



U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, D.C. 20416

*Stuart*

*MAY 25 1988*

OFFICE OF THE ADMINISTRATOR

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Honorable Norman F. Lent  
Committee on Energy and Commerce  
House of Representatives  
Washington, D.C. 20515

Dear Congressman Lent:

On April 11, 1988, Chairman Dingell requested sequential referral of H.R. 3392, a bill to create the Corporation for Small Business Investment (COSBI), to the Energy and Commerce Committee. Currently, the bill is awaiting markup by the House Small Business Committee.

Chairman Dingell is to be commended for requesting sequential referral on this far-reaching bill.

I presented the Agency's views on this bill at the House Small Business Committee's hearing on February 25, 1988. While I will not restate all of those concerns in this letter, I have attached a copy of my statement for your review and ask that you give careful consideration to the points raised. If H.R. 3392 were presented to the president in its current form, I would recommend that it be vetoed.

I will mention two overriding areas of concern from that testimony. First is the question of the Federal Government's financial support of COSBI. This legislation provides for some \$1.1 billion in direct and indirect financial support. This is represented by the proposed \$200.0 million of preferred stock capital to be provided by the Treasury, the \$150.0 million of cash to be granted to the MESBIC Trust, the \$290.0 million grant of MESBIC preferred stock and debentures outstanding and the \$500.0 million of indirect back-up credit from the Treasury. In addition to this support there is the continuing guarantee by SBA initially of approximately \$700.0 million on the outstanding SBIC debentures that would be purchased with recourse to become the asset base for COSBI.

Secondly, the question of regulatory responsibility concerns me. As you can see from the above description, the assets the Government would turn over to COSBI are considerable especially when compared to COSBI's very minimal non-government assets.

In spite of that, however, this legislation would change the regulatory structure of these two programs from one that is directly monitored and regulated at all levels by SBA through its Investment Division and Inspector General to one that would have the SBICs and MESBICs regulating themselves with a limited amount of fragmented audit and reporting review by SBA, GAO, and the Treasury Department. It is our opinion that the present level of SBA regulatory, audit, investigative, and enforcement authority with respect to SBICs and MESBICs should be preserved until such time as the Federal financial risk is eliminated.

Although the ability of the Federal Government to supervise and regulate the operations of COSBI would be minimal, COSBI securities would be accorded the same favorable treatment as Federal obligations, including exemption from SEC registration and State and local taxation and classification as acceptable security for all fiduciary, trust, and public funds. I believe that the special treatment provided to COSBI securities is disproportionate to the level of Federal oversight and control provided. Therefore, in order to safeguard investors, COSBI and COSBI securities should be subject to the same securities laws and regulations as fully private corporations.

It is my view that the establishment of an entity that preserves substantial Federal investment and risk while denying the Government sufficient authority to safeguard its interests is not privatization. Direct, effective Federal regulation should only be eliminated in proportion to the decrease in Federal financial support and exposure to losses. While this corresponding reduction of Federal regulation and Federal financial support could occur more or less rapidly, it would provide for a privatization of the SBIC and MESBIC programs without undue risk to the taxpayer.

I am enclosing copies of the Treasury Department's letter of February 24, 1988 discussing their concerns with H. R. 3392 and my letter of March 25, 1988 commenting on the COSBI hearing.

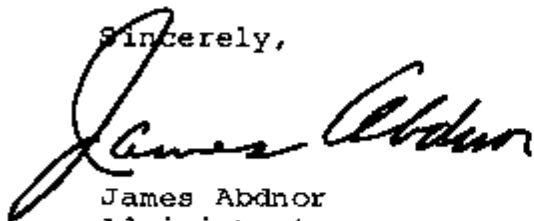
Also provided is a packet of graphs depicting the effects of this bill.

I hope that you will give careful consideration to this information.

I or my staff would be pleased to respond personally to any question you or your staff might have on this issue.

The Office of Management and Budget has advised that there is no objection to the submission of this report to the Congress, and enactment of H.R. 3392, would not be in accord with the program of the President.

Sincerely,

A handwritten signature in cursive script that reads "James Abdnor". The signature is written in dark ink and is positioned to the left of the typed name.

James Abdnor  
Administrator

Enclosures