservations, of Frank Lloyd Wright and Geronimo, of wide deserts and snow-capped mountains.

The Phoenix SBA office is equally divided between men and women. Their incomes range from $8,000 to $37,000. Their ages are from 18 to 65. Two-thirds are married, with some single, some divorced, and one widow. Half are over the national average for family size—two have 5 children, seven have 4, and nine have 3. One-third have college degrees. Only two are natives of Arizona, the rest having migrated from 19 different States and three foreign countries, half from the Midwest.

**Various Backgrounds**

These people of SBA came to the Agency from many backgrounds. They could be a cross-section of America, not just the SBA: She is from Pennsylvania, a veteran of more than 30 years with the Federal government, who "enjoys watching small businesses overcome their problems" . . . He is a former grade school teacher from Iowa who has worked extensively on Indian Reservations and adopted a full-blooded Apache boy to raise along with his own four children . . .

She is from Chattanooga and was formerly a long-time secretary to one of her state's U.S. senators . . . He is a native of Australia, schooled at Eaton in England, worked for such large companies as Boeing, and is active in the affairs of his community as a member of its Council . . . She was brought up in Kokomo, Indiana, and came to SBA from the staff of the Arizona Department of
Corrections . . . He is from South Dakota, has a master's degree in business, was formerly dean at a school of business, and spent 22 years in all three services—Army, Navy, and Air Force . . . She comes from the Ozarks and formerly worked for the owner of a string of theaters . . .

Diverse Avocations

He is a former Utah banker and recipient of one of two awards even given by the National Economic Development Association for service to the Hispanic community . . . She is from Montana, married to a minister, and conducts special Sunday services at a rest home for the aged . . . He is from Wisconsin, formerly manager of a Chamber of Commerce and coaches both the American Legion and Little League baseball teams in town . . . She is a Texan with the unusual given name of “Birdie” who was formerly with the Continental Air Command . . . He is an Irishman from Pocatello, Idaho, who studied to be a priest and was with a brokerage firm before coming to SBA . . .

She is from Ohio and, off duty, works for the Phoenix Jewish Community Center on cultural programs for people “from 3 to 93” . . . He is from Missoula, Montana, and is a former California banker with a law degree . . . She is from Detroit, had a job with the Internal Revenue Service, and as an avocation dabbles in real estate . . . He is from Missouri and is a former Air Force officer . . . She comes from Wyoming and has served as secretary to a state governor, a U.S. congressman, and a U.S. senator . . . He is from Chicago, has a master’s in education, and tops the staff for years with SBA—19 . . . She is from Kansas and believes that “every day is an unusual happening” . . .

Top L–R clockwise, Barbara Delmas, Mary O'Farrell and Don Lloyd, Vince Tammello, Dorothy Seaton, Lee Burkland.
Former Jobs Differ

He is from Ohio, has a master's in business administration, is a former executive in big businesses, and owns tennis clubs on the side. . . . She is a grandmother from Washington whose son is a sergeant in the Marine Corps. . . . He is the former training supervisor for employees of the City of Phoenix. . . . She is from Broken Bow, Oklahoma, and was formerly with the National Labor Relations Board and an oil company. . . . He was a savings and loan officer in Wichita and is office co-champion with 5 children. . . . She is from St. Louis, is fluent in French, and formerly worked for a food broker. . . . He is a native of Phoenix and has worked up from being a clerk in the office to loan officer. . . .

She was born in Ontario, Canada, and contributes work to a hospital auxiliary. . . . He was bred in Arizona, is fluent in the Spanish language which he puts to good use in this heavily Spanish-American area. . . . She is a native of Juarez, Mexico, and is the newest hire in the office. . . . He just came in from Michigan and has put in 22 years in the Air Force. . . . She is from Illinois and has a rare distinction—she was one of a team of three people decorated by the Navy for being instrumental in breaking the Japanese Navy code during World War II.
P. 62 L-R clockwise, John Seeley, Mary Ellis, Marion Miller. P. 63 top L-R clockwise, Marion Truett, Phil Judy, Alma Gomez, Gordon Wignman, Joyce Graves, Mary Alice Reece and Myrna McNeely.
Office Director's Philosophy

The Director of the office came to Arizona 15 years ago when he thought he had retired. He had been a retail jeweler for 32 years in Indiana. His avocation was boxing, and he was president of the World Boxing Association, the governing body of that sport. He left it all for Arizona, which he had previously visited and decided upon as the ideal retirement spot for him and his wife. That retirement lasted exactly 10 days, during which he kept “waiting for the bell”. So he went back into fulltime business ventures, came to SBA 8 years ago, and has no plans ever to retire again.

The Director regards the people in his office as a family that works “with” him and not “for” him. He tries to win their respect and admiration, not buy it. To him, the lowest-paid employee is important. “I can be torpedoed if I do not come across to that person. We must produce for each other because we few have so many responsibilities”.

Those are some of the people of SBA.
107 SBA Offices

Agana, Guam
Albany, N.Y.
Albuquerque, N. Mex.
Anchorage, Alaska
Atlanta, Ga. (2)
Augusta, Me.
Baltimore, Md.
Biloxi, Miss.
Birmingham, Ala.
Boise, Idaho
Boston, Mass. (2)
Buffalo, N.Y.
Camden, N.J.
Casper, Wyo.
Charleston, W. Va.
Charlotte, N.C.

Chicago, Ill. (2)
Cincinnati, Ohio
Clarksburg, W. Va.
Cleveland, Ohio
Columbia, S.C.
Columbus, Ohio
Concord, N.H.
Corpus Christi, Tex.
Dallas, Tex. (2)
Denver, Colo. (2)
Des Moines, Iowa
Detroit, Mich.
Eau Claire, Wisc.
Elmira, N.Y.
El Paso, Tex.
Fairbanks, Alaska
Fargo, N. Dak.  
Fresno, Calif.  
Greenville, N.C.  
Harlingen, Tex.  
Harrisburg, Pa.  
Hartford, Conn.  
Hato Rey, P.R.  
Helena, Mont.  
Holyoke, Mass.  
Honolulu, Hawaii  
Houston, Tex.  
Indianapolis, Ind.  
Jackson, Miss.  
Jacksonville, Fla.  
Jericho, N.Y.  
Kansas City, Mo. (2)  
Knoxville, Tenn.  
Las Vegas, Nevada  
Little Rock, Ark.  
Los Angeles, Calif.  
Louisville, Ky.  
Lubbock, Tex.  
Madison, Wis.  
Marquette, Mich.  
Marshall, Tex.  
Memphis, Tenn.  
Miami, Fla.  
Milwaukee, Wis.  
Minneapolis, Minn.  
Montpelier, Vt.  
Nashville, Tenn.  
Newark, N.J.  
New Orleans, La.  
New York, N.Y. (2)  
Oklahoma City, Okla.  
Omaha, Nebr.  
Philadelphia, Pa. (2)  
Phoenix, Ariz.  
Pittsburgh, Pa.  
Portland, Ore.  
Providence, R.I.  
Rapid City, S. Dak.  
Reno, Nev.  
Richmond, Va.  
Rochester, N.Y.  
St. Louis, Mo.  
St. Thomas, V.I.  
Sacramento, Calif.  
Salt Lake City, Utah  
San Antonio, Tex.  
San Diego, Calif.  
San Francisco, Calif. (2)  
Seattle, Wash. (2)  
Shreveport, La.  
Sioux Falls, S.D.  
Spokane, Wash.  
Springfield, Ill.  
Syracuse, N.Y.  
Tampa, Fla.  
Washington, D.C. (2)  
West Palm Beach, Fla.  
Wichita, Kan.  
Wilkes-Barre, Pa.  
Wilmington, Del.
Contents Appendix/Volume II

Revolving Fund Financing
Of Loan and Other Programs
Reports Pertaining to the
Small Business Investment Act
Evaluation of the Economic
Opportunity Program
Equal Employment Opportunity
And Compliance Reports
"406" Contracts Listing
"8(a)" Contracts Listing
Business Loans Approved Listing

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