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Community Development
Bank

Cheryl
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1997

THE WHITE HOUSE

WASHINGTON

June 24, 1993

MEMORANDUM FOR David Gergen, Howard Paster, George
Stephanopoulos, Marcia Hale, Mark Gearan

FROM: Bruce Reed, Gene Sperling, Paul Dimond,
Paul Weinstein, Sheryll Cashin

SUBJECT: Presidential Announcement of the CDFI and CRA Initiatives

We recommend a Presidential announcement on a Community Development Bank initiative and CRA reform by next week. We are aware that there are problems with announcing a new initiative, but we feel that, on the whole, we have to move forward and have a Presidential announcement next week.

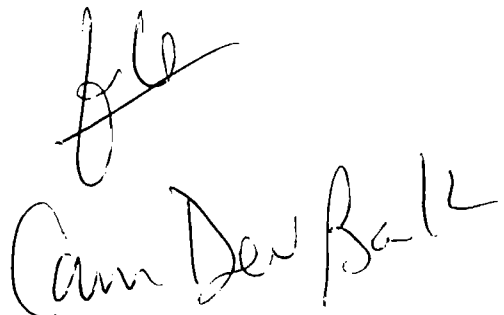
One, we feel the timing of the proposed hearings schedule makes a Presidential announcement imperative if the President wants to be seen as moving forward with a proposal.

Two, the Federal Reserve is a necessary player in CRA reform, and the Fed will not act without a clear Presidential directive.

Three, a public event would be helpful in rallying overall support not only for the proposal, but it would also show the President's support for a key agenda item of several important House members prior to the Reconciliation conference.

Four, while this is a new initiative, it is a low-spending proposal with a strong free enterprise and job creation focus; and both the CDFI initiative and CRA reform fit with the President's basic economic message of freeing up more capital for private investment.

Finally, if the Senate passes reconciliation by Friday, next week we will not be in the heart of the Congressional vote on Budget Reconciliation and may in fact have a week in which we could use an economic event.


Carol DeBorja

BACKGROUND:

(1) Senate Hearing: With Howard Paster's help, we are seeking to cooperate with the request of Steve Harris, the Senate Banking Committee Staff Director, to schedule a hearing before Chairman Riegle's Committee on our CDFI bill for July 13. This is the only day the Committee has available in July; and a hearing by mid-July is critical to garner full Committee support and to transmit the bill to the Senate floor in time to secure the requisite appropriation. It is our understanding that the President will leave for the G-7 Summit trip during the July 4 Senate recess and that he will return on July 14. Therefore, next week is the last window of opportunity we will have to send the bill up with a Presidential announcement prior to Senate Banking's July 13 hearing.

(2) CRA regulatory reform and the Federal Reserve: Gene Ludwig, the Comptroller of the Currency, has been working with the three other bank regulators to get them to agree to work on an effort to issue new, performance-based Community Reinvestment Act Regulations. All of the regulators are in general agreement that we should move to performance-based CRA. However, the Fed has made it clear that it will not move forward with this undertaking unless the President specifically requests it. Their rationale is that they are an independent regulator and that they are reluctant to allow another regulator, the OCC, to take the lead. A presidential statement asking the regulators to undertake this effort is therefore required.

(3) The Timing of CRA Regulatory Reform: As a part of his overall strategy for a two-stage process for community reinvestment, the President proposed as a first step (a) comprehensive reform of CRA by regulation to stimulate "top-down" lending by regulated banks and thrifts in distressed communities and (b) a basic CDFI bill narrowly focussed on establishing a publicly supported community reinvestment fund to stimulate additional private support for a nation-wide network of "bottom-up" CDFIs. This basic approach has received wide support in the media, and we have worked hard to establish a broad consensus of support from community and consumer groups and from major banking interests. House Consumer Credit Subcommittee Chair Joe Kennedy, who has long, but unsuccessfully backed reform of CRA by legislation has enthusiastically backed the President's initiative because it will both lead to successful reform of CRA and bring the previously warring banking and consumer/community groups to the same table. Both Gene Ludwig and Frank Newman agree that we need to move forward now, lest we lose this coalition of support for CRA reform and for our basic CDFI bill. The timing of our announcement has become particularly critical because Representative Flake is now seeking to fill the vacuum we have left by our delay in announcing our initiative: Congressman Flake is proposing legislation to reform CRA, legislation, which has no chance of passage in the Senate this year.

(4) Presidential Announcement: A public, "Rose Garden" variety event covering both the CDFI and CRA initiatives would be very helpful, if not imperative, both to our legislative strategy for the CDFI initiative and regulatory reform of CRA. We have been

working closely with chief patrons of the CDFI concept in the House and Senate, and we feel that having an event in which we can give them prominent public positioning will be an important vehicle for solidifying key support for the bill. This strategy is particularly needed to reward Maxine Waters (a long-time proponent of CRA reform and a CDFI initiative) and to solidify the commitment of Bobby Rush and of his 62 co-sponsors to work with us on gaining passage of a major CDFI bill this year.

Such a public event would also present a great opportunity to catalyze supporters of both initiatives. The OCC, Treasury, the DPC and the NEC have consulted with community groups, banks and representatives of the CDFI industry on both issues. They have been waiting for months for an Administration announcement that we are moving forward on both initiatives. Unless we are prepared to go back to ask the President to rethink the decision that he made in April, we must move forward now to implement his considered community reinvestment strategy.

cc: Carol Rasco
Bob Rubin
Bowman Cutter

file CD Banks

THE WHITE HOUSE

WASHINGTON

July 14, 1993

ANNOUNCEMENT OF COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS ACT
AND COMMUNITY REINVESTMENT ACT REFORM

DATE: July 15, 1993
LOCATION: South Lawn
TIME: 11:30 a.m.
FROM: Jonathan Prince
Sheryll Cashin, NEC
Tricia Enright, HUD

I. PURPOSE

You will be announcing your legislative proposal to build a network of Community Development Financial Institutions and your request to the four banking regulators to implement Community Reinvestment Act reform.

II. BACKGROUND

Across the country, many rural and urban communities are deprived of affordable credit, capital and basic banking services. In these communities and neighborhoods, millions of Americans' credit needs go unmet. They have no bank where they can cash a check, borrow money to buy a home, or get a loan to start or expand a small business.

Your initiative to create a Community Development Financial Institutions Fund that will invest in a national network of CDFI's will begin to meet this need. The proposal, which will invest \$382 million over five years, will provide start-up capital on a matching basis to community-based lenders that have as their primary mission, developing and serving America's most distressed and disenfranchised communities. These institutions have a clear understanding of the needs of their communities and have created innovative programs in lending and developing to best meet those needs.

The CDFI Fund will establish an information clearinghouse to collect and distribute information on CDFI's and their funding sources to promote business growth and community development. Simultaneously, the fund will provide assistance through capital, grants, deposits or technical services. It will be headed by a corporate board of directors to establish policy which will include the Secretaries of HUD, Transportation, Commerce, Agriculture, the Administer of SBA and individuals to be appointed by you who represent community groups and have expertise in community development lending and commercial banking. The board will also appoint a CEO to manage the fund.

All types of new and existing community development lenders will be eligible for assistance. This includes CD Banks, Credit Unions, Micro Enterprise Loans, Minority-Owned Banks, Community Development Corporations; any community based entity whose principal goal is to help invest in the development and revitalization of America's most distressed communities. And to that end, the proposal requires all CDFI's to propose a strategy which states how they will best meet the needs of their targeted communities.

But communities will not have full economic opportunity without the involvement and investment of major banks. Your directive to move to a performance-based CRA system that will focus on results rather than paperwork aims to catalyze the mainstream banking sector to invest in people and business in these targeted communities.

The Community Reinvestment Act of 1977 requires banks and thrifts to meet the credit needs of the communities in which they do business. Despite its success in recent years in making credit opportunities available to underserved urban and rural communities, the current system falls short of its potential -- communities remain unserved and CRA evaluations many times fail to reflect actual community reinvestment activities.

Therefore, you have requested the four banking regulators--the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Reserve Board, the Federal Deposit Insurance Corporation-- to take the following actions to reform CRA regulations:

- ♦ Reform CRA Enforcement system by January 1, 1994 by developing new regulations and procedures that replace paperwork and uncertainty with performance and objectivity;
- ♦ Promote consistency and evenhandedness in CRA enforcement;
- ♦ Improve public CRA performance evaluations;
- ♦ Implement more effective sanctions against banks and thrifts with consistently poor performance;
- ♦ Develop more objective performance-based CRA Assessment Standards that will reduce the compliance burden on financial institutions while stimulating improved CRA performance.

III. PARTICIPANTS

The President
The Vice President
Hugh McColl; CEO, Nations Bank
Irvin Henderson; Chair, Nat'l Comm. Reinvestment Coalition
Ron Gryzwinski, Chairman, Shore Bank
225 invited guests

Community Lender Success Stories

Tim Bazemore, Bertie County, North Carolina

Mr. Bazemore is an older African American gentleman who is the President and General Manager of the Workers Owned Sewing Company, an employee-owned cut and sew manufacturer located in a low income rural area in Eastern North Carolina. The operation started in 1979 with 5 employees. At that time, business came primarily from contracts with other apparel companies for their overflow work. This type of business was sporadic, unpredictable and highly competitive. By the mid 80's, WOSCO needed to grow, and to grow, they needed capital. But the company, mostly black women, had trouble getting credit--sometimes even cashing checks--at the local bank. They turned to the Center for Community Self-Help and secured a \$50,000 loan and assistance in marketing, financial management and business planning. Today, WOSCO employs 65 workers and is the second largest employer in the county. They now have contracts with Sears and K-Mart and each year they have been able to distribute profits to all workers.

Beverly Ross, Mineral Springs, Ohio

Beverly is a 25 year old single parent and the sole owner of Lakeview Stables in a popular tourist area near Atwood Lake in Tuscarawas County, Ohio. Bev worked for the stables to support her family and then found herself able to purchase the stable -- along with a few horses and accompanying equipment -- from the owner. But after a year in operation, she began having to turn away customers for lack of horses and equipment. And because of a divorce, she had an unstable credit history and no finance options. She turned to the Athens Small Business Center and received a small loan from the Microloan program plus help in completing a business plan. She used the loan to purchase equipment and to provide working capital for the operation. The loan was made in time for this year's summer trade -- and business is booming. (She is now engaged and here with her fiance.)

Joseph Holland, Harlem, New York

Holland is the 33 year old owner of Ben & Jerry's Scoop Shop--the first franchise to be located in an inner city--and founder of HARKhomes, homeless shelter for men in Harlem, New York. As a graduate of Harvard Law School,

Holland gave up a lucrative law practice to return to Harlem to counsel its "street people." In 1986, he opened HARKHomes, a men's shelter with a unique and successful holistic housing/business program that eventually provided a foundation for the Ben & Jerry's Shop. In 1989, Holland wanted to open a community owned ice cream shop in the heart of Harlem's commercial and cultural corridor, but no banks wanted to take the risk to fund the start-up costs. Three years of pavement pounding led him to the Community Capital Bank of Brooklyn, and with a \$100,000 construction loan and money from the state and other foundations, Holland launched a unique partnership venture with Ben & Jerry's and HARKHomes shelter. The result was the first Ben & Jerry's Franchise established in a distressed community--and the first Ben & Jerry's to employ primarily homeless and formerly homeless men. The store, which has its own ice cream flavor--Harlem Blues Berries--channels 75% of its profits to the support of the shelter.

Staged Seating Area

Secretary Bentsen
Secretary Espy
Administrator Bowles
Assistant Secretary Cuomo
Undersecretary of the Treasury Frank Newman
Comptroller of the Currency Gene Ludwig
Federal Reserve Board Governor George Lindsay
Ofc. of Thrift Supervision Act. Dir. Jonathan Fiechter
FDIC Acting Chairperson Andrew Hove
Senators: Riegle
Moseley-Braun
Bennett
Representatives: Flake
Gonzalez
Kanjorski
Kennedy
Rush
Stokes
Waters
(Possibly Mfume)

Audience

The audience will be composed primarily of additional Members of Congress, and representatives of the CDFI Industry, Major Banks, Thrifts, National Foundations and National and Community Consumer Groups from across the country.

IV. PRESS

Open Press.

The Media Affairs staff is aggressively selling the success stories and the community lenders attending to local outlets from their home media markets.

V. SEQUENCE OF EVENTS

See Social Office Scenario

VI. REMARKS

To be provided by Communications

REMARKS OF PRESIDENT CLINTON
COMMUNITY DEVELOPMENT BANKS
July 15, 1993

ACKNOWLEDGEMENTS

Thank you, Mr. Holland. What you just heard was a message of hope and opportunity that is being heard around the world today. From Tokyo to Toronto, from Harlem and the South Side of Chicago to South Central Los Angeles -- people are demanding control over their jobs, their lives, their countries and their communities.

A few days ago, I was in Japan with the leaders of the major industrialized nations working to build a new global economy. Now that the Cold War is over, we have the freedom and the resources to fight for rising living standards, falling trade barriers, more jobs, more exports and more opportunity.

My hand was strengthened at the G-7 meeting because I could say to the world's other leaders, that the American people are demanding change; we're reducing our deficit and investing more in the education and training of its people. Now, we're doing that, and we can ask the other nations to play their part as well.

We can ask them to lower trade barriers, and so increase American exports and American jobs. We can ask them to increase economic growth, lower their interest rates, and make common cause globally to battle structural unemployment -- so that all of our countries can rise together, grow together, and create more opportunity for the working people in our countries together.

Today, I will report to the bipartisan leadership of the Congress on the achievements of the G-7 meeting. But the good news I carry will be joined by this challenge: We can only enjoy the opportunities we created in Tokyo by following through on our commitment to pass our economic plan. You can talk of compromise and consensus; that is good.

But to those who would do nothing, to those who would let us slide back into the status quo, I would say this: We must adopt the largest deficit reduction plan in our history and the right incentives for growth, so that we can bring jobs to America and maintain American leadership in the global economy.

This message of jobs and opportunity is what brings us together this morning. Today I am sending to Congress an innovative proposal that will bring new life, new opportunity, and new direction to communities which lack credit, access to capital, or the kinds of basic banking services that enable people with dreams for success to start businesses and create jobs.

This proposal creates a fund that will provide grants to new and existing community-based lenders. The fund will provide almost \$400 Million over five years -- and will employ a number of measures to increase significantly the total dollars provided to communities through community lenders.

Under our plan, every dollar the fund provides to a community development bank must be matched by at least a dollar of private capital from that bank. Other CDFI's will also be required to match assistance as well. The Treasury predicts that this matching requirement, and the leverage provided by CDFI's, will produce at least \$2 Billion in additional investment.

The legislation also empowers the fund to incorporate private entities to receive contributions from the private sector and distribute them to CDFI's. This is an extraordinary opportunity for the private sector to get behind an effort that is guaranteed to bring growth, jobs - and new consumers -- to distressed communities.

Institutions which aid and support community development come in a wide variety of shapes and sizes -
- they are banks, they are credit unions, and they are microenterprise loan funds.

But all are distinguished by a commitment to the economic growth and strength of their communities, and by an intimate understanding of their customers. Because of that commitment and understanding, every type of community development financial institution is eligible for assistance under our program.

The existing network of community lenders have demonstrated that a commitment to community development, coupled with constant community involvement, can produce real community growth. This is not an experiment in social engineering we hope will succeed; we have seen it work.

Many of you with us today, from Chicago's ShoreBank, to North Carolina's Self-Help Credit Union, to Arkansas' Elk Horn, are the architects of economic growth in your communities. This idea works in urban areas and it works in rural areas. And our aim is to provide the resources so communities all across America can do what you have done so well.

The government's role in this is crucial, but limited. The real solutions to every community's economic problems must come from that community -- it is our job to empower our communities with the tools they need to generate economic growth, and then to let the hard work and determination of our citizens pay off.

At the same time, I recognize that, without the involvement and investment of major banks, low and moderate income communities will still be deprived of the full range of economic opportunity. The Community Reinvestment Act of 1977 requires that banks and thrifts meet the credit needs of the entire community in which they do business.

But while CRA has played an important role in making credit available to underserved urban and rural communities across America, it simply hasn't lived up to its potential -- the current enforcement system relies too much on public relations documentation and not enough on real lending performance. This creates excessive paperwork for banks and doesn't produce enough investment in communities.

That is why I am sending a memorandum to the four federal banking regulators that requires them to implement a series of reforms around CRA.

The reforms are designed to increase investment in communities that need it while simultaneously streamlining and clarifying the regulatory process. This policy will be good for banks, good for communities, good for borrowers, and it represents real change.

These actions today fulfill a commitment I made during the last campaign, when I promised that we would unlock the energy and entrepreneurship that lies latent in the hearts and souls of enterprising men and women.

This proposal will enable them to take a small loan and start a business, to turn their dreams into storefronts and then expand those storefronts into chains, creating jobs for their neighbors and bringing opportunity to their neighborhoods. It will make them a part of the movement for democratic capitalism and growth that is reshaping our world.

I would now like to introduce Hugh McColl, CEO of Nation's Bank; Irvin Henderson, Chair of the National Community Reinvestment Coalition; and Ron Gryzwinski, Chairman of Shore Bank. Gentlemen?

WHITE HOUSE STAFFING MEMORANDUM

DATE: 7/13/93

ACTION/CONCURRENCE/COMMENT DUE BY: Wed. July 14, 12 noon

PRESIDENTIAL TRANSMITTAL OF THE "COMMUNITY DEVELOPMENT BANKING
 SUBJECT: AND FINANIAL INSTITUTIONS ACT OF 1993"

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☒	MONTOYA	☐	☐
McLARTY	☐	☒	NUSSBAUM	☐	☒
GEARAN	☒	☐	PASTER	☐	☒
NEEL	☐	☐	RASCO	☐	☒
PANETTA	☐	☒	RUBIN	☐	☒
EMANUEL	☒	☐	SEGAL	☐	☐
GIBBONS	☐	☐	STEPHANOPOULOS	☒	☐
HALE	☐	☐	TYSON	☐	☐
HERMAN	☒	☐	VARNEY	☒	☐
LAKE	☐	☐	WATKINS	☐	☐
LINDSEY	☐	☐	WILLIAMS	☐	☒
McGINTY	☐	☐	GERGEN	☒	☐
			MYERS	☒	☒
			CLERK	☒	☒

REMARKS: Revised package for transmittal to Congress on Thurs. July 15.
 Please provide comments by 12:00 noon on Wed. July 14.

RESPONSE:

JOHN D. PODESTA
 Assistant to the President
 and Staff Secretary
 Ext. 2702



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

1993 JUN 30 10:46

THE DIRECTOR

June 30, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: Leon E. Panetta 
SUBJECT: Presidential Transmittal of the
"Community Development Banking and
Financial Institutions Act of 1993"

I am forwarding a legislative proposal -- entitled the "Community Development Banking and Financial Institutions Act of 1993" -- for your transmittal to the Congress. Consistent with your Budget, the proposal establishes a Community Development Banking and Financial Institutions Fund. The Fund will provide financial and technical assistance to community development financial institutions.

This package contains two originals and ten copies of: the Presidential Transmittal Message to the Congress; a statement of the Administration's principles with respect to the proposal; the legislative proposal; and a section-by-section analysis. We understand that the National Economic Council staff is preparing a fact sheet for issuance by the Press Secretary.

These materials were prepared by the Department of the Treasury and have been reviewed by this Office, the White House Counsel's Office, and the staff of the National Economic Council and the Domestic Policy Council. The materials were also reviewed by the Departments of Agriculture, Commerce, Housing and Urban Development, and Justice, the Small Business Administration, the Federal Deposit Insurance Corporation, the Federal Reserve Board, the National Credit Union Administration, the Office of Personnel Management and the Council of Economic Advisers.

Attachments

TO THE CONGRESS OF THE UNITED STATES:

I am pleased to submit to the Congress the "Community Development Banking and Financial Institutions Act of 1993." This legislative initiative will promote the creation of community development financial institutions that will empower individuals and communities and provide for greater economic opportunity. Also transmitted are a statement of the Administration's principles embodied in this proposal and a section-by-section analysis.

In too many urban and rural communities, there is a lack of capital and credit. Lending in distressed communities, particularly to small businesses, can be complicated. It may require special expertise and knowledge of the borrower and the community, credit products, subsidies, and secondary markets. Community development financial institutions--including community development banks like South Shore Bank in Chicago, community credit unions such as Self-Help in North Carolina, community development corporations, micro-enterprise loan funds, and revolving loan funds--have demonstrated that they can provide capital, credit, and development services in distressed areas and to targeted populations.

The bill proposes establishment of a Community Development Banking and Financial Institutions Fund that would support a program of investment in community development financial institutions. The Fund would provide financial and technical assistance to, and serve as a national information clearinghouse for, community development financial institutions.

This initiative reaffirms my commitment to helping communities help themselves. By ensuring greater access to capital and credit, we will tap the entrepreneurial energy of America's poorest communities and enable individuals and communities to become self-sufficient.

My Administration is also committed to enhancing the role of traditional financial institutions with respect to community reinvestment. As a complement to the community development financial institutions initiative, we will adopt regulatory changes to more effectively implement the Community Reinvestment Act of 1977. These changes will replace paperwork with performance-oriented standards and will include tougher enforcement measures for non-compliance.

In order to secure early enactment of legislation in this crucial area, I urge Congress to consider the Community Development Banking and Financial Institutions Act of 1993 as a discrete bill, separate from general issues of financial services reform and any other non-germane amendments.

Principles of Administration's Community Development Financial Institutions Proposal

Creation of Fund/Governance. A Fund will be created to provide assistance to community development financial institutions (CDFIs). A corporate board of directors of the Fund will establish policy and will include the Secretaries of HUD, Treasury, Commerce, Agriculture, and the Administrator of the Small Business Administration and individuals appointed by the President who collectively represent community groups and have expertise in community development lending and commercial banking. A CEO appointed by the board will manage the Fund.

Fund A Full Range of CDFIs. All types of existing and new CDFIs will be eligible for assistance, e.g., community development banks, community development credit unions, revolving loan funds, micro-loan funds, minority-owned banks, and community development corporations. No set aside of funds is allotted for any one type of CDFI.

Mission. To be eligible for assistance, a CDFI must have a primary mission of lending to and developing an underserved target area or population that is low income or disadvantaged. All CDFIs must present a strategic plan in their application which clearly states how they will meet the economic and community development needs of their targeted communities.

Require A Non-Federal Match. A minimum match for investment in insured depository CDFIs will be required. For investment in other CDFIs, a match will be required but the amount is left to the discretion of the Fund. Technical assistance to any CDFI from the Fund will not require a match.

Types of Assistance. The types of assistance provided by the Fund will include capital and technical and training assistance, with the specific allocations of the types of assistance left to the discretion of the Fund.

Community Representation. A criterion for receiving assistance from the Fund is the extent of community involvement in the CDFI.

Community Lending. A criterion for receiving assistance from the Fund is the extent of community financing and lending that will result from federal support.

Promotion of Self-Sustaining Institutions. A criterion for receiving assistance from the Fund is the likelihood of the institution becoming self-sustaining.

Limits on Assistance. Separate limits are placed on the amount of assistance that each insured CDFI or other type of CDFI may receive from the Fund.

Private Funds. The Fund will be authorized to incorporate private entities that can receive contributions and investments from the private sector to support CDFIs. All private funds will be entirely off the federal budget.

Safety and Soundness. All insured depository CDFIs are subject to the laws and regulations set forth by Congress and the banking regulators. No separate system of regulation or banking will be created.

Clearinghouse. The Fund will establish an information and service network in order to help CDFIs provide community and economic development assistance.

A BILL

To facilitate the establishment of community development financial institutions.

1 *Be it enacted by the Senate and House of Representatives of the United States*
2 *of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the "Community Development Banking and Financial
5 Institutions Act of 1993".

6 **SEC. 2. FINDINGS AND PURPOSE.**

7 (a) FINDINGS.—The Congress finds that—

8 (1) many of the Nation's urban and rural communities and Indian
9 reservations face critical social and economic problems arising in part from the
10 lack of economic growth, people living in poverty, and the lack of employment
11 and other opportunities;

12 (2) the restoration and maintenance of the economies of these communi-
13 ties will require coordinated development strategies, intensive supportive
14 services, and increased access to capital and credit for development activities,
15 including investment in businesses, housing, commercial real estate, human
16 development, and other activities that promote the long-term economic and
17 social viability of the community;

18 (3) in many urban and rural communities, low- and moderate-income
19 neighborhoods, and Indian reservations, there is a shortage of capital and
20 credit for business and affordable housing;

1 (4) access to capital and credit is essential to unleash the untapped
2 entrepreneurial energy of America's poorest communities and to empower
3 individuals and communities to become self-sufficient; and

4 (5) community development financial institutions have proven their
5 ability to identify and respond to community needs for capital, credit, and
6 development services in the absence of, or as a complement to, services
7 provided by other lenders.

8 (b) **PURPOSE.**—The purpose of this Act is to create a Community Development
9 Banking and Financial Institutions Fund that will support a program of investment in
10 and assistance to community development financial institutions. The Community
11 Development Banking and Financial Institutions Fund will provide financial and
12 technical assistance, including training, to community development financial
13 institutions, serve as a national information clearinghouse, and be an institutional
14 voice for community development. The community development financial institutions
15 that the Community Development Banking and Financial Institutions Fund supports
16 will provide capital, credit, and development services to targeted investment areas or
17 populations, and will promote economic revitalization and community development.

18 **SEC. 3. DEFINITIONS.**

19 (a) **APPROPRIATE FEDERAL BANKING AGENCY.**—The term "appropriate Federal
20 banking agency" has the same meaning given such term in section 3(q) of the Federal
21 Deposit Insurance Act (12 U.S.C. 1813(q)).

22 (b) **COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION.**—The term
23 "community development financial institution" means any bank, savings association,
24 depository institution holding company, credit union, micro-enterprise loan fund,
25 community development corporation, community development revolving loan fund,

1 minority-owned or other insured depository institution, or non-depository organiza-
2 tion that—

3 (1) has as its primary mission the promotion of community development
4 through the provision of capital, credit, or development services in its
5 investment areas or to targeted populations; and

6 (2) encourages, through representation on its governing board or
7 otherwise, the input of residents in the investment area or the targeted
8 populations.

9 A depository institution holding company may qualify as a community development
10 financial institution only if the holding company and its subsidiaries collectively
11 satisfy the requirements of paragraphs (1) and (2). No subsidiary of a depository
12 institution holding company may qualify as a community development financial
13 institution if the holding company and its subsidiaries collectively do not meet the
14 requirements of paragraphs (1) and (2). The term "community development financial
15 institution" does not include an agency or instrumentality of the United States or an
16 agency or instrumentality of any State or political subdivision thereof.

17 (c) DEPOSITORY INSTITUTION HOLDING COMPANY.—The term "depository
18 institution holding company" has the same meaning given such term in section 3(w)
19 of the Federal Deposit Insurance Act (12 U.S.C. 1813(w)).

20 (d) DEVELOPMENT SERVICES.—The term "development services" means
21 activities conducted by a community development financial institution that promote
22 community development by developing, supporting, and strengthening the lending,
23 investment, and capacity-building activities undertaken by institutions, including, but
24 not limited to—

25 (1) business planning services;

1 (2) financial and credit counseling services;

2 (3) marketing and management assistance; and

3 (4) administrative activities associated with lending or investment.

4 (e) INSURED COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION.—The term
5 "insured community development financial institution" means any community
6 development financial institution that is an insured depository institution. The term
7 also includes an insured credit union which has been designated as low-income by the
8 National Credit Union Administration.

9 (f) INSURED CREDIT UNION.—The term "insured credit union" has the same
10 meaning given such term in section 101(7) of the Federal Credit Union Act (12
11 U.S.C. 1752(7)).

12 (g) INSURED DEPOSITORY INSTITUTION.—The term "insured depository
13 institution" has the same meaning given such term in section 3(c) of the Federal
14 Deposit Insurance Act (12 U.S.C. 1813(c)).

15 (h) INVESTMENT AREA.—The term "investment area" means an identifiable
16 community that -

17 (1) meets objective criteria of distress, including the number of low-
18 income families, the extent of poverty, the extent of unemployment, the extent
19 of unmet credit needs, the degree of availability of basic financial services, the
20 degree of limited access to capital and credit provided by existing financial
21 institutions, and other factors that the Fund determines to be appropriate; or

22 (2) is located in an empowerment zone or enterprise community
23 designated under section 1391 of the Internal Revenue Code of 1986.

24 (i) QUALIFIED COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION.—The
25 term "qualified community development financial institution" means a community

1 development financial institution that meets the requirements of sections 5(b)(2)
2 through (8) of this Act.

3 (j) TARGETED POPULATION.—The term "targeted population" means an
4 identifiable group of low-income or disadvantaged persons that are underserved by
5 existing financial institutions.

6 **SEC. 4. ESTABLISHMENT OF NATIONAL FUND FOR COMMUNITY**
7 **DEVELOPMENT BANKING.**

8 (a) IN GENERAL.—There is created and chartered a body corporate to be
9 known as the Community Development Banking and Financial Institutions Fund
10 (referred to in this Act as the "Fund") that shall have the powers and responsibilities
11 specified by this Act. The Fund shall have succession until dissolved. The charter
12 of the Fund may be revised, amended, or modified by Congress at any time. The
13 offices of the Fund shall be in Washington, D.C.

14 (b) BOARD OF DIRECTORS.—

15 (1) IN GENERAL.—The powers and management of the Fund shall be
16 vested in a Board of Directors (referred to in this Act as the "Board"), which
17 shall have nine members.

18 (2) MEMBERS.—The members of the Board shall consist of the
19 following:

- 20 (A) The Secretary of Agriculture.
- 21 (B) The Secretary of Commerce.
- 22 (C) The Secretary of Housing and Urban Development.
- 23 (D) The Secretary of the Treasury.
- 24 (E) The Administrator of the Small Business Administration.
- 25 (F) Four private citizens, appointed by the President with the

1 advice and consent of the Senate, that collectively—

2 (i) represent community groups whose constituencies
3 include low-income persons or residents of investment areas,

4 (ii) have expertise in the operations and activities of insured
5 depository institutions, and

6 (iii) have expertise in community development and lending;
7 provided that there should not be less than one member from each of the
8 three categories described in clauses (i) through (iii) of this subpara-
9 graph.

10 (3) CHAIRPERSON.—The President shall appoint from among the
11 members of the Board specified in paragraph (2)(F) a chairperson of the
12 Board, who shall serve at the pleasure of the President for a term of two years.

13 (4) VICE-CHAIRPERSON.—The President shall appoint from among the
14 members specified in paragraph (2) a vice-chairperson who will serve as
15 chairperson in the absence, disability, or recusal of the chairperson. The vice-
16 chairperson shall serve at the pleasure of the President for a term of two years.

17 (5) TERMS OF APPOINTED MEMBERS.—

18 (A) IN GENERAL.—Each member appointed pursuant to paragraph
19 (2)(F) shall serve at the pleasure of the President for a term of four
20 years, except as provided in paragraph (5)(C).

21 (B) VACANCIES.—Any member appointed to fill a vacancy
22 occurring prior to the expiration of the term for which the previous
23 member was appointed shall be appointed for the remainder of such
24 term. Appointed members may continue to serve following the
25 expiration of their terms until a successor is appointed and qualified.

1 (C) TERMS.—The terms of the initial appointed members shall be
2 for four years and shall begin on the date each member is appointed,
3 except that two of the members initially appointed pursuant to paragraph
4 (2)(F) shall be designated to serve at the pleasure of the President for
5 five years.

6 (6) ACTING OFFICIALS.—In the event of a vacancy or absence of the
7 individual in any of the offices described in paragraphs (2)(A) through (E), the
8 official acting in that office shall be a member of the Board.

9 (7) AUTHORITY TO DELEGATE.—Each member of the Board specified in
10 paragraphs (2)(A) through (E) may designate another official who has been
11 appointed by the President with the advice and consent of the Senate within the
12 same agency to serve as a member in his or her stead.

13 (8) COMPENSATION.—Members of the Board who are otherwise officers
14 or employees of the United States shall serve without additional compensation
15 for their duties as members, but shall be reimbursed by the Fund for travel,
16 per diem, and other necessary expenses incurred in the performance of their
17 duties, in accordance with sections 5702 and 5703 of title 5, United States
18 Code. The appointed members of the Board shall be entitled to receive
19 compensation at the daily equivalent of the rate for a position under Level IV
20 of the Executive Schedule under section 5315 of title 5, United States Code,
21 and shall be reimbursed by the Fund for travel, per diem, and other necessary
22 expenses incurred in the performance of their duties, in accordance with
23 sections 5702 and 5703 of title 5, United States Code.

24 (9) MEETINGS.—The Board shall hold meetings at least quarterly.
25 Special meetings of the Board may be called by the Chairperson or on the

1 written request of three members of the Board. A majority of the members of
2 the Board in office shall constitute a quorum.

3 (c) OFFICERS AND EMPLOYEES.—The Board shall appoint a Chief Executive
4 Officer who will be responsible for the management of the Fund and such other
5 duties deemed appropriate by the Board. The Board shall appoint a Chief Financial
6 Officer who shall oversee all of the financial management activities of the Fund. The
7 Board shall also appoint an Inspector General. The Board may appoint such other
8 officers and employees of the Fund as the Board determines to be necessary or
9 appropriate. The Chief Executive Officer, Chief Financial Officer, and up to 3 other
10 officers of the Fund may be appointed without regard to the provisions of title 5 of
11 the United States Code governing appointments in the Federal service and compensat-
12 ed without regard to chapter 51 and subchapter III of chapter 53 of title 5 of the
13 United States Code, except that the rate of pay for the Chief Executive Officer shall
14 not exceed the rate for a position under Level II of the Executive Schedule under
15 section 5313 of title 5 of the United States Code and the rate of pay for the remaining
16 four officers shall not exceed the rate for a position under Level IV of the Executive
17 Schedule under section 5315 of title 5 of the United States Code.

18 (d) GENERAL POWERS.—In carrying out its powers and duties, the Fund—

19 (1) shall have all necessary and proper powers to carry out its authority
20 under this Act;

21 (2) may adopt, alter, and use a corporate seal, which shall be judicially
22 noticed;

23 (3) may sue and be sued in its corporate name and complain and defend
24 in any court of competent jurisdiction;

25 (4) may adopt, amend, and repeal bylaws, rules, and regulations

1 governing the manner in which its business may be conducted and shall have
2 power to make such rules and regulations as may be necessary or appropriate
3 to implement the provisions of this Act;

4 (5) may enter into and perform such agreements, contracts, and
5 transactions as may be deemed necessary or appropriate to the conduct of
6 activities authorized under this Act;

7 (6) may determine the character of and necessity for its expenditures and
8 the manner in which they shall be incurred, allowed, and paid;

9 (7) may utilize or employ the services of personnel of any agency or
10 instrumentality of the United States with the consent of the agency or
11 instrumentality concerned on a reimbursable or non-reimbursable basis; and

12 (8) may execute all instruments necessary or appropriate in the exercise
13 of any of its functions under this Act and may delegate to members of the
14 Board, to the Chief Executive Officer, or the officers of the Fund such of its
15 powers and responsibilities as it deems necessary or appropriate for the
16 administration of the Fund.

17 (e) WHOLLY-OWNED GOVERNMENT CORPORATION.—

18 (1) The Fund shall be a wholly-owned Government corporation in the
19 Executive branch and shall be treated in all respects as an agency of the United
20 States, except to the extent this Act provides otherwise.

21 (2) Section 9101(3) of title 31, United States Code (the Government
22 Corporation Control Act), is amended—

23 (A) by redesignating paragraphs (B) through (M) as paragraphs

24 (C) through (N), respectively; and

25 (B) by inserting after paragraph (A) the following:

1 "(B) the Community Development Banking and Financial Institutions
2 Fund."; and

3 (3) Section 9107(b) of title 31, United States Code (the Government
4 Corporation Control Act), shall not apply to deposits of the Fund made
5 pursuant to section 7 of this Act.

6 (f) LIMITATION OF FUND AND FEDERAL LIABILITY.—The liability of the Fund
7 and of the United States Government arising out of any investment in a community
8 development financial institution in accordance with this Act shall be limited to the
9 amount of the investment and the Fund shall be exempt from any assessments and
10 other liabilities that may be imposed on controlling or principal shareholders by any
11 Federal law or the law of any State, Territory, or the District of Columbia. A
12 community development financial institution that receives assistance pursuant to this
13 Act shall not be deemed to be an agency, department, or instrumentality of the
14 United States.

15 (g) PROHIBITION ON ISSUANCE OF SECURITIES.—The Fund may not issue stock,
16 bonds, debentures, notes, or other securities.

17 **SEC. 5. APPLICATIONS FOR ASSISTANCE.**

18 (a) FORM AND PROCEDURES.—An application for assistance under this Act
19 shall be submitted by an applicant in such form and in accordance with such
20 procedures as the Board shall establish. The Board shall publish regulations with
21 respect to application requirements and procedures not later than 210 days after
22 enactment of this Act.

23 (b) MINIMUM REQUIREMENTS.—The Board shall require that the application—

24 (1) demonstrate to the satisfaction of the Board that the applicant is, or
25 upon the receipt of a charter will be, a community development financial

1 institution as defined in section 3(a) of this Act;

2 (2) demonstrate that the applicant will serve—

3 (A) a targeted population; or

4 (B) an area which is an investment area;

5 (3) in the case of an applicant that has previously received assistance
6 under this Act, demonstrate that the applicant—

7 (A) has successfully carried out its responsibilities under this Act;

8 (B) has become or is about to become an entity that will not be
9 dependent upon assistance from the Fund for continued viability; and

10 (C) will expand its operations into a new investment area, offer
11 new services, or will increase the volume of its current business;

12 (4) in the case of a community development financial institution with
13 existing operations, demonstrate a record of success of serving investment
14 areas or targeted populations;

15 (5) include a detailed and comprehensive strategic plan for the
16 organization that contains—

17 (A) a business plan of at least five years that demonstrates the
18 applicant is properly managed and has the capacity to form and operate
19 a community development financial institution that is, or will become,
20 an entity that will not be dependent upon assistance from the Fund for
21 continued viability;

22 (B) a statement that the applicant has, or will have, in its charter
23 or other governing documents a primary commitment to community
24 development, or other evidence of a prior history and a continuing
25 affirmation of a primary commitment of community development;

1 (C) an analysis of the needs of the investment area or targeted
2 populations and a strategy for how the applicant will attempt to meet
3 those needs;

4 (D) a plan to coordinate use of assistance from the Fund with
5 existing Federal, government-sponsored enterprise, and State and local
6 assistance programs, and private sector financial services;

7 (E) a statement that the proposed activities of the applicant are
8 consistent with existing economic, community and housing development
9 plans adopted by or applicable to the investment area;

10 (F) a description of how the applicant will affiliate, network, or
11 otherwise coordinate with a full range of community organizations and
12 financial institutions which provide, or will provide, capital, credit, or
13 secondary markets in order to assure that banking, economic develop-
14 ment, investment, affordable housing, and other related services will be
15 available within the investment area or to targeted populations; and

16 (G) such other information as the Board deems appropriate for
17 inclusion in the strategic plan;

18 (6) demonstrate that the applicant will carry on its activities consistent
19 with the purposes of this Act within the investment area or with respect to a
20 targeted population;

21 (7) include a detailed and specific statement of applicant's plans and
22 likely sources of funds to match the amount of assistance from the Fund with
23 funds from private sources in accordance with the requirements of section 7(d)
24 of this Act; and

25 (8) include such other information as the Board may require.

1 (c) PRE-APPLICATION OUTREACH PROGRAM.—The Fund shall provide for an
2 outreach program to identify and provide information to potential applicants and to
3 increase the capacity of potential applicants to meet the application and other
4 requirements of this Act.

5 **SEC. 6. SELECTION OF INSTITUTIONS.**

6 (a) SELECTION CRITERIA.—The Board shall, in its discretion, select applica-
7 tions that meet the requirements of section 5 of this Act and award assistance from
8 the Fund in accordance with section 7 of this Act. In selecting applications, the
9 Board shall consider applications based on, but not limited to—

10 (1) the likelihood of success of the applicant in forming and operating
11 a community development financial institution;

12 (2) the range and comprehensiveness of the capital, credit, and
13 development services to be provided by the applicant;

14 (3) the extent of the need, as measured by objective criteria of distress,
15 within the investment areas or targeted populations for the types of activities
16 proposed by the applicant;

17 (4) the likelihood that the proposed activities will benefit a significant
18 portion of the investment areas or targeted populations or, in the case of a
19 community development financial institution with existing operations, evidence
20 of a record of success in serving investment areas or targeted populations;

21 (5) the extent to which the applicant will concentrate its activities on
22 serving low and very low-income families;

23 (6) the evidence of the extent of a broad cross-section of support from
24 the investment areas or targeted populations;

25 (7) the experience and background of the proposed management team;

1 (8) the amount of legally enforceable commitments available at the time
2 of application to meet or exceed the matching requirements under section 7(d)
3 of this Act and the strength of the plan for raising the balance of the match;

4 (9) in the case of applicants that have previously received assistance
5 pursuant to this Act, the extent to which they have met or exceeded their
6 performance goals;

7 (10) the extent to which the proposed activities will expand the employ-
8 ment base within the investment areas or the targeted populations;

9 (11) the extent to which the applicant is, or will be, community-owned
10 or community-governed;

11 (12) whether the applicant is, or will become, an insured community
12 development financial institution;

13 (13) whether the applicant is, or will be located, in an empowerment
14 zone or enterprise community designated under section 1391 of the Internal
15 Revenue Code of 1986;

16 (14) in the case of an institution that is not an insured community
17 development financial institution, the extent to which the institution has or will
18 have the ability to increase its resources through affiliation with a secondary
19 market, insured depository institution, or other financial intermediary in order
20 to multiply the amount of capital or credit available for community develop-
21 ment;

22 (15) in the case of an insured depository institution or insured credit
23 union applicant, whether the institution—

24 (A) has or will have a substantial affiliation with an entity or
25 network of entities that are community development financial institu-

1 tions; and

2 (B) has a comprehensive plan for providing meaningful financial
3 assistance to such an entity or network of entities; and

4 (16) other factors deemed appropriate by the Board.

5 (b) GEOGRAPHIC DIVERSITY.—In addition to the above, in making its
6 selections, the Board shall seek to fund a geographically diverse group of applicants,
7 which shall include applicants from nonmetropolitan and rural areas.

8 (c) PUBLICATION REQUIREMENT.—The Board shall publish regulations with
9 respect to its selection criteria not later than 210 days after the date of enactment of
10 this Act.

11 **SEC. 7. ASSISTANCE PROVIDED BY THE FUND.**

12 (a) PURPOSE OF ASSISTANCE.—

13 (1) The Fund shall work to promote an environment hospitable to
14 business formation, economic growth, community development, and affordable
15 housing in distressed communities. The Fund shall coordinate its activities
16 with existing Federal and other community and economic development
17 programs.

18 (2) Assistance may be provided to an existing qualified community
19 development financial institution to expand its activities to serve investment
20 areas or targeted populations not currently served by another qualified
21 community development financial institution receiving assistance under this
22 section or to expand the volume of its activities consistent with the purposes
23 of this Act, or to form a new entity to undertake activities consistent with the
24 purposes of this Act, or to assist an existing entity to modify its structure or
25 activities in order to undertake activities consistent with the purposes of this

1 Act.

2 (b) TYPES OF ASSISTANCE.—

3 (1) IN GENERAL.—The Fund may provide financial assistance to
4 qualified community development financial institutions through equity
5 investments, loans, deposits, membership shares, and grants. The Fund may
6 also provide technical assistance, including training, and grants for technical
7 assistance to qualified community development financial institutions. The
8 allocation of awards of assistance between insured and uninsured community
9 development financial institutions shall be in the discretion of the Board,
10 provided that due consideration shall be given to the allocation of funds to
11 insured community development financial institutions.

12 (2) FINANCIAL ASSISTANCE.—The Fund shall structure financial assis-
13 tance to a qualified community development financial institution in such a
14 manner that it does not own more than 50 percent of the equity of such
15 institution and does not control the operations of such institution. The Fund
16 will not be deemed to control such institution for the purposes of applicable
17 laws. With respect to equity investments, the Fund shall hold only transfer-
18 able, nonvoting investments. Such equity investments may provide for
19 convertibility to voting stock upon transfer by the Fund.

20 (3) DEPOSITS.—Notwithstanding any other provision of law, deposits
21 made pursuant to this section in qualified insured community development
22 financial institutions shall not be subject to any requirement for collateral or
23 security.

24 (4) LIMITATIONS ON OBLIGATIONS.—Direct loan obligations may be
25 incurred only to the extent that appropriations of budget authority to cover

1 their costs, as defined in section 502 of the Congressional Budget Act of 1974,
2 are made in advance.

3 (c) PURPOSE OF FINANCIAL ASSISTANCE.—Financial assistance made available
4 under this Act may be used by assisted institutions to develop or support—

5 (1) commercial facilities that enhance revitalization, community stability,
6 or job creation and retention efforts;

7 (2) business creation and expansion efforts that—

8 (A) create or retain jobs for low-income people;

9 (B) enhance the availability of products and services to low-
10 income people; or

11 (C) create or retain businesses owned by low-income people or
12 residents of a targeted area;

13 (3) community facilities that provide benefits to low-income people or
14 enhance community stability;

15 (4) the provision of basic financial services to low-income people or
16 residents of a targeted area;

17 (5) the provision of development services;

18 (6) home ownership opportunities that are affordable to low-income
19 households;

20 (7) rental housing that is principally affordable to low-income house-
21 holds; and

22 (8) other activities deemed appropriate by the Fund.

23 (d) AMOUNT OF ASSISTANCE.—The Fund may provide up to \$5,000,000 of
24 assistance per application to any one qualified insured community development
25 financial institution and up to \$2,000,000 per application to any other qualified

1 community development financial institution. The Fund shall have the authority to
2 set minimum amounts of assistance per institution.

3 (e) MATCHING REQUIREMENTS.—

4 (1) Assistance provided to qualified insured community development
5 financial institutions, other than deposits or membership shares of \$100,000 or
6 less, technical assistance, or grants for technical assistance, shall be matched
7 by no less than one dollar of equity, deposits or membership shares for each
8 dollar provided by the Fund. The Fund shall require a match for all other
9 assistance, the amount and form of which shall be in the discretion of the
10 Fund; provided that, the Fund shall in no event require assistance provided in
11 the form of deposits or membership shares of \$100,000 or less, technical
12 assistance, or grants for technical assistance to be matched. The Fund shall
13 provide no assistance except technical assistance or grants for technical
14 assistance until a qualified community development financial institution has
15 secured legally enforceable commitments for the entire match required.
16 Assistance may be provided in one lump sum, or over a period of time, as
17 determined by the Fund.

18 (2) Assistance shall be matched with funds from sources other than the
19 Federal Government.

20 (f) TERMS AND CONDITIONS.—

21 (1) IN GENERAL.—The Fund shall provide assistance authorized under
22 this Act in such form and subject to such restrictions as are necessary to ensure
23 that to the maximum extent practicable—

24 (A) all assistance granted is used by the qualified community
25 development financial institution in a manner consistent with the

1 purposes of this Act;

2 (B) qualified community development financial institutions
3 receiving assistance that are not otherwise regulated by the Federal
4 government or by a State government are financially and managerially
5 sound;

6 (C) assistance results in a net increase, both nationally and in the
7 local communities in which assistance is provided, in capital, credit, and
8 development services; and

9 (D) assistance is provided in a manner that encourages affiliations
10 and partnerships between insured depository institutions, secondary
11 markets or other sources of credit or leverage and local organizations
12 dedicated to community development.

13 (2) CONSULTATION WITH BANKING REGULATORS.—Prior to providing
14 assistance to a qualified insured community development financial institution,
15 the Board should consult with the appropriate Federal banking agency or, in
16 the case of an insured credit union, the National Credit Union Administration.

17 (3) ASSISTANCE AGREEMENT.—

18 (A) The Board shall impose restrictions on the use of assistance
19 through a stock purchase agreement, share purchase agreement, or
20 through a contract entered into in consideration for the provision of
21 assistance.

22 (B) Such agreement or contract shall require institutions assisted
23 under this Act to comply with performance goals. The performance
24 goals shall be negotiated between the Board and each qualified commu-
25 nity development financial institution receiving assistance based upon the

1 strategic plan submitted pursuant to section 5(b)(5) of this Act. The
2 performance goals may be renegotiated jointly as necessary or appropri-
3 ate, subject to subparagraph (C) of this section. Activity levels for
4 insured community development financial institutions should be
5 determined by the Board in consultation with the appropriate Federal
6 banking agency or, in the case of an insured credit union, with the
7 National Credit Union Administration.

8 (C) The agreement or contract shall specify sanctions available to
9 the Board, in its discretion, in the event of noncompliance with the
10 purposes of this Act or the terms of the agreement. The sanctions may
11 include revocation of approval of the application, terminating or
12 reducing future assistance, requiring repayment of assistance, and
13 requiring changes to the performance goals imposed pursuant to
14 subparagraph (B) or to the strategic plan submitted pursuant to section
15 5(b)(5) of this Act. In the case of an insured community development
16 financial institution, the Board shall consult with the appropriate Federal
17 banking agency or, in the case of an insured credit union, the National
18 Credit Union Administration, before imposing sanctions pursuant to this
19 paragraph.

20 (4) REVIEW.—At least annually, the Board shall review the performance
21 of each assisted qualified community development financial institution in
22 carrying out its strategic plan and performance goals.

23 (5) REPORTING.—The Board shall require each qualified community
24 development financial institution receiving assistance to submit an annual
25 report to the Fund on its activities, its financial condition, its success in

meeting performance goals, and its compliance with other requirements of this Act.

(g) **AUTHORITY TO SELL EQUITY INVESTMENTS AND LOANS.**—The Board shall have the authority at any time to sell its investments and loans and may, in its discretion, retain the power to enforce limitations on assistance entered into in accordance with the requirements of this Act.

(h) **NO AUTHORITY TO LIMIT SUPERVISION AND REGULATION.**—Nothing in this Act shall affect any authority of the appropriate Federal banking agency or, in the case of an insured credit union, the National Credit Union Administration, to supervise and regulate an insured community development financial institution.

SEC. 8. ENCOURAGEMENT OF PRIVATE ENTITIES.

The Board may cause to be incorporated, or encourage the incorporation of, private non-profit and for-profit entities that will complement the activities of the Fund in carrying out the purposes of this Act. The purposes of any such entities shall be limited to investing in and assisting community development financial institutions in a manner similar to the activities of the Fund under this Act. Any such entities shall be managed exclusively by private individuals who are selected in accordance with the laws of the jurisdiction of incorporation.

SEC. 9. CLEARINGHOUSE FUNCTION.

The Fund shall establish and maintain an information clearinghouse in coordination with the Departments of Agriculture, Commerce, and Housing and Urban Development, the Small Business Administration, other Federal agencies, and community development financial institutions—

(1) to cause to be collected, compiled, and analyzed information pertinent to community development financial institutions that will assist in

1 creating, developing, expanding, and preserving these institutions; and

2 (2) to cause to be established a service center for comprehensive
3 information on financial, technical, and management assistance, case studies
4 of the activities of community development financial institutions, regulations,
5 and other information that may promote the purposes of this Act.

6 **SEC. 10. RECORDKEEPING, REPORTS, AND AUDITS.**

7 (a) RECORDKEEPING.—

8 (1) A qualified community development financial institution receiving
9 assistance from the Fund shall keep such records as may be reasonably
10 necessary to disclose the disposition of any assistance under this Act and to
11 ensure compliance with the requirements of this Act.

12 (2) The Fund shall have access, for the purpose of determining
13 compliance with this Act, to any books, documents, papers, and records of a
14 qualified community development financial institution receiving assistance from
15 the Fund that are pertinent to assistance received under this Act.

16 (b) REPORTS.—

17 (1) ANNUAL REPORT.—The Fund shall conduct an annual evaluation of
18 the activities carried out pursuant to this Act and shall submit a report of its
19 findings to the President within 120 days of the end of each fiscal year of the
20 Fund. The report shall include financial statements audited in accordance with
21 subsection (c).

22 (2) INSTITUTIONAL VOICE FOR COMMUNITY DEVELOPMENT.—

23 (A) ONGOING STUDY.—The Fund shall conduct, or cause to be
24 conducted, an ongoing study to identify and evaluate the most effective
25 and financially sound policies and practices for encouraging investment

1 in distressed communities, including small business and commercial
2 lending, business formation and expansion, community and economic
3 development, commercial real estate and multi-family housing, and
4 home mortgages. In addition, the Fund may study, or cause to be
5 studied, related matters, such as identification of sources of and access
6 to capital and loans for community investment; development of
7 secondary markets for economic and community development, small
8 business and commercial loans, and home mortgage loans and invest-
9 ments; and methods to involve all segments of the financial services
10 industry in community development.

11 (B) CONSULTATION.—In the conduct of the study, the Fund shall
12 consult, or cause consultation with, the Office of the Comptroller of the
13 Currency, the Federal Deposit Insurance Corporation, the Board of
14 Governors of the Federal Reserve System, the Federal Housing Finance
15 Board, the Farm Credit Administration, the Office of Thrift Supervision,
16 the National Credit Union Administration, community reinvestment, civil
17 rights, consumer and financial organizations, and such representatives
18 of agencies or other persons as the Fund may determine.

19 (C) REPORTS.—Within 270 days after the date of enactment of this
20 Act, the Fund shall report to the President its initial findings and
21 recommendations regarding the matters set forth in subparagraph (A).
22 Thereafter, the Fund shall report its findings and recommendations to
23 the President with the annual report required by paragraph (b)(1).

24 (3) INVESTMENT, GOVERNANCE, AND ROLE OF FUND.—Six years
25 following the date of enactment of this Act, the Fund, in accordance with the

1 procedures described in paragraphs (2)(A) and (B), shall conduct a study
2 evaluating the structure, governance, and performance of the Fund. The study
3 shall be submitted to the President. Such study shall include an evaluation of
4 the overall performance of the Fund in meeting the purposes of this Act and
5 any recommendations of the Fund for restructuring the Board, altering
6 procedures under which the Fund is governed, the future role of the Fund in
7 addressing community development, and the ability of the Fund to become a
8 private, self-sustaining entity capable of fulfilling the purposes of this Act.

9 (c) EXAMINATION AND AUDIT.—The financial statements of the Fund shall be
10 audited in accordance with section 9105 of title 31, United States Code, except that
11 audits required by section 9105(a) of that title shall be performed annually.

12 **SEC. 11. INVESTMENT OF RECEIPTS AND PROCEEDS.**

13 Any dividends on equity investments and proceeds from the disposition of
14 investments, deposits, or membership shares that are received by the Fund as a result
15 of assistance provided pursuant to section 7 of this Act shall be deposited and
16 accredited to an account of the Fund established to carry out the authorized purposes
17 of this Act. Upon request of the Chief Executive Officer, the Secretary of the
18 Treasury shall invest amounts deposited in such account in public debt securities with
19 maturities suitable to the needs of the Fund, as determined by the Chief Executive
20 Officer, and bearing interest at rates determined by the Secretary of the Treasury,
21 taking into consideration current market yields on outstanding marketable obligations
22 of the United States of comparable maturities. Amounts deposited into the account
23 and interest earned on such amounts pursuant to this section shall be available to the
24 Fund until expended.

1 **SEC. 12. AUTHORIZATION OF APPROPRIATIONS.**

2 (a) IN GENERAL.—There are authorized to be appropriated to the Fund, to
3 remain available until expended, \$60,000,000 for fiscal year 1994, \$104,000,000 for
4 fiscal year 1995, \$107,000,000 for fiscal year 1996, and \$111,000,000 for fiscal year
5 1997, or such greater sums as may be appropriated, to carry out the purposes of the
6 Act.

7 (b) ADMINISTRATIVE EXPENSES.—The Fund may set aside up to \$10,000,000
8 each fiscal year to pay administrative costs and expenses.

9 **SEC. 13. CONFORMING AMENDMENT.**

10 Section 8E(a)(2) of the Inspector General Act of 1978 (5 U.S.C. app. 3 §
11 8E(a)(2)) is amended by inserting "the Community Development Banking and
12 Financial Institutions Fund," immediately following "the Commodity Futures Trading
13 Commission,".

**COMMUNITY DEVELOPMENT BANKING AND FINANCIAL
INSTITUTIONS ACT OF 1993**

SECTION-BY-SECTION ANALYSIS

Section 1. Short Title

The Act may be cited as the "Community Development Banking and Financial Institutions Act of 1993".

Section 2. Findings and Purpose

Many of the Nation's urban areas, rural areas and Indian reservations face critical social and economic problems. The restoration and maintenance of the economies of these communities will require coordinated strategies to promote long-term economic and social viability. In many urban and rural communities, low- and moderate-income neighborhoods, and on Indian reservations, there is a shortage of capital and credit for business and affordable housing. Access to capital and credit is essential to enable individuals and communities to become self-sufficient. Community development financial institutions, such as micro-enterprise loan funds, community development credit unions, community development corporations and community development banks have proven their ability to identify and respond to community needs for capital, credit and development services in the absence of, or as a complement to, services provided by other lenders.

The purpose of the Act is to create a Community Development Banking and Financial Institutions Fund that will support a program of investment in and assistance to community development financial institutions.

Section 3. Definitions

The Act contains definitions of terms, including a definition of "community development financial institution." A community development financial institution includes any bank, savings association, depository institution holding company, credit union, micro-enterprise loan fund, community development corporation, community development revolving loan fund and any minority-owned or other depository institution that (i) has as its primary mission the provision of capital, credit or development services in investment areas or to populations that are low-income or disadvantaged and underserved by existing

financial institutions, and (ii) encourages, through representation on its governing board or otherwise, the input of residents in the investment area or the targeted population. The term "investment area" means an identifiable community that meets criteria of distress as determined by the Fund, or is designated as an empowerment zone or enterprise community under section 1391 of the Internal Revenue Code of 1986.

Section 4. Establishment of National Fund for Community Development Banking

This section provides for the establishment of a body corporate known as the Community Development Banking and Financial Institutions Fund (the "Fund"). The Fund will be managed by a nine-member Board of Directors (the "Board"). The Secretary of Agriculture, the Secretary of Commerce, the Secretary of Housing and Urban Development, the Secretary of the Treasury and the Administrator of the Small Business Administration, or their designees will serve as members of the Board. (A designee must be an official from the same agency who has been appointed by the President with the advice and consent of the Senate.) The remaining four members will be private citizens appointed by the President and confirmed by the Senate. These individuals must collectively represent community groups, have expertise in the activities and operations of insured depository institutions, and have expertise in community development and lending. The appointed members will serve for a term of four years, except that the initial terms of two of the appointed members will be five years. The President will appoint a chairperson from among the appointed members and a vice-chairperson from among the members of the Board. Both the chairperson and the vice-chairperson will serve in those offices for terms of two years.

The members of the Board that are otherwise employees of the United States will receive no additional compensation for service on the Board, but will be reimbursed by the Fund for travel, per diem, and other necessary expenses incurred in the performance of their duties. The appointed members will be compensated at a rate equivalent to the daily rate for a position under Level IV of the Executive Schedule. The appointed members may also be reimbursed for travel, per diem, and other necessary expenses.

The Board is required to hold meetings at least quarterly. Other meetings of the Board may be held on the call of the chairperson or at the written request of at least three Board members. A majority of the members of the Board in office will constitute a quorum.

The Board must appoint a Chief Executive Officer, a Chief Financial Officer and an Inspector General. The Chief Executive

Officer will be responsible for the management of the Fund and such other duties as the Board deems appropriate. The Board may fix the compensation of the Chief Executive Officer, the Chief Financial Officer, and up to three other officers of the Fund without regard to chapter 51 and subchapter III of chapter 53 of title 5 of the United States Code, except that the compensation for the Chief Executive Officer may not exceed the rate of pay for a position under Level II of the Executive Schedule and the rate of pay for the four remaining officers may not exceed the rate for a position under Level IV of the Executive Schedule. All other employees of the Fund will be compensated pursuant to the provisions of title 5.

Section 4 enumerates the general powers of the Fund, which include the power to sue and be sued in its corporate name and to enter into and perform agreements. The Fund is also authorized to utilize the services of personnel of any other agency on a reimbursable or non-reimbursable basis with that agency's consent. The Fund may not issue stock, bonds, debentures, notes or other securities. The liability of the Fund and of the United States with respect to an investment in a community development financial institution is limited to the amount of the investment.

The Fund will be a wholly-owned Government corporation and will be treated as an agency of the United States unless provided otherwise by the Act.

Section 5. Applications for Assistance

This section requires the Board to publish regulations regarding procedures and forms for applications for assistance from the Fund not later than 210 days after enactment of the Act. In order to be eligible as a threshold matter to apply for assistance from the Fund, an applicant must: (i) demonstrate to the satisfaction of the Board that the applicant is, or will be, a community development financial institution; (ii) demonstrate that the applicant will serve what is defined in the Act as a targeted population or an investment area; (iii) demonstrate, if the applicant previously has received assistance from the Fund, that the applicant has been successful in carrying out the purposes of the Act, that the applicant is, or is about to become, an entity that is not dependent upon assistance from the Fund for continued viability, and that the applicant will expand its services; (iv) demonstrate, if the applicant is a community development financial institution with existing operations, a record of success in serving investment areas or targeted populations; (v) include with its application a comprehensive strategic plan which contains required elements that will demonstrate the applicant's commitment to serving community development needs and to becoming a community development financial institution that will not be dependent upon assistance

from the Fund for continued viability; (vi) include with its application a statement of the applicant's likely source of private funds to meet any matching requirement under section 7(d) of the Act; and (vii) include with its application any other information required by the Board.

This section also requires the Fund to conduct a pre-application outreach program that will identify and provide information to potential applicants and will increase the capacity of potential applicants to meet the application and other requirements of the Act.

Section 6. Selection of Institutions

This section requires the Board, in its discretion, to select applications submitted under section 5 and to award assistance from the Fund. In making its selections, the Board is required to evaluate applications based on selection criteria. The selection criteria are designed to ensure that applicants with the most promise for fulfilling the purposes of the Act are awarded assistance. In addition to the selection criteria, the Board is permitted to consider any other factors it deems appropriate when evaluating applications.

The Board is required to publish regulations regarding the selection criteria not later than 210 days after enactment of the Act.

Section 7. Assistance Provided by the Fund

This section permits the Fund to provide financial assistance to qualified community development financial institutions in the form of equity investments, loans, deposits, membership shares and grants. The Fund may also provide technical assistance, including training, and grants for technical assistance to qualified community development financial institutions. The allocation of awards between insured and uninsured community development financial institutions is in the discretion of the Board, provided that due consideration is given to the allocation of funds for the establishment of insured community development financial institutions.

This section also requires equity investments held by the Fund to be in the form of transferable, nonvoting investments. Such equity investments may provide for convertibility to voting stock upon disposition of the interest by the Fund. The Fund is directed to structure its investments in such a manner that it will not own more than 50 percent of the equity of an institution and will not control the operations of the institution. The Fund will be deemed not to control any institution receiving financial assistance for purposes of applicable laws.

Assisted institutions may use funds provided under the Act to develop or support commercial and community facilities that enhance revitalization and job creation, business creation and expansion efforts, the provision of basic financial services to low-income persons, the provision of development services, homeownership opportunities that are affordable to low-income persons, rental housing that is affordable to low-income persons and other activities that are deemed appropriate by the Fund.

The Fund may provide up to \$5 million of assistance per application to any one qualified insured community development financial institution and up to \$2 million per application to any other qualified community development financial institution.

This section requires all qualified insured community development financial institutions receiving assistance to match the assistance with at least one dollar from private sources for each dollar provided by the Fund, except that an insured community development financial institution will not be required to match technical assistance provided by the Fund or grants for technical assistance. In addition, applicants for assistance in the form of deposits or membership shares in an amount of \$100,000 or less will not be subject to any matching requirement. A match will be required for all types of assistance provided to other community development financial institutions, and the amount and form of the match will be in the discretion of the Board. The Board, however, may not require that technical assistance or grants for technical assistance to community development financial institutions be matched. The Fund may not provide any assistance except technical assistance until legally enforceable commitments for the entire required match have been secured.

The Fund is required to provide assistance in such forms and subject to such restrictions that will assure, among other things, that assistance from the Fund is used in a manner consistent with the purposes of the Act and that institutions not federally regulated are financially and managerially sound. Before providing assistance to an insured community development financial institution, the Board is directed to consult with the appropriate Federal banking agency. The Board is required to impose negotiated performance goals on qualified community development financial institutions receiving assistance based on the strategic plan submitted in the institution's application. Institutions receiving assistance are required to submit an annual report to the Fund and the Fund is required to review the performance of the institutions. The assistance agreement is required to include specific sanctions available to the Board in the event that an assisted institution does not comply with the purposes of the Act or the terms of the agreement. These sanctions may include revocation of approval of the application, termination or reduction of future assistance, changing

performance goals or elements of the institution's strategic plan, and requiring repayment of assistance.

This section also permits the Board to sell its investments at any time and permits the Board to retain the power to continue to enforce any limitations placed on the assistance.

This section also clarifies that the Act does not affect the authority of any Federal banking regulator to supervise and regulate an insured community development financial institution.

Section 8. Encouragement of Private Entities

The Board may cause to be incorporated, or encourage incorporation of, private non-profit and for-profit corporations that will complement the activities of the Fund in carrying out the purposes of the Act. The purposes of the private entities will be limited to investing in and assisting community development financial institutions.

Section 9. Clearinghouse Function

The Fund is required by this section to establish and maintain an information clearinghouse that will assist in creating, developing and expanding community development financial institutions.

Section 10. Recordkeeping, Reports, and Audits

This section requires qualified community development financial institutions receiving assistance to maintain all records necessary for ensuring compliance with the Act. The Fund will have access to all books and records of such institutions for the purposes of determining compliance with the Act.

The Fund is required to submit a report annually to the President evaluating the activities of the Fund. The report is to be submitted not later than 120 days after the end of the fiscal year of the Fund. In addition, the Board is required to conduct, or cause to be conducted, an ongoing study of the most effective and financially sound policies for community development. In the conduct of the ongoing study, the Board is required to consult, or cause consultation, with the Federal banking regulators and other agencies, as well as community reinvestment, civil rights, consumer and financial organizations. An initial report on the ongoing study must be submitted to the President within 270 days of the date of enactment of the Act.

This section also requires the Board to conduct an

additional study separate from the annual report and the ongoing study six years after enactment of the Act. This study will evaluate the structure, governance and performance of the Fund and will contain the Board's recommendations for changes in the operations of the Fund.

The Fund will be audited annually in accordance with the provisions of the Government Corporation Control Act.

Section 11. Investment of Receipts and Proceeds

This section provides that dividends on equity investments and proceeds from the disposition of investments, deposits, or membership shares will be deposited in an account established to carry out the authorized purposes of the Act. Upon request of the Chief Executive Officer of the Fund, the funds in the account will be invested in public debt securities that bear interest at a rate determined by the Secretary of the Treasury. The account will be available for use by the Fund in carrying out the purposes of the Act until the funds are expended.

Section 12. Authorization of Appropriations

This section authorizes appropriations to the Fund, to remain available until expended, \$60 million for fiscal year 1994, \$104 million for fiscal year 1995, \$107 million for fiscal year 1996, and \$111 million for fiscal year 1997, or such greater sums as may be appropriated, to carry out the purposes of the Act.

The Fund is permitted to set aside up to \$10 million per year for administrative costs and expenses.

Section 13. Conforming Amendments

This section adds the Fund to the list of entities subject to the Inspector General Act of 1978.

MEMORANDUM

Dt: July 15, 1993

To: Senate Democratic AAs, Legislative Directors, Staff Directors and Press Secretaries

Fr: DPC Staff

Today at 11:30 the President is scheduled to announce two initiatives: the Community Development Financial Institutions (CDFI) and the Community Reinvestment Act Reform. Enclosed are some issue materials we hope will be of assistance.

Included in this packet are:

- Talking Points from the White House on the CDFI Act, including a section by section analysis.
- Statement from the Department of Agriculture on the benefits of the CDFI initiative for rural communities.
- Issue Alert from the DPC on how the CDFI act will help revitalize distressed urban and rural communities.

We hope these materials are of assistance. As always, please give us a call, at 224-3232, if there is anything else we can do to be of assistance.

Community Development Financial Institutions (CDFI) and Community Reinvestment Act Reform

From the White House

July 15, 1993

I. Talking Points

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I. COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS and COMMUNITY REINVESTMENT ACT REFORM

President Clinton is committed to making more credit available to unleash the private sector and create jobs in all American communities. His push for real deficit reduction that will lower interest rates, his championing of tax incentives like increased expensing that reward small business investment, and his March 10 announcement of a deregulatory initiative to reduce the credit crunch felt by small businesses are all a part of that commitment. Yet more is needed to ensure that this commitment reaches communities where credit deprivation is particularly acute.

Across the country, many rural and urban communities are starved for affordable credit, capital, and basic banking services. Millions of Americans in low- and moderate-income neighborhoods have no bank where they can cash a check, borrow money to buy a home, or get a small loan to start a business or keep one going.

During the campaign, then-candidate Clinton offered three approaches to help empower people and businesses in underserved areas to join the economic mainstream: community development banks, reforming Community Reinvestment Act enforcement, and micro-enterprise loan funds. Today the President announces two initiatives to begin implementing those commitments. Building a network of community development banks and financial institutions (CDFIs), including micro-enterprise loan funds, and moving to a performance-based Community Reinvestment Act (CRA) system that will focus on results rather than process and paperwork will catalyze both communities and the mainstream banking sector to invest in people and businesses in low- and moderate-income neighborhoods.

These new approaches use the private sector to help communities grow from the bottom up -- with more opportunity, not more bureaucracy.

1. GROWING THE CD BANK INDUSTRY: The President's proposal calls for a Community Development Banking and Financial Institutions Fund that will invest in a national network of CD Banks and CDFIs which have a primary mission of community development, lending, equity investment, and loan counseling services in distressed, underserved communities. The Fund will promote the CDFI industry by serving as an information clearinghouse and provide assistance to CDFIs in the form of capital, grants, deposits, or technical services. Capital assistance will serve only as seed capital that must be matched with private funds. All types of new and existing CDFIs will be eligible for assistance, including community development banks and credit unions, micro-enterprise and revolving loan funds, minority-owned banks and community development corporations. With \$382 million over 4 years, and a maximum of between \$2 and \$5 million awarded per application, the President will meet his pledge of creating a network of 100 CD Banks and CDFIs.

2. REQUIRING PERFORMANCE NOT PAPERWORK FROM BANKS: Low- and moderate-income communities and people will never have full economic opportunity without the involvement and investment of major banks. The Community Reinvestment Act of 1977 requires banks and thrifts to meet the credit needs of the entire community in which they do business. Yet, the current system has focused too much on documentation and not enough on lending performance. The President has requested the four bank regulators, by January 1, 1994, to issue new regulations for CRA enforcement that will grade performance based upon actual lending and banking services to low- and moderate-income people.

PROBLEMS FACED BY CREDIT-DEPRIVED RURAL AND URBAN COMMUNITIES

INADEQUATE BASIC BANKING SERVICES. Millions of poor Americans have no access to nor relationship with a bank. Without easy access to a checking or savings account, they are forced to deal with cash-checking operations that charge an exorbitant fee for a simple service. Between 1977 and 1989, the number of banks in low-income areas shrank by 10% relative to high-income areas; thrift institutions in low-income and in mostly minority areas shrank by nearly one-third relative to population; and the number of loan and mortgage companies in low-income areas shrank by nearly half. At the same time the numbers of these mainstream financial institutions grew by 10 to 20% in more affluent areas while the number of check-cashing companies in low-income areas more than tripled (going from .22 per 10,000 people in low-income areas in 1977 to .73 in 1989).

NO LOANS FOR SMALL BORROWERS. Most commercial lenders shun low-income communities because small loans have higher transaction costs and lower profit margins, and require more labor and attention, if not more risk. A recent Federal Reserve Board study has shown that banks are the most important source for nearly every financial product for small- and medium- sized business. A recent National Small Business United Survey found that banks are the primary source of long-term capital for small businesses and the primary source of start-up capital aside from personal capital. Yet, a Woodstock Institute Study of the Chicago banking market found that large banks and banks located in the downtown area were more likely to lend in the suburbs and downtown area, while banks located in neighborhoods were more likely to lend in those neighborhoods.

LACK OF EXPERTISE AMONG LENDERS. Lending in distressed communities, particularly for small business, can be complicated. It can require specialized underwriting expertise and knowledge, credit products, subsidies, and secondary markets.

LACK OF ACCESS TO TECHNICAL INFORMATION AMONG BORROWERS. Small businesses, particularly those in distressed areas where commercial lenders are absent, often find no place to turn for essential counseling and information in the basics of small business management, including accounting, borrowing, managing and repaying money.

DISCRIMINATION AND REDLINING. The Home Mortgage Disclosure Act (HMDA) data for 1990 showed substantially higher loan denial rates for minorities than for white applicants. A 1992 Federal Reserve Bank of Boston study found that black and Hispanic applicants in Boston were 60% more likely to be turned down than white applicants with similar financial, employment, and neighborhood characteristics. A recent General Accounting Office study revealed that the number of mortgage loans purchased by Fannie Mae and Freddie Mac per homeowner declines as the percentage of minorities in the neighborhood increases. Anecdotal and other evidence suggests that the situation is even worse for commercial and consumer loans. A recent Woodstock Institute study of business lending in the Chicago area found that two-thirds of all commercial loan dollars went to the more prosperous suburbs and that commercial loan dollars that remained in the city were highly concentrated in or near the central business district.

SHORTAGE OF CREDIT AND CAPITAL. The unmet demand for credit and capital in poor communities is therefore substantial. The Treasury Department estimates that the unmet credit needs in low-income American communities are on the order of \$15 billion. In too many low- and moderate-income neighborhoods, loans are unavailable for even the most credit-worthy housing and business purposes. Economic revitalization cannot take root in these communities where good risks and sound businesses cannot get loans.

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THE COMMUNITY DEVELOPMENT BANKING INDUSTRY

Many enterprising communities have come up with their own ways to fill the void in community development and banking services and serve as a catalyst for the economic revitalization of the communities they serve. A variety of promising alternatives are under way around the country.

COMMUNITY DEVELOPMENT BANKS (CDBs) are federally insured and regulated depository institutions that exist specifically to provide capital to rebuild lower-income communities. South Shore Bank in Chicago, Elk Horn Bank and Trust in Arkansas, and Community Capital Bank in Brooklyn offer a comprehensive range of assistance to the communities they serve. Through for-profit and non-profit affiliates, they provide basic deposit, saving, checking, and consumer and mortgage lending services; venture capital for small business; microenterprise loans; and technical assistance. They also develop rental and cooperative housing for low-income residents and commercial real estate for small businesses. Three such integrated, full-service community development bank holding companies have emerged over the last twenty years.

COMMUNITY DEVELOPMENT CREDIT UNIONS (CDCUs) are regulated financial cooperatives owned and operated by lower-income persons to serve the deposit, check-cashing, and small consumer loan needs of their members. A growing number of CDCUs are making development loans for small business expansion and start-up. Like CDBs, CDCUs can offer federal deposit insurance up to \$100,000. The largest CDCU is the Self-Help Credit Union in North Carolina. With more than \$40 million in assets, it is second only in size to South Shore Bank among community lending institutions. Like Shore Bank, Self-Help is part of a larger holding company that includes independent, non-depository affiliates that provide venture capital, development loans, and technical assistance. There are over 100 CDCUs across the nation. One the newest was chartered in South Central Los Angeles last November.

COMMUNITY DEVELOPMENT CORPORATIONS (CDCs). Over 1000 CDCs have been created by civic and community groups, local or state development authorities, and banks to provide small business or micro-enterprise lending, large community development projects, or affordable housing. Their sources of capital and loans include other banks, federal small business and housing programs, local corporations and foundations, and major national assistance corporations such as LISC or Enterprise.

COMMUNITY DEVELOPMENT LOAN FUNDS (CDLFs). Scores of CDLFs, both for-profit and non-profit, aggregate capital and contributions from socially conscious banks, investors, and foundations to provide equity, bridge loans, or below-market financing for affordable housing, revitalization of retail stores, or small businesses in distressed communities.

COMMUNITY DEVELOPMENT INTERMEDIARIES. A number of state and local governments, community groups, and financial consortia provide specialized services that link communities, CDBs, and CDFIs to mainstream banking, credit, capital, and government insurance and subsidy programs and secondary markets. These intermediaries underwrite, guarantee, or repackage loans to credit-worthy businesses and individuals in distressed areas.

COMMUNITY REINVESTMENT BY MAINSTREAM BANKS. Several mainstream commercial banks and thrifts have begun to increase their activities in distressed communities. Some have formed loan consortia, loan loss reserve funds, and community lending networks; others provide capital, loans, or contributions to the community development institutions described above.

HIGHLIGHTS OF CDFI PROPOSAL

CREATION OF FUND/GOVERNANCE. A Fund will be created to provide assistance to community development financial institutions (CDFIs). A corporate board of directors to establish policy will include the Secretaries of HUD, Treasury, Commerce, Agriculture, and the Administrator of the Small Business Administration and individuals appointed by the President who collectively represent community groups and have expertise in community development lending and commercial banking. A CEO appointed by the board will manage the Fund.

FUND A FULL RANGE OF CDFIs. All types of existing and new CDFIs will be eligible for assistance, e.g., Community Development Banks, Community Development Credit Unions, Revolving Loan Funds, Micro-Loan Funds, Minority-Owned Banks, and Community Development Corporations. No set aside of funds is allotted for any one type of CDFI.

MISSION. To be eligible for assistance, a CDFI must have a primary mission of lending to and developing an underserved target area or population that is low income or disadvantaged. All CDFIs must present a strategic plan in their application which clearly states how they will meet the economic development needs of their targeted communities.

NON-FEDERAL MATCH. A minimum of 1 to 1 match for investment in insured depository CDFIs will be required. For investment in other CDFIs, a match will be required but the amount is left the discretion of the Fund. Technical assistance to any CDFI from the Fund will not require a match.

TYPES OF ASSISTANCE. The types of assistance provided by the Fund will include capital and technical and training assistance, with the specific allocations of types of assistance left to the discretion of the Fund.

CRITERIA FOR RECEIVING ASSISTANCE. Three key criteria for receiving assistance from the Fund are: (1) **Community Representation** -- the extent of community involvement in the CDFI; (2) **Community Lending** -- the extent of community financing and lending that will result from federal support; (3) **Promotion of Self-sustaining Institutions** -- the likelihood of becoming self-sustaining.

LIMITS ON ASSISTANCE. Each insured depository CDFI can receive a maximum of \$5 million in assistance, while assistance to other types of CDFIs will be capped at \$2 million per application.

FUNDING. The initiative will be funded at \$382 million over four years or such greater sums as may be appropriated, which will enable the President to meet his goal of creating a network of 100 or more CD Banks and CDFIs. In addition, the Fund will be authorized to incorporate private entities that can receive contributions and investments from the private sector to support CDFIs. All private funds will be entirely off of the federal budget.

SAFETY AND SOUNDNESS. All insured depository CDFIs are subject to the laws and regulations set forth by Congress and the banking regulators. No separate system of regulation or banking will be created.

CLEARINGHOUSE. The Fund will establish an information and service network in order to help CDFIs provide community and economic development assistance.

ESTIMATED IMPACT. Accounting for the leveraging capability of CDFIs, Treasury conservatively estimates that between \$2 and \$2.5 billion in new credit will be made available for low- and moderate- income communities and the initiative will create between 40,000 and 80,000 new jobs.

SUCCESS STORIES: CD BANKS AND CDFIs MAKING A DIFFERENCE

HARLEM'S BEN & JERRY'S ICE CREAM FRANCHISE -- AN EMPLOYER TO THE HOMELESS: In 1982, Joseph Holland, a graduate of Harvard Law School, gave up a lucrative law practice to return to Harlem and help the homeless. He founded the Harlem Ark of Freedom, a non-profit community organization which operates a homeless shelter for men. In 1992, Holland wanted to start a business in Harlem -- an ice cream store -- but because big banks were wary, he could not secure capital for the start up costs. New York's Community Capital Bank of Brooklyn, a community development bank which provides development loans to new ventures that create jobs and affordable housing in underserved neighborhoods, stepped in and gave Holland's idea a chance. With the help of a \$100,000 construction loan from Community Capital, Holland launched a partnership venture between Ben & Jerry's and the Harlem Ark of Freedom. The result is the first Ben & Jerry's franchise to be established in a low-income community. And most of its employees are homeless men. Located on West 125th street, in the heart of Harlem's commercial and cultural corridor, the 10-person ice cream shop employs 8 residents of the HARKHome shelter for men and it donates much of its profits to the shelter.

RURAL EASTERN NORTH CAROLINA'S WOSCO -- A WORKER OWNED SEWING COMPANY: The Workers Owned Sewing Company (WOSCO) is located in Bertie County, a low-income rural area in Eastern North Carolina. When the company started, its business came primarily from contracts with other apparel companies for their overflow work. This type of business proved sporadic, unpredictable, and highly competitive, operating on very thin margins. In 1985, WOSCO was in trouble. In order to survive the company needed grow and by-pass middlemen to bid directly to retailers. But they needed credit for necessary materials and supplies. A small, local bank had helped WOSCO manage its business with a \$10,000 line of credit. This small line of credit was cut off, however, when a large regional bank acquired the local bank. WOSCO's President, Tim Bazemore, turned to the Center for Community Self-Help. Self-Help's credit union and ventures fund gave WOSCO a \$50,000 loan and assistance in marketing, financial management and business planning. Today, WOSCO's 80 working women are all proud owners of the second largest private employer in Bertie county. WOSCO has secured contracts with Sears and K-Mart and sales are increasing. Each year the company has been able to distribute profits back to its owner-workers.

BEVERLY ROSS IN MINERAL SPRINGS OHIO -- A MICRO-LOAN SUCCESS STORY: Beverly Ross, a single parent, is a sole owner of Lakeview Stables in Mineral Springs, Ohio, a popular tourist area in Tuscarawa County. Beverly worked for Lakeview Stables to support her family before luck and hard work made it possible for her to purchase the stables. After a year of operation, she realized she had undercapitalized her venture and had to turn customers away because she didn't have enough horses or equipment to serve them. Because of a divorce, she did not have a stable credit history and literally no financing options. She turned to a Microloan program sponsored by the Athens Small Business Center. There, she received intensive help in completing a business plan and loan package. She was given a \$5780 loan to purchase equipment and horses and to provide working capital for operation. The loan was made just in time for this year's summer trade -- an business is booming.

HIGHLIGHTS OF COMMUNITY REINVESTMENT ACT REFORM

The Community Reinvestment Act (CRA), enacted in 1977, requires banks and thrifts to help meet the credit needs of the communities in which they do business. In recent years, this statute has come to play an increasingly important role in making credit opportunities available to underserved communities, both urban and rural, across America.

But despite its successes, the Community Reinvestment Act's true potential remains unrealized. Its implementation has focused too much on documentation and not enough on actual lending performance. Banks complain about excessive paperwork and inconsistent implementation of the law. Community groups complain that their communities remain unserved, and that CRA evaluations often fail to reflect actual community reinvestment activities.

By giving our banks and thrifts clearer guidance as to how the regulatory agencies will evaluate performance under the Community Reinvestment Act, we can reduce the need for meaningless documentation. By focusing that guidance on the provision of real investments and services, we can increase support to communities that need it.

Therefore, the President is requesting the banking regulators -- the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Reserve Board, the Federal Deposit Insurance Corporation -- to take the following actions:

- **Reform CRA Enforcement by January 1, 1994** -- In consultation with the banking industry, the thrift industry, congressional leaders, and community groups across the country, work together to reform CRA enforcement system by developing new regulations and procedures that replace paperwork and uncertainty with greater performance, clarity and objectivity;
- **Train a Corps of CRA Examiners** -- Develop a well-trained corps of regulators who specialize in CRA examinations;
- **Implement More Effective Sanctions** -- Institute more effective sanctions against banks and thrifts with consistently poor performance;
- **Develop More Objective, Performance-Based CRA Assessment Standards** -- Reform CRA standards to focus on more objective, performance-based criteria that will minimize the compliance burden on financial institutions while stimulating improved CRA performance. These new standards might appropriately focus on three types of community reinvestment activities: (1) Lending to low- and moderate-income individuals and neighborhoods, small businesses, and small firms; (2) investments in low- and moderate-income neighborhoods; (3) provision of banking services to residents of low- and moderate-income neighborhoods.

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II. COMMUNITY DEVELOPMENT BANKING AND FINANCIAL INSTITUTIONS ACT OF 1993

SECTION-BY-SECTION ANALYSIS

Section 1. Short Title

The Act may be cited as the "Community Development Banking and Financial Institutions Act of 1993".

Section 2. Findings and Purpose

Many of the Nation's urban areas, rural areas and Indian reservations face critical social and economic problems. The restoration and maintenance of the economies of these communities will require coordinated strategies to promote long-term economic and social viability. In many urban and rural communities, low- and moderate-income neighborhoods, and on Indian reservations, there is a shortage of capital and credit for business and affordable housing. Access to capital and credit is essential to enable individuals and communities to become self-sufficient. Community development financial institutions, such as micro-enterprise loan funds, community development credit unions, community development corporations and community development banks have proven their ability to identify and respond to community needs for capital, credit and development services in the absence of, or as a complement to, services provided by other lenders.

The purpose of the Act is to create a Community Development Banking and Financial Institutions Fund that will support a program of investment in and assistance to community development financial institutions.

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financial institutions, and (ii) encourages, through representation on its governing board or otherwise, the input of residents in the investment area or the targeted population. The term "investment area" means an identifiable community that meets criteria of distress as determined by the Fund, or is designated as an empowerment zone or enterprise community under section 1391 of the Internal Revenue Code of 1986.

Section 4. Establishment of National Fund for Community Development Banking

This section provides for the establishment of a body corporate known as the Community Development Banking and Financial Institutions Fund (the "Fund"). The Fund will be managed by a nine-member Board of Directors (the "Board"). The Secretary of Agriculture, the Secretary of Commerce, the Secretary of Housing and Urban Development, the Secretary of the Treasury and the Administrator of the Small Business Administration, or their designees will serve as members of the Board. (A designee must be an official from the same agency who has been appointed by the President with the advice and consent of the Senate.) The remaining four members will be private citizens appointed by the President and confirmed by the Senate. These individuals must collectively represent community groups, have expertise in the activities and operations of insured depository institutions, and have expertise in community development and lending. The appointed members will serve for a term of four years, except that the initial terms of two of the appointed members will be five years. The President will appoint a chairperson from among the appointed members and a vice-chairperson from among the members of the Board. Both the chairperson and the vice-chairperson will serve in those offices for terms of two years.

The members of the Board that are otherwise employees of the United States will receive no additional compensation for service on the Board, but will be reimbursed by the Fund for travel, per diem, and other necessary expenses incurred in the performance of their duties. The appointed members will be compensated at a rate equivalent to the daily rate for a position under Level IV of the Executive Schedule. The appointed members may also be reimbursed for travel, per diem, and other necessary expenses.

The Board is required to hold meetings at least quarterly. Other meetings of the Board may be held on the call of the chairperson or at the written request of at least three Board members. A majority of the members of the Board in office will constitute a quorum.

The Board must appoint a Chief Executive Officer, a Chief Financial Officer and an Inspector General. The Chief Executive

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Officer will be responsible for the management of the Fund and such other duties as the Board deems appropriate. The Board may fix the compensation of the Chief Executive Officer, the Chief Financial Officer, and up to three other officers of the Fund without regard to chapter 51 and subchapter III of chapter 53 of title 5 of the United States Code, except that the compensation for the Chief Executive Officer may not exceed the rate of pay for a position under Level II of the Executive Schedule and the rate of pay for the four remaining officers may not exceed the rate for a position under Level IV of the Executive Schedule. All other employees of the Fund will be compensated pursuant to the provisions of title 5.

Section 4 enumerates the general powers of the Fund, which include the power to sue and be sued in its corporate name and to enter into and perform agreements. The Fund is also authorized to utilize the services of personnel of any other agency on a reimbursable or non-reimbursable basis with that agency's consent. The Fund may not issue stock, bonds, debentures, notes or other securities. The liability of the Fund and of the United States with respect to an investment in a community development financial institution is limited to the amount of the investment.

The Fund will be a wholly-owned Government corporation and will be treated as an agency of the United States unless provided otherwise by the Act.

Section 5. Applications for Assistance

This section requires the Board to publish regulations regarding procedures and forms for applications for assistance from the Fund not later than 210 days after enactment of the Act. In order to be eligible as a threshold matter to apply for assistance from the Fund, an applicant must: (i) demonstrate to the satisfaction of the Board that the applicant is, or will be, a community development financial institution; (ii) demonstrate that the applicant will serve what is defined in the Act as a targeted population or an investment area; (iii) demonstrate, if the applicant previously has received assistance from the Fund, that the applicant has been successful in carrying out the purposes of the Act, that the applicant is, or is about to become, an entity that is not dependant upon assistance from the Fund for continued viability, and that the applicant will expand its services; (iv) demonstrate, if the applicant is a community development financial institution with existing operations, a record of success in serving investment areas or targeted populations; (v) include with its application a comprehensive strategic plan which contains required elements that will demonstrate the applicant's commitment to serving community development needs and to becoming a community development financial institution that will not be dependent upon assistance

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from the Fund for continued viability; (vi) include with its application a statement of the applicant's likely source of private funds to meet any matching requirement under section 7(d) of the Act; and (vii) include with its application any other information required by the Board.

This section also requires the Fund to conduct a pre-application outreach program that will identify and provide information to potential applicants and will increase the capacity of potential applicants to meet the application and other requirements of the Act.

Section 6. Selection of Institutions

This section requires the Board, in its discretion, to select applications submitted under section 5 and to award assistance from the Fund. In making its selections, the Board is required to evaluate applications based on selection criteria. The selection criteria are designed to ensure that applicants with the most promise for fulfilling the purposes of the Act are awarded assistance. In addition to the selection criteria, the Board is permitted to consider any other factors it deems appropriate when evaluating applications.

The Board is required to publish regulations regarding the selection criteria not later than 210 days after enactment of the Act.

Section 7. Assistance Provided by the Fund

This section permits the Fund to provide financial assistance to qualified community development financial institutions in the form of equity investments, loans, deposits, membership shares and grants. The Fund may also provide technical assistance, including training, and grants for technical assistance to qualified community development financial institutions. The allocation of awards between insured and uninsured community development financial institutions is in the discretion of the Board, provided that due consideration is given to the allocation of funds for the establishment of insured community development financial institutions.

This section also requires equity investments held by the Fund to be in the form of transferable, nonvoting investments. Such equity investments may provide for convertibility to voting stock upon disposition of the interest by the Fund. The Fund is directed to structure its investments in such a manner that it will not own more than 50 percent of the equity of an institution and will not control the operations of the institution. The Fund will be deemed not to control any institution receiving financial assistance for purposes of applicable laws.

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Assisted institutions may use funds provided under the Act to develop or support commercial and community facilities that enhance revitalization and job creation, business creation and expansion efforts, the provision of basic financial services to low-income persons, the provision of development services, homeownership opportunities that are affordable to low-income persons, rental housing that is affordable to low-income persons and other activities that are deemed appropriate by the Fund.

The Fund may provide up to \$5 million of assistance per application to any one qualified insured community development financial institution and up to \$2 million per application to any other qualified community development financial institution.

This section requires all qualified insured community development financial institutions receiving assistance to match the assistance with at least one dollar from private sources for each dollar provided by the Fund, except that an insured community development financial institution will not be required to match technical assistance provided by the Fund or grants for technical assistance. In addition, applicants for assistance in the form of deposits or membership shares in an amount of \$100,000 or less will not be subject to any matching requirement. A match will be required for all types of assistance provided to other community development financial institutions, and the amount and form of the match will be in the discretion of the Board. The Board, however, may not require that technical assistance or grants for technical assistance to community development financial institutions be matched. The Fund may not provide any assistance except technical assistance until legally enforceable commitments for the entire required match have been secured.

The Fund is required to provide assistance in such forms and subject to such restrictions that will assure, among other things, that assistance from the Fund is used in a manner consistent with the purposes of the Act and that institutions not federally regulated are financially and managerially sound. Before providing assistance to an insured community development financial institution, the Board is directed to consult with the appropriate Federal banking agency. The Board is required to impose negotiated performance goals on qualified community development financial institutions receiving assistance based on the strategic plan submitted in the institution's application. Institutions receiving assistance are required to submit an annual report to the Fund and the Fund is required to review the performance of the institutions. The assistance agreement is required to include specific sanctions available to the Board in the event that an assisted institution does not comply with the purposes of the Act or the terms of the agreement. These sanctions may include revocation of approval of the application, termination or reduction of future assistance, changing

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performance goals or elements of the institution's strategic plan, and requiring repayment of assistance.

This section also permits the Board to sell its investments at any time and permits the Board to retain the power to continue to enforce any limitations placed on the assistance.

This section also clarifies that the Act does not affect the authority of any Federal banking regulator to supervise and regulate an insured community development financial institution.

Section 8. Encouragement of Private Entities

The Board may cause to be incorporated, or encourage incorporation of, private non-profit and for-profit corporations that will complement the activities of the Fund in carrying out the purposes of the Act. The purposes of the private entities will be limited to investing in and assisting community development financial institutions.

Section 9. Clearinghouse Function

The Fund is required by this section to establish and maintain an information clearinghouse that will assist in creating, developing and expanding community development financial institutions.

Section 10. Recordkeeping, Reports, and Audits

This section requires qualified community development financial institutions receiving assistance to maintain all records necessary for ensuring compliance with the Act. The Fund will have access to all books and records of such institutions for the purposes of determining compliance with the Act.

The Fund is required to submit a report annually to the President evaluating the activities of the Fund. The report is to be submitted not later than 120 days after the end of the fiscal year of the Fund. In addition, the Board is required to conduct, or cause to be conducted, an ongoing study of the most effective and financially sound policies for community development. In the conduct of the ongoing study, the Board is required to consult, or cause consultation, with the Federal banking regulators and other agencies, as well as community reinvestment, civil rights, consumer and financial organizations. An initial report on the ongoing study must be submitted to the President within 270 days of the date of enactment of the Act.

This section also requires the Board to conduct an

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additional study separate from the annual report and the ongoing study six years after enactment of the Act. This study will evaluate the structure, governance and performance of the Fund and will contain the Board's recommendations for changes in the operations of the Fund.

The Fund will be audited annually in accordance with the provisions of the Government Corporation Control Act.

Section 11. Investment of Receipts and Proceeds

This section provides that dividends on equity investments and proceeds from the disposition of investments, deposits, or membership shares will be deposited in an account established to carry out the authorized purposes of the Act. Upon request of the Chief Executive Officer of the Fund, the funds in the account will be invested in public debt securities that bear interest at a rate determined by the Secretary of the Treasury. The account will be available for use by the Fund in carrying out the purposes of the Act until the funds are expended.

Section 12. Authorization of Appropriations

This section authorizes appropriations to the Fund, to remain available until expended, \$60 million for fiscal year 1994, \$104 million for fiscal year 1995, \$107 million for fiscal year 1996, and \$111 million for fiscal year 1997, or such greater sums as may be appropriated, to carry out the purposes of the Act.

The Fund is permitted to set aside up to \$10 million per year for administrative costs and expenses.

Section 13. Conforming Amendments

This section adds the Fund to the list of entities subject to the Inspector General Act of 1978.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

BENEFITS OF CDFI INITIATIVE FOR RURAL COMMUNITIES

- The need for this legislation in rural America, whose citizens have suffered from a decade of neglect, is more than obvious. Declining employment, out migration and increased poverty in our rural areas, has left rural America hungry for change.
- "Credit crunch" is not a new term for rural businesses attempting to get started. There is a reluctance on the part of traditional financial sources to make loans available in rural areas, often times because of the lack of technical knowledge needed to make these types of loans to start-up companies. This legislation is design to provide both the unmet need for capital and the technical know-how to make loans to emerging businesses.
- The legislation, developed by a White House working group which included the Under Secretary of Small Community and Rural Development, is sensitive to the concerns facing distressed rural communities and allows for flexible performance standards and matching requirements that take into consideration the need for differing development strategies.
- The legislation requires that there be diversity in selected applications specifically targeting non-metropolitan and rural area.
- The Secretary of Agriculture will sit on the Fund Board and will be a strong advocate for rural interests.
- This legislation was drafted, in part, to encourage the creation of insured financial institutions across the country. Recognizing the difficulty in creating new insured institutions, especially in sparsely populated areas, the legislation provides grants, technical assistance and an outreach program to assist in the application process and facilitate their creation.
- The bill also fosters the creation and support of Community Development Corporations, Micro-Enterprise Loan funds and other development entities which already have a network and success record in rural America but lack adequate capital.

Clinton Plan Will Channel Seed Capital to Lenders Serving Low-Income Communities

Washington, D.C., July 15, 1992 —Today, President Clinton unveiled another part of his plan to help revitalize distressed urban and rural communities. Under his proposal — entitled the *Community Development Banking and Financial Institutions Act of 1993* — \$382 million would be channeled over four years to the lending institutions serving low-income communities.

The Senate Banking Committee will hold a hearing on the Clinton Administration's proposal today at 2:00 p.m. in SD-538. Hearing witnesses will include Treasury Secretary Lloyd Bentsen, Agriculture Secretary Mike Espy, and Comptroller of the Currency Eugene Ludwig.

Low-Income Communities' Need for Capital

A decade of declining opportunity and rising social and economic difficulty has denied many Americans a piece of the American Dream, both in rural and urban areas.

Across the country, many low-income rural and urban communities are starved for affordable credit, capital and basic banking services. Millions of low- and moderate-income Americans have no bank where they can cash a check, borrow money to buy a home, or get a small loan to start a business or keep it going.

Discrimination, redlining, out-migration in rural areas, changes in banking and financial services, and lack of expertise in community lending, all have contributed to a lack of capital and credit in too many distressed communities.

The Clinton plan, by ensuring greater access to capital and credit, aims to tap the entrepreneurial energy of America's poorest communities and to help create businesses that can fuel economic growth. It aims to move individuals into the economic mainstream by ensuring they have opportunities to save and invest

How the Plan Will Work

Creates a New Fund

A wholly-government-owned corporation (the "Fund") will be created to provide community development financial institutions (CDFIs) with assistance for activities including development of small business, commercial and community facilities development, affordable housing, and provision of basic financial services. The Fund also will operate an information and service Clearinghouse to support the activities of CDFIs.

Targets Institutions That Serve Low-Income Neighborhoods

To be eligible to receive funding, institutions must have a primary mission to serve distressed communities or targeted populations. They also must compete for Federal funds based on the extent of community need, the strength of their community revitalization plans, the level of community involvement in their operations, and the extent of community financing and support that will result from Federal support.

Eligible institutions may include: community development banks, minority-owned banks, community development credit unions, community development loan funds, micro-enterprise funds, and other community development corporations. The creation of new institutions is encouraged. Because of the difficulty in creating new insured institutions, especially in sparsely populated areas, additional aid such as grants and technical assistance will be available.

Makes Federal Government A Partner, Not a Crutch

Local communities must match most of their Federal dollars. A minimum match of \$1 of Federal funds to \$1 of non-Federal funds will be required for insured depository institutions. Other CDFIs must meet matching require-

ments to be determined by the Fund. In providing assistance, preference will be given to those institutions most likely to become self-sustaining.

Also, the amount of assistance any one institution can receive from the Fund will be capped at \$5 million annually for insured depository institutions, and \$2 million annually for other CDFIs.

Ensures Safety and Soundness

Insured depositories will be subject to all existing safety and soundness laws and regulations.

Focuses on Results, Not Paperwork

The Administration also announced a plan to adopt regulatory changes to the *Community Redevelopment Act of 1977* (CRA) that will emphasize performance over process. The CRA has been the cornerstone of Federal community lending efforts. Along with the *Fair Housing Act* and the *Equal Credit Opportunity Act*, CRA sets a framework that not only prohibits banks and thrifts from discriminating but also requires them to make an affirmative effort to serve low income and minority communities.

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file CD Bank

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

July 15, 1993

REMARKS BY THE PRESIDENT
IN ANNOUNCEMENT OF
COMMUNITY LENDING INITIATIVE

South Lawn

12:12 P.M. EDT

THE PRESIDENT: Thank you very much. I want to say to Joe and Beverly and Tim, they have stated more eloquently the case than I ever could for the work we are here to begin today. I thank them for their presence here and for their fine presentations. (Applause.)

I want to acknowledge, too, the presence in the audience of so many people who have been involved in community development financing for a long time. I thank all of you for coming from all over America. We have a remarkable group of people here from the United States government from the Executive Branch today -- Secretary Bentsen and Under Secretary Newman from the Treasury Department; Secretary Espy and Under Secretary Bob Nash from the Agriculture Department; Under Secretary Terry Duvernay and Assistant Secretary Cuomo from HUD; the SBA Administrator Erskine Bowles; the Comptroller of the Currency Gene Ludwig; the Federal Reserve Board Governor George Lindsay; the Acting Director of the Office of Thrift Supervision Jonathan Fiechter; the FDIC Acting Chair Andrew Hove and many, many others -- showing that this administration has worked together to try to come up with this proposal.

I'd also like to say that we have some specific members of Congress who are here today whom I will acknowledge, but just for the rest of you who have been working in this field for a long time and who have felt left out, I'm going to do something I don't think I've ever done before -- I'm going to ask every member of Congress who is here to stand so you can see what support you have in the United States Congress. Would you all please stand? (Applause.)

By my quick count, there are 41 or 42 members of the Congress here, a very significant representation of people who have asked me actually to -- they felt so strongly about coming here, to delay the start of our ceremony this morning for a few moments so that they could complete their votes and still come up here.

I'm particularly pleased that the House and Senate Banking Committee chairs have agreed to sponsor this legislation and shepherd its package through Congress. Representative Henry Gonzalez and Senator Don Riegle have both long been champions of reinvesting in our communities.

The Senate Banking Committee will hold its hearing on this bill this afternoon at 2:00 p.m. The subcommittee chairs of the House, Congressman Neal, Kanjorski, Kennedy, Frank and Flake, have all joined to make sure this bill will receive consideration by the full House Banking Committee within the next few weeks.

There are four members of the House I would like to pay some special recognition to. First, Representative Joe Kennedy of Massachusetts, who has worked to make the Community Reinvestment Act

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a reality for all Americans in all communities. And I thank you for that. (Applause.)

Representative Floyd Flake of New York, who has worked to provide innovative ways to spur reinvestment by major financial institutions and communities, and has actually tried to do something with his ideas in the private sector as well as with his work in Congress. I thank him very much for his efforts. (Applause.)

Next, Representative Maxine Waters of California, who had been the conscience that has kept community development banking and strengthening the CRA on the nation's legislative agenda. Thank you very much, Maxine. (Applause.)

And finally, Congressman Bobby Rush of Illinois, who has forged a coalition of more than 70 co-sponsors for a community development financing institution's bill that shares common ground with my initiative. I look forward to working with him in Congress and across the country to champion reinvesting in all of our communities, and I thank him for mobilizing 70 members of the House of Representatives in this cause. Thank you, Bobby. (Applause.)

I'd also like to pay some recognition to a person here who has for many years, more than I can remember, pointed out to the American people that most poor folks in this country, and most people who have been left outside of the mainstream want a hand up, not a hand out -- Reverend Jesse Jackson. Thank you for being here. (Applause.)

Ladies and gentlemen, as you know, I have just returned from the summit of the world's seven industrial nations in Tokyo. What I saw there indicated to me that, from Harlem to the South Side of Chicago, to South Central Los Angeles, there is a feeling shared from Tokyo to Toronto, people want more control over their lives, their families, their communities and their countries. The movement for political reform is running in high gear in all these countries because there is such a demand for economic opportunity so that people can live up to their God-given abilities.

This administration has tried to pursue this demand in two ways. First of all, to have a good overall economic policy, a policy for bringing the deficit down, a policy for increasing investment in our country, a policy for broadening the rules of trade in ways that help Americans who are working for a living. But, secondly, we have to recognize that there are certain specific problems that are unique to our country, unique to our states, unique to our communities. And they require a specific response. And so we have developed a technology policy, a policy for defense conversion, for communities and people who have been hurt by cutbacks in defense spending. We have sent to the Congress a proposal to create empowerment zones which will complement this effort, to encourage people to invest in distressed rural and urban communities in this nation. And today we take up the community financing issue.

A few days ago when I was in Japan, working to build a new global economy, my hand was strengthened because of the progress that has been made in Congress in dealing with these larger issues -- reducing the deficit and investing more in education and training. It enabled me to ask our friendly competitors to lower their trade barriers so that we can increase American jobs and American exports; to work with us to increase economic growth, keep interest rates down and make common cause to battle high unemployment, which is a problem in every advanced nation in the world today.

Today, I will report to a bipartisan leadership meeting of the Congress on the achievements of this summit. But I will also have to tell them that the challenge remains. We can only enjoy the fruits of the opportunities created at the Tokyo meeting if we follow

through on the commitment to pass the economic plan now before the Congress and if we take the initiatives like the one we're here to celebrate today.

To those who would do nothing or let us slide back into the status quo, I would say that we must go forward, we must adopt the largest deficit reduction plan in our history. Look how low the long-term interest rates are now because of the efforts that are being made. (Applause.) We must adopt these strategies to bring jobs to America. We must maintain our nation's leadership in the global economy.

On the issue of whether there must be economic change in a nation desperate for jobs and growth, there can be no doubt of the answer. Today, I am sending to Congress an innovative proposal that will bring new life and new opportunity and new directions to communities all over America that lack capital and credit, the kinds of basic banking services that these three fine people needed so badly and had to look so long for.

This proposal creates a fund to provide grants to new and existing community-based lenders. The fund will provide about \$400 million over five years and will employ a number of measures to increase significantly the total money provided to communities through these community institutions.

Under this plan every dollar the fund provides to a community development bank must be matched at least by another dollar of private capital. Other community development financial institutions will also be required to match assistance as well. The Treasury Department predicts that this matching requirement and the leverage provided by the institutions will produce at least \$2 billion in additional investment.

If you look at the size of the average loan in these kinds of institutions leading to the number of jobs created that are represented by the three fine people on this platform today, the potential for creating new jobs in America through this initiative is absolutely enormous. And they can be created in places where people have long given up on the free enterprise system simply by making the free enterprise system work for a change for those people. (Applause.)

These institutions come in a wide variety of sizes and shapes. They are banks with a special commitment to community development; they are community development banks set up for that purpose only; they are credit unions; they are micro-enterprise loan funds. I can tell you this, most of the enterprises that we are talking about helping, that were in existence in the 1980s that made loans to poor people who lived in their community or to struggling small business people had a lot lower failure rate than some of the high flown financial schemes that were subsidized by other government policies in the last decade. (Applause.)

Because of the commitment and understanding of people in all different kinds of financial institutions, every type of community development financial institution will be eligible for assistance under our program. The existing network of community lenders have demonstrated that when there is a constant commitment to this kind of development you can produce growth and jobs.

Many of you with us today from Chicago's ShoreBank to North Carolina's Self-Help Credit Union to Arkansas' Elkhorn Bank -- which Mack McLarty and the First Lady served on the board of, and which I helped to raise funds for when I was in a previous position -- understand how economic growth is built from the grass roots. It works in urban areas, it works in rural areas. We were wondering when we set up this bank in Arkansas whether small towns and rural

areas really could benefit from the kind of strategy that had worked so brilliantly for the South ShoreBank in Chicago, and the answer turned out to be a resounding yes.

The government's role in this is crucial, but limited. The real solutions must come from the community, from the people who live there who know their neighbors. It is our job to empower those communities with the tools they need to generate growth and jobs. And then let the hard work and the determination of the people pay off.

At the same time, I recognize that without the involvement and investment of major banks, low and moderate income communities will still be deprived of a full range of economic opportunity.

The Community Reinvestment Act of 1977 requires that banks and thrifts meet the credit needs of the entire community in which they do business. And while the CRA has played an important role in making credit available to underserved urban and rural communities, I think we would all admit that it hasn't lived up to its potential. The current enforcement system relies too much on public relations documentation and not enough on real lending performance. (Applause.)

This has been a pain for everybody involved -- too much paperwork for the banks and not enough investment for the communities. That's why I am sending a memorandum to the four federal banking regulators that requires them to implement a series of reforms around CRA -- designed to increase investment in communities that need it, while simultaneously streamlining and clarifying the regulatory process. The policy will be good for banks, good for communities, good for borrowers, and it represents real change.

These actions today fulfill a commitment I made during the last campaign when I promised that we would work hard to unlock the energy and the entrepreneurship that lies latent in the hearts and souls of men and women in this country in every community. This proposal will enable them to take a small loan and start a business; to turn their dreams into storefronts, and then expand those storefronts into chains, creating jobs for their neighbors and bringing opportunities to their neighborhoods. It will make them a part of the movement for democratic capitalism and growth that is reshaping the entire world, but has left too many Americans behind.

Now, I'd like to introduce three people who are going to help us carry out these commitments: Hugh McColl, the CEO NationsBank; Irving Henderson, the chair of the National Community Reinvestment Corporation Coalition; and Ron Grzywinski, the Chairman of Shore Bank in Chicago. (Applause.)

* * *

THE PRESIDENT: I'd like to conclude this morning's ceremony just by saying again, as I did when I opened, that I know that every one of you who's worked in this field for any length of time has a story or personal stories that you could tell. And I just want you to know that I am grateful for the work that you have done and the role that each of you have played in bringing this bill to its present point.

I got on this issue as governor when I saw so many needs that were unmet, and when the now Under Secretary of Agriculture for Community Development Bob Nash and I worked hard to use our existing authorities to help people who couldn't have access to credit. I learned about the South Shore Development Bank. And, through them, I met a remarkable man named Mohammed Yunis, who told me how he,

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through the Grameen Bank, had made market rate interest loans to poor village women in Bangladesh. And over 95 percent of them had actually paid the loans back.

And then, this became part of our reinventing government initiative of the Democratic Leadership Council, and then an idea that the Vice President championed in his efforts to examine what we're doing here. A lot of you have helped me in my understanding of this. Floyd Flake showed me the businesses around his church. Hugh McColl stayed up half the night one night, talking with me about the Community Reinvestment Act and how we could make it work. My friend, Charles Stith, there from Boston, has spent years on this.

To all of you who have played any role on this, I thank you very much. And I ask you now to work with this wonderful representation from Congress to make sure we get the job done and do it in a hurry. Thank you. We're adjourned. (Applause.)

END

12:40 P.M. EDT

THE WHITE HOUSE
Office of the Press Secretary

BACKGROUND BRIEFING
BY
SENIOR ADMINISTRATION OFFICIAL

July 15, 1993

The Briefing Room

1:13 P.M. EDT

MR. JONES: This BACKGROUND BRIEFING on the community development banks and the Community Reinvestment Act will be conducted by Frank Newman, who is the Under Secretary of the Treasury for Domestic Finance, who will give a brief statement; and he will be joined by several other folks, all of whom will be identified as senior administration officials. Just so you'll know who they are, they are Eugene Ludwig, the Comptroller of the Currency; Andrew Cuomo, Assistant Secretary of HUD; and Paul Diamond and Bruce Reed.

SENIOR ADMINISTRATION OFFICIAL: Thanks. I'll be real brief here, and we get right on to questions.

Basically, as you know, we've got two initiatives announced today. They both fit into one another, and they both fit into as parts of the President's overall economic program. Clearly, the community development banks are intended to be genuine investments. The whole program is designed to foster the growth of institutions that will continue on into the future. This is not just a one-time expenditure, but rather to help develop existing institutions further and promote new institutions that continue on indefinitely to support their communities.

It's designed to have maximum leverage at the private sector so that ultimately the amount of funds that are put up by the federal government can be multiplied substantially in terms of the total amount of credit delivered to the distressed communities. It's targeted particularly for the distressed communities. And it's intended to help build the communities themselves, the businesses in those communities that can then provide jobs, housing in those communities that can then make them more revitalized. This is both inner city and rural, Indian reservation -- it's got a broad potential application. And as the President mentioned, it's a number of different kinds of financial institutions, not just banks.

Again, this fits in with the overall program of the President. It's very important that we get this total economic program, the total budget passed in order for this to fit in as a piece of it. The Community Reinvestment Act is oriented, as the President said, just simply to get performance -- objective measures of how banks are doing in terms of actually delivering credit to the communities in which they operate, particularly credit; other services, too.

And one of the factors which will be taken into consideration in measuring the performance of banks is the degree to which they support, by investment or otherwise, the community development banks that are going to be developed as part of the other program. So again, the pieces fit together.

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With that brief introduction we'd be happy to take your questions.

Q Do you have a rough estimate of how many new community development institutions this will create as opposed to helping existing institutions?

SENIOR ADMINISTRATION OFFICIAL: We don't have a particular bias one way or the other about new or existing institutions. We don't have a -- the question was do we know how many new institutions are going to be created. There's no initial bias one way or the other. If we have an institution -- we're open to applications. The fund is intended to be open to applications from existing entities which are maybe community development banks, maybe community development credit unions, micro-lenders, community development corporations that may be already operating successfully and need more capital in order to expand. If they have a good track record and a good program to present to the board of this fund, they will be eligible for funds that can help them expand. If somebody else comes in with a new idea, they want to form a new institution of any one of these forms in a distressed community and they file an application, they will get equal treatment. There's no particular bias one way or the other.

We anticipate that the number of institutions that will actually be provided some capital in one form or another by the fund will exceed 100 and could actually be in the hundreds as the years go by.

Q What does this say about the banking industry in America, whereby the people you had at your event couldn't get money from mainstream banks and couldn't make a go of what turned out to be successful enterprises?

SENIOR ADMINISTRATION OFFICIAL: I think the Community Reinvestment Act change that has been showcased by the President really offers us a great deal of opportunity to deal with that issue. Banks have been spending a lot of time focusing on process instead of focusing on results. During the campaign, the President heard constant complaint about the emphasis on process. Nobody was happy -- the community groups weren't happy, the banks weren't happy. It was just not coming together.

The President got it exactly right when he said what we need is performance, not paperwork. And the President has come forth with this initiative with a date certain, a process to turn that set of goals, "performance, not paperwork," into reality, and a structure, in terms of moving towards objectivity. That will address those needs better. This is an important change. And I think he's got it just right.

Q Well, does this take those banks off the hook then from living up to all the requirements of the CRA that the President mentioned --

SENIOR ADMINISTRATION OFFICIAL: Absolutely not. I mean, the whole thrust of this CRA is to look at what they're doing, not what they're saying. In other words, there is -- this is object oriented instead of totally subjective.

Now, there's a subjective element that is bound to remain. We have a very big country. It's very diverse. And one has to take account of that diversity. But at the same time, moving in the direction of objectivity in terms of measurement -- what are you doing, not what are you saying -- will definitely put some emphasis where it belongs and will change lending habits.

Q How are you going to measure performance? Are you going to tell banks to allocate a certain amount of their credit in inner cities?

SENIOR ADMINISTRATION OFFICIAL: No, I don't think you need go that far. Let me say it is a process. And we're going to be talking to bankers, and we're going to be talking to community groups; and the regulators will be meeting among themselves constantly, as well as members of Congress.

There is such a huge distance -- you can go from the current system, which has pages upon pages in the regulations of what documents to supply, to a system that is more objective. You can move so far along that spectrum without ever getting near credit allocation and still make a big difference. And that's where we're going. But I don't want to prejudge the result.

Q Do you expect stiffer sanctions for CRA violations after you rewrite all the rules?

SENIOR ADMINISTRATION OFFICIAL: One would hope that what the CRA change will mean is that outstanding will really be outstanding; and people will -- I'd like to see every bank outstanding, because they've really done the job. At the same time, we are certainly going to be very sensitive to the fact that banks under CRA are required to do a job, and that currently there's a very lumpy situation where when you're going to apply for an application for a branch, you can get a CRA protest to stop you. But if you're not apply for an application, CRA doesn't really bite. That produces some very odd results. In rural areas where there's less applications, there's less CRA, if you will, enforcement. So we're going to be considering that very seriously and try to address that problem.

Q Do you expect the fight to be tougher? And if so, in what ways?

SENIOR ADMINISTRATION OFFICIAL: Moving toward objectivity, I think, creates a playing field that everybody understands. And I would hope that it doesn't necessarily mean tougher for tougher sake. In other words, one's not trying to increase burden here. This really should lessen burden and be a win-win situation both for community groups and for banks. Knowing what targets to shoot at should help everybody.

Q Can you try to give us an example of the kind of paperwork that's now involved versus the kind of standard you want to move to? And also, how much of their obligation could be met through these contributions to the foundations and banks -- 50 percent, 75 percent? Any more specifics?

SENIOR ADMINISTRATION OFFICIAL: Let me give you a story that I'll mention today when I testify. A number of people came to me early on in my term and say -- gave me stories about the Community Reinvestment Act. One person talked of a banker -- and I believe these stories are credible -- that said, "Oh, I know how to get by CRA. What I do is when I go to the Kiwanis Club, I come back to my office and I write a big, long memo that says 'met with community leaders and talked about credit needs of the community.' I put it in the file." And he said, "Then when I go out later in the evening, I go socializing with my old buddies." He said, "I come back to the office the next morning and I write out a big, long memo that said 'met with community leaders and addressed CRA needs,' and put it in the file. And then when your examiners come, there's a big pile of paper for them to look at, and that's what they're supposed to look at -- that big pile of paper. Well, that doesn't pass the smile test.

Refocusing that energy in terms of focusing on paper towards going out into the community and addressing credit needs is what this is all about. And, as I said, there's a very long way you can go on this -- with moving towards objectivity.

Q On the second part of that question, how much -- if you find a bank hasn't been meeting its obligations, can they then turn around and say, well, we're going to give \$5 million to this community development --

SENIOR ADMINISTRATION OFFICIAL: Absolutely not. The President, in his directive to us, recognized that there are a variety of different ways one can meet Community Reinvestment Act needs, no one of which is sort of an exemption. In other words, we will be -- you should get some credit for making an investment and you should get significant credit for making an investment in a community development financial institution. That's helping to meet the needs. But that's not going to be a pass. That's not going to be an exemption. That's one thing that will be measured and looked at, and that's why these things fit so nicely together. Because for the first time, you'll be able to give meaningful credit to making an investment -- a meaningful investment, and community development financial institution.

Q What's meaningful credit?

SENIOR ADMINISTRATION OFFICIAL: Well, that's why there's a process. That's why there's a process. That is a set of tough questions and we've got a set of tough hurdles to jump over between now and January 1, 1994.

Q What incentive is there for the most pressed communities, both in the inner city and in rural areas that don't have an existing institution, to actually start one to be able to take advantage of this?

SENIOR ADMINISTRATION OFFICIAL: Well, one of the nice features of this bill is that everybody is eligible to apply. And we are very confident that not only the national foundations, but a variety of private corporations, and particularly the states are going to be interested in working with their local communities to come up with applications that are worthy of funding.

If you remember the President's remarks that he made himself about Elkhorn Bank and the contributions that were made there, and that I think in the area that exists in Arkansas would qualify under your definition of a very poor distressed rural community. And yet from a variety of sources, a minimum amount, by the way, which came from the state government, they were able to do this. So with this extra incentive that we have here of this investment that the federal government fund will put together we hope to attract an awful lot of private persons, state governments, and foundations to come up with -- and work with their local communities to come up applications that should be funded. And this is going to be a network of banks that serve all communities across the country.

Q Is it fair to say that in the first few years, since existing institutions already have staffs who can work on these types of things, that you expect the program to be weighted towards existing institutions rather than new institutions?

SENIOR ADMINISTRATION OFFICIAL: Well, we're going to have a board that I think will be broadly representative of both the interested portions of the federal agencies that are committed to making community reinvestment work. You're going to have persons from the private sector who are going to serve on that board. And I think you'll be pleasantly surprised by the type of balance and the

type of objectivity and the type of judgments they make in bringing this to fruition.

Q Are you going to control in any way the distribution of funds across the country between geographical areas, urban, rural?

SENIOR ADMINISTRATION OFFICIAL: There's a selection criteria in the bill which relates one of about 10 or 12 of the selection criteria that we have proposed in our bill, one of which is the geographic diversity issue.

Q Would you go through the numbers involved in this? The President said about \$400 million. How much overall? How much in the budget for next year? How many years are you --

SENIOR ADMINISTRATION OFFICIAL: Over a four year period there's \$384 million, or such greater amounts as the Congress may choose to appropriate based on our actual experience. There will be -- for this year we are working very hard to try and cooperate with both the authorizing committees and the appropriating committees to get this started this year, both authorized and \$60 million in funds appropriated.

In terms of the numbers of dollars that that may make available, there will be at least \$300-and-some million actually invested in community development institutions. But there will also be funds available for the type of technical assistance that, in fact, might help some applicants who otherwise can't get their act together in other ways, but are deserving.

That will be leveraged, then, by -- if it's a depository institution, just as an example, the leverage can be anywhere from 8-to-1 to 14-to-1 in terms of the dollars that will end up in actual lending credit. And to take a nondepository institution as an example, many of our most successful CDCs across the country, they have a 9-to-1 leverage. They're getting \$9 from other financial institutions for every dollar that they invest. So there's a tremendous potential here to help the entire country.

Q Will you take into consideration a community that's hurt by the closing of military bases, say, something like that, or a community that sent so many people off to the Persian Gulf and they've been suffering ever since?

SENIOR ADMINISTRATION OFFICIAL: Well, I think the selection criteria, when you look at them, are based on the degree of essentially distress. And as I mentioned to you, you're going to have a board that I think represents the types of interests in both the government and in the private sector that are going to be in there trying to help.

Secondly, I think you have to realize that this is one of many programs that are targeted to try and help communities that are in distress for one reason or another. There are specific measures, as you know, related to base closing. And on that particular issue with this initiative, I think that's something that I personally have not considered.

Q I understand that a commercial bank or a community development subsidiary of a commercial bank would not be eligible for funding under this program. If that's true, why did you make that decision to leave commercial banks out?

SENIOR ADMINISTRATION OFFICIAL: Well, I'd be glad to defer to my colleague on this, but I think his response was very accurate. The Community Reinvestment Act itself imposes obligations on our major financial institutions. And those are obligations that

we think that the President, in his directive to the regulators, will strengthen CRA tremendously. And, given those obligations, we think that the banks themselves are the ones who should live up to those obligations. And insofar as there are failures in the market, insofar as there are communities that are not served by existing banking institutions, those are the ones for which the CDFI initiative is reserved.

Q You said \$300 million into the economy over the next five years -- is that what you said?

SENIOR ADMINISTRATION OFFICIAL: No, I said that there were -- the bill itself would invest at least \$300 million in equity in local community development financial institutions around the country. That then will be matched by private equity contributions from the types of foundations, other banks, state governments, a variety of private sources. Then that pool of equity, which is what the base is for any of your financial institutions, they will then lend against that. And the Treasury has an estimate that, conservatively, over \$2 billion will go into the economy in actual lending over the next four or five years.

Q There's one segment of the population that has a hard time getting --

Q What's the source of the \$300 million?

SENIOR ADMINISTRATION OFFICIAL: The source of the \$300 million would be an appropriation from Congress to the fund.

Q There's one section of the country that has a hard time getting -- one section of the population a hard time getting credit often, and that's women. When you name this board, are you going to be mindful of that fact?

SENIOR ADMINISTRATION OFFICIAL: I'm sure the President will be.

Q Can you tell me on the geographic distribution, can you be a little more specific on that? Is it one -- there has to be at least one for every state, or is more diverse? And is there a poverty threshold in the criteria or urban defined or urban-rural split, urban areas get half the money?

SENIOR ADMINISTRATION OFFICIAL: No, there are no such hard and fast rules. Basically we have, as I mentioned, about 10 or 15 criteria. I'd be glad to share the bill with you and the legislation and go over those criteria with you in detail. Essentially, no one of them is a win or lose situation. They are to be viewed as a whole.

Q Do you have a timetable when this is all going to take place?

SENIOR ADMINISTRATION OFFICIAL: Well, I think we were pleased, as the President reported, that the hearings before the Senate banking committee on our particular initiative will occur at 2:00 p.m. this afternoon. And Chairman Gonzalez, in cooperation with all the subcommittee chairs of House Banking, will hold their hearings within the next two weeks. So we hope that initiative will go forward.

SENIOR ADMINISTRATION OFFICIAL: I just want to -- if anybody has any more questions for my colleagues, they have to go in two minutes to the hearings.

Q Is the \$60 million for this coming year already part of the President's budget package that was already --

SENIOR ADMINISTRATION OFFICIAL: Yes, it is.

Q Will any of the flood disaster states be given any sort of special preferential treatment in this package?

SENIOR ADMINISTRATION OFFICIAL: There is no particular -- obviously, as this legislation was drafted over the past few months, there is no particular selection criteria related to the terrible flooding tragedy that's going on now.

Q Or to Hurricane Andrew, so there's no application to natural disasters whatsoever?

SENIOR ADMINISTRATION OFFICIAL: That's correct.

Q When does a bad loan risk to a commercial bank become a good loan risk to a community development bank?

SENIOR ADMINISTRATION OFFICIAL: Well, I don't think either of these programs are giveaways. Frankly, there is a huge need in the inner city, low and moderate income areas, and poor rural areas. Both these initiatives meet a slice of that. But it's a very important slice. It's a slice that brings people, as the President said earlier, into the economic mainstream of the society. CDFIs fulfill a very important niche -- if you will, a more entrepreneurial niche. They fill niches both -- likely to fill niches both geographically and substantively that banks have not filled.

At the same time, banks have an enormous role to play here. They're all over the country. They're in virtually every community -- most communities. And if you look at banks having \$4 trillion of assets currently, increased activity as a result of the Community Reinvestment Act is very significant.

Q Will you tell us if there's going to be housing for the homeless from this program?

SENIOR ADMINISTRATION OFFICIAL: If I could just add a point to the previous question, which is these are not bad risks. The experience with ShoreBank in Chicago is that small loans to low-income entrepreneurs have a much lower default rate than most mainstream banks have experienced. The trouble is most mainstream banks don't have the lending expertise to make these loans and identify good risks in low-income communities.

Q The banking industry has a lot of hopes for regulatory relief and there's a theory that they will act to get these things tacked on to this bill. Do you have a scheme for getting this through without a lot of --

SENIOR ADMINISTRATION OFFICIAL: Let me respond to the one about regulatory relief, but we had a prior question about the homeless, which my colleague is going to respond to first.

SENIOR ADMINISTRATION OFFICIAL: Thank you. I think this, as you've heard from the President and at this briefing, this initiative in and of itself is very significant. The need is tremendous for a resource such as the one that's presented today. It is even more significant when you look at the total context that it is within. The premise is that we have to get economic development going on in distressed urban and rural areas. That's what CD banks are all about. That's also what empowerment zones which is an initiative that has been previously announced and introduced is also about. They are two measures to do the same for the same purpose, for the same overall initiative -- spur economic development.

This does not have a specific homeless initiative in it. However, CD banks are designed to work in tandem with empowerment zones which bring in a comprehensive redevelopment strategy. They

bring tax incentives to attract a business. This is -- CD banks would be yet an additional access to capital strategy in the midst of a comprehensive redevelopment plan that has housing together with economic development, together with infrastructure.

So when you put it all together you will be taking care of, at least addressing, the multifaceted needs of the community.

SENIOR ADMINISTRATION OFFICIAL: Let me respond to the question about regulatory relief and then my colleague and I do need to leave. The question was, is regulatory relief for banks some how or other going to be involved in this whole process. And the answer is that we're treating that as a separate, discreet issue. And in fact the transmittal letter from the President to Congress on the Community Development Bank specifically asked Congress to treat this as a separate issue. The Community Development Banks are a very constructive step unto themselves, don't need to be tied into other things.

We do have, as you know, the regulatory credit crunch alleviation program that has completed most of its steps, but there are some continuing regulatory review processes that are on-going as part of that. The CRA initiative itself is not exactly a regulatory relief step, it's a regulatory rationalization step. And in a sense, rationalizing these regulations will turn out to be a relief. As my colleague said before, it's a win-win situation. It will produce more for the communities and should make life more livable for the bankers because they will have more objective, clearer understanding of what they need to do to meet the regulations.

Whether or not we then go on to address some legislative issues that might be appropriate for furthering the efficiency and the flow of credit through the banking system is something that we have not yet addressed and that's something later on in the agenda.

THE PRESS: Thank you.

END

1:37 P.M. EDT