Fin Mod (
CRA

Sarah Rosen Wartell
05/17/99 08:29:47 AM

Record Type: Record

To: Melissa G. Green/OPD/EOP@EOP, Gene B. Sperling/OPD/EOP@EOP, Sally Katzen/OPD/EOP@EOP

cc: Roger S. Ballentine/WHO/EOP@EOP, Broderick Johnson/WHO/EOP@EOP, WEINSTEIN_P@A1@CD@VAXGTWY@VAXGTWY, Lisa Green/OPD/EOP@EOP

Subject: Update on Fin Mod

The NEC is convening weekly conference calls with Treasury (Gensler, Carnell, Baer, Barr and Levine (Leg Affairs)), WH Leg Affairs, and DPC (Weinstein) to discuss status and strategy of Fin Mod legislation.

As you know, on March 11th, the House Banking Committee reported out H.R. 10 with an overwhelming bipartisan vote. The Administration strongly supported that bill which authorized some activities to be conducted in operating subsidiaries, contained no anti-CRA provisions, but did require holding companies to "have and maintain" an adequate CRA rating in order to engage in nonbanking activities. On May 6, 1999, S. 900 passed the Senate. Next stop is the House Commerce Committee.

We expect Commerce subcommittee mark-up on May 27th and full committee markup by June 11th. The House leadership expects to entertain the final bill on the House floor before they adjourn for July 4th recess.

The Commerce Committee is expected to make significant changes to the bill passed by the House Banking Committee. For example, we expect that their bill will not authorize any activities to be conducted in operating subsidiaries. We also expect them to make significant changes to the Federal Home Loan Bank provisions in the bill. They also may limit the ability of bank regulators to preempt state insurance laws (and thus allow more state laws that "discriminate" against banks) and may give the SEC greater authority to regulate bank securities activities. They also may add consumer protections on privacy or other areas that we will like. They are not expected to change the CRA provisions of the bill.

The real point of engagement for Treasury will be with the House leadership. They are hopeful that the leadership will decide that they want to pass a bill that stands a good chance of bipartisan support (to avoid the squeaker of a vote they had last year 214-213) and of enactment (to avoid presidential veto). Rep. Dreier was a cosponsor of the LaFalce bill and views the House Banking Committee bill favorably. However, in a battle between Rep. Dingell and Rep. LaFalce, Treasury is not counting on Minority Leader Gephardt as being much help to them.

After House passage, the bill will go to Conference where the issues that Phil Gramm has raised on CRA will be back in play.

Stay tuned.

Rosen,
Kaplan, Sally

Sarah Rosen
04/15/99 05:53:01 PM

Record Type: Record

To: Melissa G. Green/OPD/EOP, Sally Katzen/OPD/EOP

cc: Richard L. Siewert/WHO/EOP, Paul J. Weinstein Jr./OPD/EOP, Roger S. Ballentine/WHO/EOP, Broderick Johnson/WHO/EOP

Subject: Fin Mod/CRA Update

Gene and Sally -- Lots going on. A brief update.

[Paul/Roger/Broderick -- Did I miss anything?]

Greenspan on CRA: Shrewd Gramm asked the Fed Chair for his analysis of the CRA provisions of the House and Senate Fin Mod bills. Greenspan said that the House bill would affect CRA in 3 ways: (1) new requirement to have satisfactory CRA rating before approval for securities or insurance activities; (2) banks that have nonbanking affiliates and don't satisfy CRA obligations would be subject to enforcement; and (3) CRA would be applied to "woofies." The Gramm bill would affect it in ~~two ways: (1)~~ small bank exemption; ~~and (2)~~ "rebuttable presumption" about CRA compliance (the so-called "safe harbor") for banks with satisfactory ratings. Although the Greenspan letter never used the word expansion, Gramm's press release, of course, concluded that "Greenspan finds significant expansion of CRA in House [bill]."

Status in Senate: Expected to go to floor beginning of May. Lott/Gramm/Daschle/Sarbanes (possibly Rubin) meeting yet to be scheduled. [FYI -- Sarah thinks it is "dumb" ~~for Rubin to go --~~ hurts us with House and could lock us into what Senate Dems agree, but if Daschle wants Rubin, he may have to.] Daschle will wait til Lott comes to them. After the meeting, Daschle and Senate Banking Dems will release a "Dear Colleague" about why they want a bill, but their bill is better, with President's veto letter and a side-by-side attached. Rubin is also scheduled to appear before Dem Caucus lunch.

?

Status in House: Commerce Committee mark-up is next -- date uncertain. Treasury working and making some progress but outcome on key issues is unclear.

Possible Interest Group Press Conference: Wade Henderson and a coalition of groups are planning a press conference for the end of the month. Treasury and Senate Dems would be happy to participate if it is a "save CRA" event, but it it is a "kill Fin Mod" event, we can't participate. Gail Cincotta recently got press by bringing 13 busloads of protestors to Phil Gramm's home in Texas on a sunday and littering the place with leaflets. Not the kind of event we want to participate in. Discussions with Henderson and Treasury ongoing.

CRA Outreach: As part of the follow-up to the Race Report, Maria E. and Chuck Ruff have a group that is working on various projects, including "CRA/Fair Lending Enforcement." Maria wanted to schedule a "CRA outreach" meeting with all the groups. Weinstein said: hold on. Let's coordinate here. Lots going on with the groups, Democrats on Hill, Treasury, and others in context of Fin Mod. Maria has scheduled an internal meeting to coordinate which has been rescheduled numerous times. Now rescheduled for Friday, 4/16, at 11:00. Meanwhile, apparently Wade Henderson wants to come in to meet with NEC, DPC, ~~Treasu,~~ and HUD on CRA strategy. Sarbanes and

Lafalce staff want to be there if this happens. Weinstein is coordinating.

February 22, 1999 -- THIRD DRAFT

MEMORANDUM TO THE PRESIDENT

CC: THE VICE PRESIDENT

FROM: GENE SPERLING
BRUCE REED
LARRY STEIN

SUBJECT: **The Community Reinvestment Act**

The Community Reinvestment Act (CRA) will be front and center in the next few months, a result of the ascendancy of its chief adversary, Phil Gramm, to Chairman of the Senate Banking Committee and its inextricable link to Financial Modernization legislation -- a high priority for the Republican leadership in both chambers. The purpose of this memorandum is to familiarize you with Senator Gramm's critique of CRA, the Administration's current strategy for responding, and how CRA may be affect the debate over Financial Modernization legislation.

Background: How CRA Works

CRA requires the federal regulators to encourage each institution under their jurisdiction to help meet the credit needs of the communities that the institution is chartered to serve. The Act also requires the regulators to assess each institution's community reinvestment performance during periodic exams and to consider that performance in their evaluations of any applications by the institution for expansion or relocation of their operations. During your first term, amid concern about the effectiveness of CRA and the regulatory burden on institutions, you directed the regulators to rewrite the CRA regulations to address these issues.

Under revised regulations issued in 1995, regulators assess a financial institution's performance under a three-prong test: loans made, services provided, and investments in their communities. The 1995 regulations streamlined the examination process, especially for small institutions. Examinations are typically done on 24 to 36 month cycles. The public has an opportunity to comment on CRA performance at any time, including before the start of a scheduled examination, and in connection with the filing of certain applications, such as those for mergers and acquisitions and the establishment of new institutions and deposit facilities.

Analysis: Senator Gramm's Critique and Proposed "Reforms"

While acknowledging a desire to repeal "reform" CRA, Senator Gramm admits that further work is necessary before he can advance that goal. In the short-term, he offers two ways to address CRA in Financial Modernization. The first he dubs "CRA neutrality"; the second would deal with what he describes as "extortion." Both approaches are reflected in a recent draft bill that his staff released for comment.

CRA "Neutrality"

Under current law, an institution's CRA performance is considered when an application is filed to open a new branch or to merge two institutions. However, increasingly, we are seeing applications to merge with non-banking firms (e.g., the Citibank-Travelers merger), which does not currently require an adequate CRA record for approval. The House version of H.R. 10 last year would have required that, before a bank holding company could affiliate with a non-bank firm (e.g. a securities or insurance company), it must be found to be well capitalized, well managed, and have a " satisfactory" CRA rating. In addition, it must maintain a "satisfactory" CRA record in order to continue to operate the non-banking activities. If the institution failed to do so, the regulator could required it to submit a plan to improve. The ultimate sanction for failure to restore a satisfactory rating would be divestiture of the non-bank affiliate.

Senator Gramm describes this as a radical expansion of CRA. He proposes to eliminate the requirement of a satisfactory CRA rating to initiate or maintain non-bank activities. Senator Sarbanes and community advocates argue that, unless applied to bank requests to perform non-bank activities, CRA's relevance would be diminished. The Administration concurs. In testimony before the House Banking Committee, Secretary Rubin emphasized that the authority for financial institutions to engage in non-bank activities must be connected to satisfactory CRA performance.

Nonetheless, the Administration is in a difficult position. The Treasury's own Financial Modernization proposal in 1996 would not have required satisfactory CRA compliance for new bank powers. We explain the evolution in our position by noting that the last two years have demonstrated the far greater importance than expected of non-banking activities to financial institutions. However, moderate Democrats looking to compromise with Senator Gramm will block provisions that weaken CRA but may not support provisions that they view as expanding CRA. Our challenge is to make a compelling case that the provision is necessary to maintain CRA's current effectiveness. This issue is important particularly since any version of Financial Modernization under discussion would allow some assets current held by banks to be shifted into non-bank affiliates, thus reducing the bank-held assets subject to the CRA.

CRA "Extortion" or "Bribery"

Senator Gramm also insists that Financial Modernization legislation address what he terms " extortion." Senator Gramm alleges that advocates file CRA protests and then offer to withdraw the protest if paid by the banks, perhaps in the form of a general contribution to their organization or an " advisory" fee. He also complains that advocates insist on minority hiring and contracting "quotas."

In response, Senator Gramm proposes two amendments. The first would make it a crime to provide a contribution of any kind or to establish any "quota or set aside" for employment, purchases, sales, or other activity (other than loans), with the intent to influence the person to refrain from providing information or to influence the content of the information, in connection with a review of the bank's CRA compliance. As written, the language could make criminal much of the activities that institutions undertake to strengthen their relationship with their communities. The possibility of criminal penalties will likely deter legitimate efforts to invest in community-based organizations or make voluntary hiring, contracting or supplier commitments. The second amendment would provide a "safe harbor" for any institution with a satisfactory CRA rating during its most recent exam. Banks in the "safe harbor" would be deemed to be in compliance for all purposes, precluding any analysis of the institution's CRA record during a merger application. Although community groups can comment on an institution's performance at any time, in reality they focus their attention on institutions that have applied for merger or branch approval. As each of ____ thousand institutions **[Treasury -- how many institutions are subject to CRA?]** are examined for CRA compliance ever 24 to 36 months, groups simply do not have the resources to evaluate CRA performance of each institution on an ongoing basis.

Next Steps

The Treasury Department is near completion of an analysis of CRA protests that they believe will show that few applications are protested, regulators have streamlined the process so that protests no longer result in significant delays, and thus CRA creates no opportunity to "extort." Instead, financial institutions make commitments to their communities because it is good business and good public relations.

We expect that a few prominent leaders of financial institutions will reiterate what they have often said -- community investment is good business. However, we do not wish to overstate the prospects. Few CEOs are eager to antagonize the Chairman of the Banking Committee and, in truth, most institutions would prefer not to have the oversight and examination that CRA brings.

We also are assessing other strategies to counter Senator Gramm's efforts. First, we are assessing whether there is an alternative to Senator Gramm's anti-extortion amendment that would do no harm to legitimate activities. While the Gramm amendment is unacceptable, we should not allow Senator Gramm to cast the Administration as supporters of extortion. We may wish to support a narrowly drawn amendment that would bar a community group from directly linking their support for a merger application to a payment to that group or its leadership. However, it is too early to concede the point. The case has not been made that such extortion is prevalent. And we do not want to undercut the community groups that strongly support CRA. But with their concurrence, such an amendment might provide cover to Democrats and help take that issue off the table.

[**FOR DISCUSSION:** A second approach under consideration would have us retake the offensive by proposing to strengthen CRA in some way, such as an amendment, offered by Rep. LaFalce last year, to require all financial institutions to keep track of their progress in meeting the voluntary CRA commitments that they make. Currently, there is no accountability for meeting such commitments. Last year when the OCC asked institutions to provide voluntarily information on their progress against commitments, the institutions balked and the move was harshly criticized by the Republicans. Further analysis is required, however, before we make any recommendations. Such a move might alienate moderate Democrats who will defend CRA but oppose its expansion.]

PRIME Act

Total Pages: ___

LRM ID: VLE8

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

Monday, September 21, 1998

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

FROM: Jeffrey A. Weinberg (for) Assistant Director for Legislative Reference

OMB CONTACT: Vicki L. Englund
PHONE: (202)395-3589 FAX: (202)395-3109

SUBJECT: **TREASURY Testimony on HR4179 Program for Investments in Microentrepreneurs Act of 1998 (PRIME Act)**

DEADLINE: **noon Tuesday, September 22, 1998**

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. **Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.**

COMMENTS: This is the third witness to testify at this hearing, the other witnesses' testimony circulated under LRM#s VLE5&VLE6.

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LRM ID: VLE8 **SUBJECT:** **TREASURY** Testimony on HR4179 Program for Investments in Microentrepreneurs Act of 1998 (PRIME Act)

RESPONSE TO
LEGISLATIVE REFERRAL
MEMORANDUM

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet. If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

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Please include the LRM number shown above, and the subject shown below.

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Office of Management and Budget
Branch-Wide Line (to reach legislative assistant): 395-3454

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WASHINGTON, D.C. 20220

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SPECIAL INSTRUCTIONS/COMMENTS:

CDFI Director Lazar's testimony
Please clear by COB 9/22. Thank you

MICROENTERPRISE HEARING; HEARING ON H.R. 4179, PROGRAM FOR INVESTMENTS IN MICROENTREPRENEURS ACT OF 1998 (PRIME ACT)

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON BANKING AND FINANCIAL SERVICES

General Statement
of
Ellen W. Lazar, Director

DEPARTMENT OF THE TREASURY
Community Development Financial Institutions Fund
September 23, 1998

Chairman Leach, Congressman LaFalce and distinguished Members of the Committee, it is a pleasure to be before you today and represent the Community Development Financial Institutions Fund. I am Ellen Lazar. I have been the Director of the Fund since January of this year. Before I begin my testimony, I would like to introduce you to other members of the Fund who are with me: Maurice Jones, Deputy Director for Policy and Programs and Paul Gentille, Deputy Director for Management/Chief Financial Officer.

The CDFI Fund was created to address critical community and economic revitalization needs of urban, rural and Native American communities. Our mission is to promote access to capital and local economic growth by investing in and supporting community development financial institutions (CDFIs) and expanding banks and thrifts' lending, investment, and services within underserved markets. Today's distressed communities are faced with many challenges: moving families from welfare to work, providing basic financial literacy skills, and training unskilled workers for jobs or to become self employed. The funding we provide, through a variety of programs, is making a difference in the lives of people that are often left out of the economic mainstream in this country.

CDFI PROGRAM OVERVIEW AND PRINCIPLES

The Fund's programs are built on several key principles:

- stimulation of private markets is critical for rebuilding economically distressed areas;
- building the capacity of community based institutions is essential for providing localities with the resources and tools necessary to serve underserved individuals; and
- an initiative that promotes private sector strategies to achieve public policy goals must be based on performance and maximizing impact.

Currently, the Fund operates four programs that collectively further these principles: the Community Development Financial Institutions (CDFI) Program; the Bank Enterprise Award Program; the Technical Assistance Program; and the Presidential Awards for Excellence in Microenterprise Development. These programs are run through a competitive process much like the proposed PRIME Act legislation.

The CDFI Program seeks to stimulate markets and spark economic activity by funding organizations that emphasize private sector market discipline. CDFIs include a number of different kinds of organizations, for profit and nonprofit, regulated and unregulated. These include community banks, community development loan funds, social venture capital funds, community development credit unions and microenterprise funds. The Fund makes investments in, and provides technical assistance to, CDFIs. These organizations provide financing for a host of activities including development of affordable housing, community facilities and small business ventures. The Fund began making awards to CDFIs in 1996. During its 1996 and 1997 rounds, the Fund awarded a total of $77.6 million through the CDFI program to over 81 CDFIs, including microenterprise funds, serving urban, rural and Native American communities. These investments will leverage new capital and generate new community development activity over the next several years. The 1998 Award round is currently underway. By the time it is over, the Fund expects to make approximately $50 million in awards to approximately 50 entities.

The Fund builds the financial capacity of CDFIs by providing financial assistance in the form of equity investments, grants, loans or deposits to enhance their capital base – or the financial muscle –of the organizations to make loans, investments, provide technical assistance or otherwise address unmet community development needs. The Fund also provides grants for technical assistance, to help the organizations develop the skills they need to further their development objectives. Over the past two years we have provided close to $2 million in funding to approximately 25 organizations for technical assistance.

In addition to CDFIs, traditional financial institutions play a key role in community development lending and investing. The Bank Enterprise Award (BEA) Program stimulates private sector markets by providing incentives for banks and thrifts to increase their investments in CDFIs and to increase their community development lending, investment and service activities within distressed communities. In 1996 and 1997, the

CDFI Fund made 92 awards totaling $30 million under the BEA Program. In 1998 we expect to award approximately $30 million to approximately 80 institutions. The Program has attracted significant financial and technical assistance to CDFIs, including microenterprise organizations, and loans, investments and services within high poverty neighborhoods. Program participants have included a wide range of institutions - national banks, state chartered commercial banks, Federal savings banks and thrifts, mutual savings banks and credit card banks.

This year the Fund launched a new initiative to build the organizational capacity of CDFIs. This initiative is a technical assistance program that will provide grant monies to CDFIs, particularly young and relatively small ones, for capacity building activities. We received applications from over 110 organizations throughout the country requesting over $7 million in funding. We expect to award over $3 million to approximately 70 organizations by the end of this month. A second capacity building initiative, to be launched in FY 1999, is a new training program that will enhance skill development among CDFIs and other members of the financial services industry that engage in community development finance activities. The Fund expects to provide up to $15 million in FY 1999 for this program.

The Fund also encourages excellence in performance within the microenterprise industry by identifying and promoting best practices. The Fund's Presidential Awards for Excellence in Microenterprise Development is a non-monetary program that recognizes and seeks to bring attention to organizations that have demonstrated excellence in promoting microentrepreneurship. By recognizing outstanding microenterprise organizations, the Presidential awards seek to promote sound practices and bring wider public attention to the important role and successes of microenterprise development especially in enhancing economic opportunities among women, low-income people, and minorities. The first Presidential Awards for Excellence in Microenterprise Development were made in January of 1997. We expect to make additional later this year.

THE PRIME ACT

The proposed PRIME program would serve as a highly effective complement to the Fund's mission and current programs. The Fund's current programs focus on providing financial and technical assistance to community-based organizations that pursue their community development objectives primarily through making loans and investments in distressed communities. The PRIME Act proposes to provide technical assistance to a range of microenterprise organizations that employ training-led microenterprise development strategies. The Act would allow the Fund to assist more microenterprise organizations and more microentreprenuers.

The proposed PRIME Act legislation establishes a competitive grant program based on the Fund's authorizing statute. The Act's key focus -- technical assistance and training for microenterprise development organizations and low income entrepreneurs -- is consistent with the Fund's community development mission. The Act's emphasis on research and development to further best practices in microenterprise training and technical assistance and their outcomes or impacts is consistent with the Fund's efforts thus far under the Presidential Awards for Excellence in Microenterprise Development.

The Fund would incorporate a PRIME program into our competitive funding cycles and make investments in nonprofit microenterprise development organizations or programs that would build their capacity to provide the training and technical assistance that supports low income entrepreneurs. These programs must have a demonstrated track record of delivering services to economically disadvantaged entrepreneurs. We would prepare regulations, issue a Notice of Funds Availability, conduct outreach workshops to explain how to apply for funding (we do this now, in conjunction with The Federal Reserve Banks), and develop a review process for the applications similar to those we conduct for other programs. We would evaluate the organization's ability to create community development impact. The Fund has significant expertise in carrying out all of these functions in a highly effective manner.

The PRIME Act requires that all assistance be matched with funds from sources other than the Federal government, a key component of the Fund's CDFI Program. The leveraging of private sector investments with Federal dollars has greatly enhanced the capability of the organizations that we invest in.

My top priority since coming to the Fund has been to continue to strengthen management and internal systems and procedures at the Fund. Understanding the importance of a sound management and program infrastructure, I wish to assure you that this will continue to be my primary focus. The Fund's new leadership is committed to improving financial management and awards monitoring by ensuring strong program and financial structure, effective internal controls and increasing the use of information technology.

We have already made significant strides toward achieving these objectives. I anticipate that by the time the PRIME legislation is enacted and receives an appropriation, the Fund will be well-positioned to implement the program in FY 2000.

THE FEDERAL GOVERNMENT'S INVOLVEMENT IN MICROENTERPRISE

An Executive Memorandum was issued in 1995 that directed the CDFI Fund to launch a microenterprise award program and to take the lead in coordinating microenterprise development and micro-lending programs among various federal agencies. The Fund was also directed to establish the Presidential Awards Program.

The Presidential Awards for Excellence in Microenterprise Development was successfully launched in 1997 and seven awardees were recognized in four categories illustrating best practices in the field of microenterprise development.

The Interagency Workgroup on Microenterprise Development was formally launched in July, 1998. The CDFI Fund is co-chairing this endeavor with the SBA. The first meeting included 40 people representing 12 agencies. We have established three working committees: Policy; Regulatory; and Education. We take seriously the commitment to ensure that the agencies better coordinate amongst themselves. It is our intention to provide the public better access to information about these federal programs. Along with other objectives, we hope to establish a common definition of "microenterprise" amongst the federal agencies. And most importantly, we will work to ensure that our programs do not duplicate or undermine each others' efforts.

Several agencies within the Federal government currently run microenterprise programs. They include the Small Business Administration; the Department of Agriculture; Health and Human Services; and Housing and Urban Development. For the most part, these programs are credit-led or finance programs: they provide loan capital. PRIME adds an important and necessary tool to the Federal government's efforts to assist microenterprise: funds for technical assistance and training.

The PRIME Act creates a new program within the federal government that is specifically dedicated to building a network of non profit community based institutions that can provide training and technical assistance to low income entrepreneurs. Its focus, on non-profit community based organizations, serving low-income entrepreneurs is consistent with the current work of the Fund – building community based organizations to serve low-income people and communities.

The Fund, consistent with its role of coordinating Federal microenterprise efforts will work with other Federal agencies, such as the Small Business Administration, in its administration of the PRIME Act. We expect that this partnering with other agencies will result in an efficiently run program that adds tremendous value to the microenterprise field.

At this time, we do not have any major changes to the legislation currently proposed. We will work with the staff on technical corrections we believe are appropriate.

Thank you for this opportunity to tell you about the CDFI Fund's programs and our thoughts about the PRIME Act. I would be very pleased to respond to any questions you may have about my testimony or about the Fund and its activities.

Total Pages: ___

LRM ID: VLE5

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

Friday, September 18, 1998

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

FROM: Jeffrey A. Weinberg (for) Assistant Director for Legislative Reference

OMB CONTACT: Vicki L. Englund
PHONE: (202)395-3589 FAX: (202)395-3109

SUBJECT: **TREASURY and Small Business Administration Testimony on HR4179 Program for Investments in Microentrepreneurs Act of 1998 (PRIME Act)**

DEADLINE: **5pm Monday, September 21, 1998**

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. **Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.**

COMMENTS: Both Treasury and SBA are testifying before the House Banking Committee on 9/23/98.

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LRM ID: VLE5 **SUBJECT:** TREASURY and Small Business Administration Testimony on HR4179 Program for Investments in Microentrepreneurs Act of 1998 (PRIME Act)

RESPONSE TO
LEGISLATIVE REFERRAL
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You may also respond by:
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_____ Concur

_____ No Objection

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_____ See proposed edits on pages _____

_____ Other: ______________

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WASHINGTON, D.C. 20220

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SPECIAL INSTRUCTIONS/COMMENTS:

draft 9/17, 4:00 pm, 25 minutes

U.S. House of Representatives
Committee on Banking and Financial Services

Hearing on H.R. 4179
Program for Investments in Microentrepreneurs (PRIME) Act of 1998

Statement of Michael S. Barr
Deputy Assistant Secretary
Community Development Policy
U.S. Department of the Treasury
September 23, 1998

Chairman Leach, distinguished members of the Committee, it is a pleasure to speak with you today about the PRIME Act (H.R. 4179), which authorizes the Treasury Department's Community Development Financial Institutions (CDFI) Fund to provide valuable support to micro-enterprise organizations and micro-entrepreneurs. I am pleased to be joined by Ellen Lazar, the Director of the CDFI Fund.

OVERVIEW OF THE CDFI FUND

Before discussing the PRIME legislation itself, I want to give you some background on the CDFI Fund. The CDFI Fund is a critical component of our strategy to promote private sector-led growth in economically distressed areas, and to help bring low income Americans into the economic mainstream.

CDFIs are specialized financial institutions that serve economically distressed communities and underserved populations. They include credit unions, microenterprise funds, development banks, and equity or loan funds that share this common mission: providing financial services to people and communities typically overlooked by traditional financial providers. For many years, institutions such as these have defied conventional wisdom by making loans to people that could not get financing elsewhere, and these borrowers have repaid with interest. CDFIs are often pioneers in their communities, making leading edge investments based on local knowledge, and demonstrating to traditional lenders that these are viable markets. CDFIs are expanding the reach of the private sector marketplace.

The role of the CDFI Fund is to further strengthen these institutions and to help new ones to grow. The Fund provides equity, loans, grants and technical assistance to CDFIs so that they can attract more investors and depositors, and make more investments and loans to hard-working Americans who have been for too long left behind. With CDFI, I believe we have a new, more market-driven approach to community development. By filling market niches and drawing mainstream financial institutions into low income communities through partnerships, CDFIs help to make our financial system work better for more Americans, no matter where they live or what their incomes might be.

The CDFI Fund runs several programs: the core CDFI program, which provides capital and technical assistance funding to CDFIs; the Bank Enterprise Award (BEA) program, which funds financial institutions that demonstrably increase their lending and other financial services in distressed communities; a technical assistance program aimed at bolstering the capacity of CDFIs; and the Presidential Awards for Excellence in Microenterprise Development. The Fund will soon also offer a Training Program, designed to enhance the array of technical services available to CDFIs. These programs are complementary and mutually reinforcing. By working to build the capacity of local institutions, these programs respond to communities' individual needs, whether it is helping families to buy a house, or a budding entrepreneur to start a business, or a community to provide the child care facilities working families need.

Thus far, the Fund has awarded nearly $80 million to 81 CDFIs around the country. The Fund expects to award over $40 million in its 1998 awards by the end of this month. The leveraging of the Fund's investment is strong, requiring at least a one-to-one match with non-Federal dollars. And the CDFIs, in turn, further leverage federal dollars by raising deposits, or partnering with other lenders in any given loan.

The program is still young, but we are already seeing signs of success. For example, I recently visited Self Help of North Carolina. The CDFI Fund's $3 million investment has already enabled Self Help to effectuate $24 million in home mortgage and commercial lending transactions. Over the next five years, Self Help estimates that the CDFI Fund's award and matching funds will enable Self Help to provide more than $100 million to finance affordable housing and small business loans over and above what Self Help could have done without the Fund's investments.

Under the Bank Enterprise Awards program, more banks and thrifts than ever before are reaching out to their communities and are investing in CDFIs. A number of banks have focused on micro-enterprise strategies. This year, the Fund received 104 applications, a 40 percent increase over last year's applications. The Fund's $30 million in BEA investments have already leveraged $273 million in bank investments and support.

Though the CDFI Fund has accomplished much in a short time, as with any new organization, there have been some growing pains. The General Oversight Investigations Subcommittee of this Committee has done a good job helping us make improvements to the fund. In my judgment, we have dealt with those problems thoroughly and effectively, and they are behind us. The Fund has significantly strengthened itself over the last year. We are moving this program forward with the leadership of Ellen Lazar and her team, who I believe brings to the job the dedication, many years of experience in community development, discipline, and energy needed to strengthen the CDFI Fund in the years ahead.

In sum, Mr. Chairman, we have a strong management team in place with the necessary skills and experience to ensure that the program meets high standards of accountability and performance, the Fund has strict awards procedures and sound infrastructure in place, and I believe that the Fund is well positioned to serve low income communities across the country. As you know, the Subcommittee on Financial Institutions and Consumer Credit has reported out the Fund's reauthorization bill, for which we are grateful to Chairwoman Roukema and her colleagues.

THE CDFI FUND'S SUPPORT FOR MICRO-ENTERPRISE

Let me turn now to ways in which the Fund currently supports micro-enterprise. As part of its core CDFI program, the Fund provides grants, loans and technical assistance to micro-enterprise organizations whose primary mission is to provide financial assistance to low income borrowers or in low income communities. CDFI has provided approximately $8.3 million to micro-enterprise organizations thus far. For example, last year, the Fund provided a $250,000 grant to PPEP Microbusiness and Housing Development Corporation in Tucson, Arizona, which focuses on low income entrepreneurs in rural areas.

In addition, the Fund encourages best practices in the micro-enterprise field through the Presidential Awards for Excellence in Microenterprise Development. These non-monetary awards highlight the importance of demonstrated results in key areas, including innovation, access to credit, poverty alleviation, and public or private support for micro-enterprise development. The first awards were made to seven organizations in

January, 1997. One award winner, for example, Cascadia Revolving Loan Fund, has made over $5 million in loans, with losses under 1 percent, and 90 percent of the businesses it has financed are still in existence. The Fund will make a second round of awards this fall.

Finally, the CDFI Fund, by Executive Memorandum, has been charged with the task of coordinating micro-enterprise programs across the federal government. The Fund has begun that effort, which we hope will bring increased benefits for micro-entrepreneurs in the years ahead.

THE PRIME ACT

I will turn now to the PRIME legislation. In our judgment, the PRIME Act fills an important function in supporting the technical assistance needs of the full range of micro-enterprise organizations. Although the CDFI Fund may currently provide technical assistance to micro-enterprise organizations whose primary focus is the provision of financial assistance, the Fund cannot reach the wide variety of organizations that support micro-entrepreneurs. The PRIME Act would give authority to the CDFI Fund to build the capacity of micro-enterprise development organizations and to provide funding for these organizations to provide training and technical assistance to micro-entrepreneurs.

As you know, while capital is critical for any small business to grow, it is not enough. Often, the difference between success and failure for any business, but particularly for micro-businesses started by low income entrepreneurs, is the availability of sound business advice. As Senator Domenici said, on introducing this legislation in the Senate, "Starting one's own business is a part of the American dream, and, as every entrepreneur knows, it takes extraordinary dedication, creativity, and connections. There are sometimes overwhelming obstacles for would-be small business owners, but we believe a well-placed federal investment could go far in terms of encouraging more people to make the American dream a reality."

CONCLUSION

Mr. Chairman, the Fund's vision for stimulating private sector investment in distressed areas makes sense, and the Fund's investments are beginning to make a difference in people's lives. Since its inception, CDFI has enjoyed bipartisan support. I look forward to working with all of you to enact the CDFI Fund's reauthorization, so that CDFI can help more local communities across the country rebuild neighborhoods, create jobs, and restore hope. CDFI is a solid investment in the long-term economic well being of not only those communities, but all of us.

Thank you very much.

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COMMENTS: Attached is a copy of SBA's testimony for the September 23 hearing regarding the PRIME Act, H.R. 4179. This copy is for clearance. Thanks!

DRAFT

STATEMENT OF JOHN GRAY

ASSOCIATE DEPUTY ADMINISTRATOR FOR CAPITAL ACCESS

U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE COMMITTEE ON BANKING

UNITED STATES HOUSE OF REPRESENTATIVES

WASHINGTON, DC

SEPTEMBER 23, 1998

DRAFT DRAFT DRAFT DRAFT

Testimony
September 23 Hearing--- Micro/Prime

John Gray, Associate Deputy Administrator
Office of Capital Access
U.S. Small Business Administration

Good morning. My name is John Gray. I am the Associate Deputy Administrator for Capital Access at the U.S. Small Business Administration (SBA). On behalf of Administrator Alvarez, I want to thank the Members of the Committee for the opportunity to discuss the SBA microenterprise program and the PRIME Act proposal.

With more than 100 intermediaries, the SBA Microloan Program is the largest Federal program of its kind. Since its inception, the Microloan Program, which couples small loans with technical assistance, has provided unique support to start and grow microenterprises. In accordance with the program's authorizing legislation, SBA is committed to targeting microloan program assistance to low-income individuals, individuals in areas of economic downturn, and to women, minorities, and other individuals in need of small amounts of capital to own and operate a small business.

Description

SBA's Microloan Demonstration Program was authorized by Public Law 102-140, enacted in 1991. The program was modified several times by legislation, and was made permanent in 1997 as part of SBA's Reauthorization Act, Public Law 105-135. SBA's Microloan Program fills a critical gap in the commercial marketplace, which makes obtaining financing especially difficult for those small businesses with the smallest borrowing needs and for those that require additional guidance and support to achieve competitive success.

The microloan program has three components. Under its first component, SBA provides loans to organizations, "intermediaries" that, in turn, make loans to microenterprises in amounts up to $25,000. What makes this loan program unique is that SBA is also authorized to provide grant funding to the intermediaries allowing them to provide technical assistance and support to their borrowers. This technical assistance helps microbusinesses achieve success.

Under the second component of the microloan program, SBA is authorized to provide separate grant funding to additional "non-lending technical assistance providers." This enables these organizations to provide assistance to small entrepreneurs to enable them to secure private sector funding. SBA is currently authorized to provide grants, of up to $125,000, to as many as 25 non-lending technical assistance providers each year. To date, more than 13,0000 microbusinesses have received technical assistance under this

Microloan Program component.

Under the third component of the microloan program, SBA is authorized to provide grants to experts in the microenterprise field, enabling them to train other microenterprise organizations to increase their skills in assisting microbusinesses. These capacity-building grants enable SBA to provide training and training products to improve, and make more consistent, the quality of services provided throughout the industry. As an example, SBA funded the research and development of capacity building training modules designed to assist microenterprise organizations to provide services to two special markets – the Vietnamese and Hispanic communities.

Program Contribution

The SBA Microloan Program is valuable for a number of reasons. First, it is a community-based program. It requires local investment of dollars, expertise and training. It allows lenders to conduct business within the local lending climate. Furthermore, it encourages borrowers to strengthen their financial positions through local institutions. Second, the Microloan Program's focus is on access to credit backed by technical assistance. It forces intermediaries to make smart choices in lending and to enhance those choices by providing technical assistance to borrowers and potential borrowers. It encourages borrowers to be fiscally responsible and to take seriously the prospect of success.

The effectiveness of SBA's Microloan Program can best be conveyed through an example of success. In 1994, while working as full-time firefighters, a brother-sister partnership established a business that marks underground utilities in Wisconsin. They worked different shifts so that one could run the business while the other went to work. They shared a car, invested a major portion of their earnings into the business, and recently reached a point of growth that required a small capital injection. This year, a $14,000 loan was made to their business. As a result, new equipment was purchased and two full time jobs were created, doubling the size of the company. As a result of this growth, this minority-owned microbusiness landed a two year contract with a large firm, strengthening that firm's commitment to invest in local, minority owned businesses.

SBA implemented the Microloan Demonstration Program in June, 1992, when it announced its initial selection of 35 intermediary lenders and two non-lending technical assistance providers. Currently SBA's Microloan Program includes 119 intermediaries providing full or partial coverage in 46 states, the District of Columbia and Puerto Rico, and 19 non-lending technical assistance providers in as many states. SBA has recently expanded the Microloan Program to include coverage of 89 additional counties in 13 states. These new areas of coverage include parts of southern California, eastern Oregon, western Idaho, southern Alabama, the Rio Grande valley, western Pennsylvania, the mid-sections of Michigan and Massachusetts, and areas of New York. SBA is authorized to expand the program to a total of 200 intermediaries, and is trying to achieve the maximum geographical coverage within that number.

The structure of the microloan program, with its leveraging of SBA funds with non-SBA and non-Federal funds, guarantees significant local investment in the success of the program and in each microbusiness assisted. Based on the program's performance to date, the subsidy rate for direct loans to intermediary lenders has decreased from a high of 17% in 1992 to the current FY 1998 level of 10.31 percent. The subsidy rate for the guaranteed program has also shown a decrease from 11.95 percent, when the program was first implemented in FY 1996, to 8.15 percent in FY 1998.

Microloans are used for working capital and to finance furniture, fixtures, inventory, supplies, and equipment. Since 1992, more than 7,200 microbusinesses have received loans totaling approximately $71 million. Although the maximum loan amount for a microloan is $25,000, historically the national average has been approximately $10,000, with a slightly lower average loan size in rural areas. Reports from SBA's microloan intermediaries show that 1.56 jobs are created or retained for every microloan made.

Microborrowers are a diverse group of individuals with common goals. Their goals are self-sufficiency, improved lives for their families, and the opportunity to make positive contributions to their communities. Approximately 36% of SBA's microborrowers live in rural areas. About 45% of the microloans made have been to businesses owned by women. Minority business owners have received over 39% of the microloans made. SBA-provided funds assist businesses in virtually every industry, with a predominance of support being provided to service-related businesses.

Program Mechanics

Under the Microloan Program, SBA is authorized to provide up to $3.5 million, in increments of up to $750,000, in the form of direct or guaranteed loans, to individual nonprofit, community-based lending and training organizations. These intermediaries then make microloans to start-up, newly established, and growing small business concerns in amounts up to $25,000. SBA's loans to the intermediary lenders are repaid over a maximum ten-year term, while the individual microloans are repaid to the intermediary lenders over a maximum six-year term.

To date, no taxpayer dollars have been lost through the Microloan Program. Although we cannot expect this record to continue forever, we believe that the strength of the program lies in the protection built into its structure. Currently, for each dollar that the SBA loans to an intermediary, the intermediary must provide a 15% cash matching contribution of non-borrowed, non-federal funds. This matching contribution serves as a reserve against losses sustained by an intermediary on its loans to microbusinesses, and helps ensure repayment to SBA. In addition, each intermediary is required to match its technical assistance grants with a 25% cash, or in-kind, contribution.

While it is evident that loan capital is a critical component of any start-up business, technical assistance is the backbone of microenterprise development. It separates microlending from traditional lending in that it provides the small business owner with an integrated approach to capital and business development knowledge. Direct technical assistance to the microborrower and potential microborrower provides training in business management, inventory control, cash management, marketing, and in other areas critical to the success of any business. Technical assistance is such a critical part of the lending process that when training funds are not adequate, microlenders will slow their lending rather than put loan capital at risk.

By statute, SBA is authorized to provide an annual technical assistance grant -- to each intermediary lender equal to up to 25% of the intermediary's outstanding loans to SBA. However, funding shortages in FY 1996 and FY 1997 caused SBA to limit its technical assistance grant support to less than 16% of the intermediaries' outstanding loans.

SBA believes that when technical assistance grant funding falls below 18.5%, an intermediary's ability to provide critical services to its borrowers declines to unacceptable levels. Therefore, SBA has, in the past, been forced to limit its approval of new intermediaries to a level that could be supported by the available technical assistance grant funding. This means that SBA has been unable to fully utilize its loan funding each year. SBA has been able to provide technical assistance grants at the 20% level during FY 1998 and will attempt to continue at that level, or higher, in the future. Currently, SBA is also authorized to provide grants up to $125,000 to as many as 25 non-lending technical assistance providers each year.

Budget

There are three line items in the budget for the Microloan Program. They are appropriations for direct lending, guaranteed lending and technical assistance.

During FY 1998, the program level for direct lending to intermediaries is $28.6 million.

As authorized by statute, SBA is also testing the idea of using traditional lines of credit to finance loans to intermediary lenders. Under the Microloan Guaranteed Lending Pilot, intermediary lenders may establish open lines of credit with private sector lending institutions with these lines of credit 100 percent guaranteed by SBA. This program has $38.4 million in program level funding available for FY 1998 and would appear to be a more efficient approach to the use of funds than that of direct lending. However, we project that only $4 million of the $38 million guaranty authority will be used. Feedback from commercial and intermediary lenders tells us that the statutory restrictions imposed on the guaranty program discourage commercial lenders from participating because they are required to commit funds for a ten-year period, using potentially unprofitable five-year pricing. The guaranty pilot has been extended through the end of FY 2000, at which time, the SBA will be better able to assess changes needed to enhance the use of guaranteed funds.

The third line item affecting the program is technical assistance grant funding. The Microloan Program received $14.5 million in new funding for FY1998 and had a carry-over availability of $3.1 million. This year all of the new funding has been committed to microlenders and non-lending technical assistance providers. In addition, a portion of the carry over funding has been committed.

Discussion of Other Programs

Several Federal agencies administer microenterprise-oriented programs but no other programs combine loans with technical assistance in the way that the SBA Microloan Program does.

- The Department of Agriculture administers its Intermediary Relending Program, which focuses on loans above $100,000.

- The Department of Health and Human Services administers two programs: the Job Opportunities for Low Income (JOLI) Borrowers' Program and the Refugee Resettlement Program. The JOLI Program provides grant funding to train individuals for self-employment. The Refugee Resettlement program provides self-employment services only to persons considered refugees.

- The Department of Housing and Urban Development administers a program that assists entrepreneurs living in or near public housing.

- The Department of Labor has made some investment in microenterprise development by testing the idea of paying Unemployment Insurance to persons seeking self-employment in lieu of re-employment.

- The CDFI fund, whose administrators will testify shortly, provides funding to community development banks for various types of investments at the local level, including microenterprise development. It also provides non-financial awards and certifications to financial institutions that make specific types of investments at the community level.

PRIME Act Comparison

The proposed PRIME Act's sole focus is to provide technical assistance grant funding to community-based organizations. These grant funds would be used to enable the organizations to provide education, technical assistance, and training for microenterprise institutions.

In contrast, the SBA Microloan Program provides three methods by which an organization can receive SBA assistance. First, as an intermediary lender, to provide loan funds and technical assistance to the smallest of businesses and potential businesses. Second, as a non-lending technical assistance provider, to assist low-income microbusiness owners to obtain private sector capital. Third, as a capacity building organization, to help develop training materials for other microenterprise organizations. All of these methods involve funding for technical assistance.

Conclusion

The single most unique and significant feature of the SBA Microloan Program is its ability to link technical assistance with lending. Ultimately, the availability of technical assistance is critical to the individual microborrower's potential for success. The Microloan Program's non-lending technical assistance component also couples technical assistance with lending, in this case, to help entrepreneurs to obtain critical funding from private sector sources.

Administrator Alvarez has committed SBA to providing business capital and services to "new markets" including, among others, inner-city and rural small businesses and minority and women-owned small businesses. The Microloan Program is the beginning of SBA's critical continuum of services supporting the establishment and growth of micro- and other small business enterprises.

Thank you for taking the time to learn more about the SBA Microloan Program and how it relates to other microenterprise programs and proposals. I am very pleased to have been invited to testify today. I look forward to the Microloan Program's continued growth. I will be happy to answer any questions that you may have at this time.

I

105TH CONGRESS
2D SESSION

H. R. 4179

To authorize qualified organizations to provide technical assistance and capacity building services to microenterprise development organizations and programs and to disadvantaged entrepreneurs using funds from the Community Development Financial Institutions Fund, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JUNE 25, 1998

Mr. RUSH introduced the following bill; which was referred to the Committee on Banking and Financial Services

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A BILL

To authorize qualified organizations to provide technical assistance and capacity building services to microenterprise development organizations and programs and to disadvantaged entrepreneurs using funds from the Community Development Financial Institutions Fund, and for other purposes.

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

SECTION 1. PROVISION OF TECHNICAL ASSISTANCE TO MICROENTERPRISES.

Title I of the Riegle Community Development and Regulatory Improvement Act of 1994 (12 U.S.C. 4701 et seq.) is amended by adding at the end the following new subtitle:

"Subtitle C—Microenterprise Technical Assistance and Capacity Building Program

"SEC. 171. SHORT TITLE.

"This subtitle may be cited as the 'Program for Investment in Microentrepreneurs Act of 1998', also referred to as the 'PRIME Act'.

"SEC. 172. DEFINITIONS.

"For purposes of this subtitle—

"(1) the term 'Administrator' has the same meaning as in section 103;

"(2) the term 'capacity building services' means services provided to an organization that is, or is in the process of becoming a microenterprise development organization or program, for the purpose of enhancing its ability to provide training and services to disadvantaged entrepreneurs;

"(3) the term 'collaborative' means 2 or more nonprofit entities that agree to act jointly as a qualified organization under this subtitle;

"(4) the term 'disadvantaged entrepreneur' means a microentrepreneur that is—

"(A) a low-income person;

"(B) a very low-income person; or

"(C) an entrepreneur that lacks adequate access to capital or other resources essential for business success, or is economically disadvantaged, as determined by the Administrator;

"(5) the term 'Fund' has the same meaning as in section 103;

"(6) the term 'Indian tribe' has the same meaning as in section 103;

"(7) the term 'intermediary' means a private, nonprofit entity that seeks to serve microenterprise development organizations and programs as authorized under section 175;

"(8) the term 'low-income person' has the same meaning as in section 103;

"(9) the term 'microentrepreneur' means the owner or developer of a microenterprise;

"(10) the term 'microenterprise' means a sole proprietorship, partnership, or corporation that—

"(A) has fewer than 5 employees; and

"(B) generally lacks access to conventional loans, equity, or other banking services;

"(11) the term 'microenterprise development organization or program' means a nonprofit entity, or a program administered by such an entity, including community development corporations or other nonprofit development organizations and social service organizations, that provides services to disadvantaged entrepreneurs or prospective entrepreneurs;

"(12) the term 'training and technical assistance' means services and support provided to disadvantaged entrepreneurs or prospective entrepreneurs, such as assistance for the purpose of enhancing business planning, marketing, management, financial management skills, and assistance for the purpose of accessing financial services; and

"(13) the term 'very low-income person' means having an income, adjusted for family size, of not more than 150 percent of the poverty line (as defined in section 673(2) of the Community Services Block Grant Act (42 U.S.C. 9902(2), including any revision required by that section).

"SEC. 173. ESTABLISHMENT OF PROGRAM.

"The Administrator shall establish a microenterprise technical assistance and capacity building grant program to provide assistance from the Fund in the form of grants to qualified organizations in accordance with this subtitle.

"SEC. 174. USES OF ASSISTANCE.

"A qualified organization shall use grants made under this subtitle—

"(1) to provide training and technical assistance to disadvantaged entrepreneurs;

"(2) to provide training and capacity building services to microenterprise development organizations and programs and groups of such organizations to assist such organizations and programs in developing microenterprise training and services;

"(3) to aid in researching and developing the best practices in the field of microenterprise and technical assistance programs for disadvantaged entrepreneurs; and

"(4) for such other activities as the Administrator determines are consistent with the purposes of this subtitle.

"SEC. 175. QUALIFIED ORGANIZATIONS.

"For purposes of eligibility for assistance under this subtitle, a qualified organization shall be—

"(1) a nonprofit microenterprise development organization or program (or a group or collaborative thereof) that has a demonstrated record of delivering microenterprise services to disadvantaged entrepreneurs;

"(2) an intermediary;

"(3) a microenterprise development organization or program that is accountable to a local community, working in conjunction with a State or local government or Indian tribe; or

"(4) an Indian tribe acting on its own, if the Indian tribe can certify that no private organization or program referred to in this paragraph exists within its jurisdiction.

"SEC. 176. ALLOCATION OF ASSISTANCE; SUBGRANTS.

"(a) ALLOCATION OF ASSISTANCE.—

"(1) IN GENERAL.—The Administrator shall allocate assistance from the Fund under this subtitle to ensure that—

"(A) activities described in section 174(1) are funded using not less than 75 percent of amounts made available for such assistance; and

"(B) activities described in section 174(2) are funded using not less than 15 percent of amounts made available for such assistance.

"(2) LIMIT ON INDIVIDUAL ASSISTANCE.—No single organization or entity may receive more than 10 percent of the total funds appropriated under this subtitle in a single fiscal year.

"(b) TARGETED ASSISTANCE.—The Administrator shall ensure that not less than 50 percent of the grants made under this subtitle are used to benefit very low-income persons, including those residing on Indian reservations.

"(c) SUBGRANTS AUTHORIZED.—

"(1) IN GENERAL.—A qualified organization receiving assistance under this subtitle may provide grants using that assistance to qualified small and emerging microenterprise organizations and programs, subject to such rules and regulations as the Administrator determines to be appropriate.

"(2) LIMIT ON ADMINISTRATIVE EXPENSES.—Not more than 7.5 percent of assistance received by a qualified organization under this subtitle may be used for administrative expenses in connection with the making of subgrants under paragraph (1).

"(d) DIVERSITY.—In making grants under this subtitle, the Administrator shall ensure that grant recipients include both large and small microenterprise organizations, serving urban, rural, and Indian tribal communities and racially and ethnically diverse populations.

"SEC. 177. MATCHING REQUIREMENTS.

"(a) IN GENERAL.—Financial assistance under this subtitle shall be matched with funds from sources other than the Federal Government on the basis of not less than 50 percent of each dollar provided by the Fund.

"(b) SOURCES OF MATCHING FUNDS.—Fees, grants, gifts, funds from loan sources, and in-kind resources of a grant recipient from public or private sources may be used to comply with the matching requirement in subsection (a).

"(c) EXCEPTION.—

"(1) IN GENERAL.—In the case of an applicant for assistance under this subtitle with severe constraints on available sources of matching funds, the Administrator may reduce or eliminate the matching requirements of subsection (a).

"(2) LIMITATION.—Not more than 10 percent of the total funds made available from the Fund in any fiscal year to carry out this subtitle may be excepted from the matching requirements of subsection (a), as authorized by paragraph (1) of this subsection.

"SEC. 178. APPLICATIONS FOR ASSISTANCE.

"An application for assistance under this subtitle shall be submitted in such form and in accordance with such procedures as the Fund shall establish.

"SEC. 179. RECORDKEEPING.

"The requirements of section 115 shall apply to a qualified organization receiving assistance from the Fund under this subtitle as if it were a community development financial institution receiving assistance from the Fund under subtitle A.

"SEC. 180. AUTHORIZATION.

"In addition to funds otherwise authorized to be appropriated to the Fund to carry out this title, there are authorized to be appropriated to the Fund to carry out this subtitle—

"(1) $15,000,000 for fiscal year 1999;

"(2) $25,000,000 for fiscal year 2000;

"(3) $30,000,000 for fiscal year 2001; and

"(4) $35,000,000 for fiscal year 2002.

"SEC. 181. IMPLEMENTATION.

"The Administrator shall, by regulation, establish such requirements as may be necessary to carry out this subtitle.".

SEC. 2. ADMINISTRATIVE EXPENSES.

Section 121(a)(2)(A) of the Riegle Community Development and Regulatory Improvement Act of 1994 (12 U.S.C. 4718(a)(2)(A)) is amended—

(1) by striking "$5,550,000" and inserting "$6,100,000"; and

(2) in the first sentence, by inserting before the period ", including costs and expenses associated with carrying out subtitle C".

SEC. 3. CONFORMING AMENDMENTS.

Section 104(d) of the Riegle Community Development and Regulatory Improvement Act of 1994 (12 U.S.C. 4703(d)) is amended—

(1) in paragraph (2)—

(A) by striking "15" and inserting "17";

(B) in subparagraph (G)—

(i) by striking "9" and inserting "11";

(ii) by redesignating clauses (iv) and (v) as clauses (v) and (vi), respectively; and

(iii) by inserting after clause (iii) the following:

"(iv) 2 individuals who have expertise in microenterprises and microenterprise development;"; and

(2) in paragraph (4), in the first sentence, by inserting before the period "and subtitle C".

○