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Divider Title: **11**

BRIEFING FOR GENE SPERLING
REMARKS AT LASALLE PROJECT
April 15, 1999

General thoughts:

While the APIC rhetoric is the best and Jackson loves it, the substance of the tax credit and NMVC proposal resonate with many community development and business types, so don't neglect these. Also, we continue to be criticized for giving too little attention to the microenterprise, so use it too.

Jackson specifically asked that you cover the questions noted in bold below. I thought that your remarks at the ARC conference hit the right themes, so I have tried to reorganize your central points there under Jackson's questions.

I have also attached the detailed briefing I did for the ARC Governors Conference as that has more detail on all these points for your reference.

Talking Points

- **Describe APIC and the other components of the New Markets Initiative and why do they matter?**

    - If not now, when?

    - Heard anecdotes about need for capital; looked for a market failure; think we found it -- information about opportunities in these communities doesn't exist, no networks to tell investors about business opportunities in these areas. Our initiatives aim at providing economic incentives to find these opportunities and build these networks.

    - These programs provide **vehicles** for those trying to induce more investment in New Markets.
        - Governors or Mayors who want to encourage more investment in their underserved areas can set up funds (like North Carolina) or work with private fund managers to have them set up.
        - Private investors (like Sandy Weill) who want to go to others in the business community and say here's a great opportunity to do well by doing good can point to funds set up for this purpose.

Program Specifics

A. ***SBICs for Low-Mod Communities.*** First SBA figured out how to provide incentives to make it more attractive for the venture capital firms created under the SBIC program to invest in low-mod communities. (***SBA will be implementing these program modifications this year without legislation.***)

B. ***New Market Venture Capital Firms.*** Next, SBA realized that SBICs won't work for the smaller firms and those that need expertise as well as capital. So they proposed a new program -- know as New Market Venture Capital Firms -- modifying the SBIC concept to meet the needs of smaller businesses in underserved areas. ***(This will require new legislation.)***

C. ***APICs:*** But that left us with a challenge. To really make an impact on a community -- to create 100, 200, 400 jobs at a time -- you need to deal with larger firms that are growing and creating new facilities or relocating. So we enlisted the help of HUD and designed a program to create ***American Private Investment Companies (APICs).*** For years, America has OPIC -- the Overseas Private Investment Corporation -- which has an investment fund program like the SBIC program on a larger scale, to promote growth in emerging markets abroad. We needed a tool to promote growth in emerging markets at home. ***(APICS also require new legislation.)***

D. ***Tax Credit:*** Finally, we considered how to ensure that these new great investment vehicles (as well as existing vehicles like CDFIs, Community Development Corporations, and state enterprise funds) have investors rushing to their doors to take advantage. The fact is that large companies and wealthy investors don't want to know the details of SBICs, NMVCs and APICs -- they just want to invest with qualified fund managers who can promise a healthy rate of return. Equity investments in investment vehicles serving underserved communities are eligible for a tax credit worth up to 25% of the equity invested. (The credit is actually 6% a year, which has a net present value of approximately 25% of the amount invested.)

E. ***Other pieces as well:***

- Increasing by two and a half times the U.S. commitment to microenterprise, including doubling the level of microenterprise lending and a huge new commitment to technical assistance for microenterprise under a proposal for new legislation known as PRIME.
- A $30 million increase in funding levels for CDFIs.
- New small business lending firms targeted to underserved markets.
- BusinessLINC -- an initiative of the Vice Presidents to encourage large businesses to work with small business owners and entrepreneurs to improve the economic competitiveness of smaller firms in distressed areas.

- **What parts of these initiatives require legislation?**

  - New Markets Tax Credit
  - New Market Venture Capital Firms
  - APICS

- **How can we insure their passage and implementation?**

  - Has to be a bipartisan/nonpartisan effort.

  - Three different pieces of legislation, three different committees.
    - Ways and Means/Finance -- tax (if there is tax bill could move as part)
    - Small Business Committees for NMVC firms
    - Banking Committees for APICs legislation

  - Also need appropriators to provide resources for various elements (other than tax credit ($980 million) the cost is modest):
    - $45 million for NMVC
    - $36 million for APICS
    - $125 million for CDFI Fund ($15 million increase in base program and $15 million for PRIME-- microenterprise)
    - Doubling various microenterprise programs (SBA microloan credit subsidy up to $5 million; SBA TA up to $32 million; IDAs up to $20 million; SBA one-stop capital shops up to $10 million)

- **How can we apply the concepts with or without legislation?**

  - The ***SBICs targeted to LMI areas*** do not require legislation; SBA is aggressively marketing these concepts, hosting a series of conferences around the country. We understand that a number of groups are looking to whether they can find qualified management, form targeted SBICs, and solicit investors.

    - For example, South Carolina is proposing to set up an SBIC in which the state will further leverage the private equity investment; the state has also done the research to identify the growth business opportunities in underserved areas in their state to help focus investors on those types of investments.

  - There are a few ***existing Community Development Venture Capital Funds*** -- ***Kentucky Highlands*** is the best example -- that we hope will be grow and be cloned as interest grows in investment in New Markets.

- [If you want to hint at POTUS trip and encourage some competition to be the in on the ground floor, you can mention that, as funds are created or expanded to do new market investments, we will be looking to highlight their work as an example of the potential for this initiative.]

- ***CDFIs*** do lending in New Markets by definition. A few of them also do equity investments. Working with strong CDFIs is a great way to invest in New Markets today.

- SBA's ***New Market Lending Company*** initiative will approve a limited number of new non-bank 7(a) (small business) lenders who will focus on the credit needs of underserved communities.

Bullet Points for the Making Apic A Reality Plenary Session
April 15, 1999
8:00-10:00

- What are APIC the New Market Initiatives and why do they matter?
- What parts of these initiatives require legislation?
- How do we insure their passage and implementation?
- How can we apply the concepts with or without APIC?
- What can city and state officials do to bring these initiatives to their regions to inspire economic growth and the development of these new markets?
- How can the private sector take the lead in this initiative (e.g. aggressive SBA, SBIC lending by banking institutions; Corporate investment in private equity funds for new market ventures; Providing technical assistance and engaging in strategic partnerships with small business owners and entrepreneurs)?

Speaking Order of Presenters:

Gene Sperling, White House Economic Advisor

Representative from the Governor's Office

Mayor Richard M. Daley

Cary McMillan, Managing Partner, Arthur Andersen

Phil Condit, Chairman, CEO, The Boeing Company

Richard Notebaert, Chairman, CEO, Ameritech

All APIC Plenary participants (with the exception of Mayor Daley due to his Thursday morning schedule) can meet in the VIP Room, Suite 5 – Level 3, at the Hyatt Regency Hotel/McCormick Place. You will be greeted by either Princella Tobias or Darice Wright. Once convened we will guide you to the Plenary session.

ADMIN. DOCUMENTS
DESCRIBING INITIATIVE.

THE NEW MARKETS INITIATIVE: BUDGET IMPACT

The New Markets initiative will prompt approximately $15 billion in new investment in urban and rural areas over five years through:

The New Markets Tax Credit --To help spur $6 billion in new equity capital for investment in Americas New Markets, the New Markets Tax Credit will be worth up to 25 percent for investments in a wide range of vehicles serving these communities, including community development banks, venture funds and corporations, new investment company programs (targeted SBICs, NMVC firms, and APICs -- see descriptions below), and other targeted investment funds. Credits would be allocated to the targeted investment vehicles which could use the tax credits to attract investors. The investment funds would make their own decisions about what investments or loans to make to help create and grow businesses in the New Markets. A wide range of businesses could be financed by these investment funds, including small technology firms, inner-city shopping centers, manufacturers with hundreds of employees, and retail stores.

Budget Impact: ***The New Markets Tax Credit will cost approximately $980 million over five years.***

America's Private Investment Companies (APICs). For years, America has supported OPIC, the Overseas Private Investment Corporation, to promote growth in emerging markets abroad. Now we must do the same thing in America's New Markets. Under this program, investors will put equity into new private investment partnerships to be known as America's Private Investment Companies (APICs). HUD and SBA working together will provide up two times the private capital in loan guarantees for each. APICs will make equity investments in larger businesses that are expanding or relocating in inner cities and rural areas. Under the financing structure, the private investors' funds are at risk ahead of the government.

Budget impact: ***APICs will cost $36 million in credit subsidy (at a rate of 3.6%, allowing up to $1 billion in government guarantees) and $1 million for HUD's administrative costs.***

SBICs Targeted to New Markets. Over 40 years, the SBA's small business investment company (SBIC) program has provided roughly $20 billion in equity and debt financing to more than 85,000 different companies, helping them at a critical stage to grow from small businesses to household names, like AOL and Staples. However, too little of the capital invested has benefited our cities and rural distressed communities. Last summer, the Vice President challenged the SBA to find ways to meet better the needs of minority firms and underserved markets. In response, SBA determined that, under existing legislation, the Agency can offer more flexibility and new financing terms to make it more attractive for SBICs to invest in businesses in low and moderate income (LMI) areas. Specifically, SBICs making LMI investments will be eligible for a new type of federally guaranteed loan to augment their capital for business investment. Interest on the guaranteed funding will be deferred for the first five years of the 10-year term to give SBICs more time to nurture their investments in small businesses before they must produce a return. In addition, SBA will conduct an aggressive outreach campaign around the country to promote LMI investments.

<u>*Budget impact:*</u> ***No new loan subsidy budget authority is required for this initiative as the SBIC debentures program has a 0% credit subsidy rate. However, the commitment level for the SBIC debenture program must be increased (from $640 million in FY 99 to $800 million in FY 2000) in order to ensure that the new targeted activity does not crowd out activity by traditional SBICs.***

<u>New Markets Venture Capital Firms (NMVCs)</u>. There are thousands of inner-city and rural entrepreneurs who need both capital and expert guidance to transform their small businesses and great ideas into thriving companies. SBA will select ten-to-twenty NMVC firms whose management has successful records in community-based venture capital. The equity funds of private investors will be matched with loan guarantees of up to $10 million per NMVC, with interest on the debt deferred. Investors must also provide at least $1.5 million in technical assistance over five years to the target firms, matching SBA's grants of technical assistance. The program should provide long-term, patient growth capital and facilitate critically needed technology and management skills development for smaller businesses in new markets.

<u>*Budget impact:*</u> ***The NMVC firms will cost $15 million in credit subsidy for loan guarantees (at a credit subsidy rate of 15%, allowing $100 million in government guarantees) and $30 million for technical assistance grants.***

<u>New Markets Lending Companies (NMLC)</u>. For the first time in many years, SBA will approve approximately 10 new non-bank lenders -- firms authorized to originate loans under SBA's largest loan program -- the 7(a) General Business Loan Guaranty program. Under the 7(a) program, SBA guarantees up to 80% of a loan that is made by a lender to a creditworthy small business that cannot otherwise secure financing on reasonable terms. The firms selected must have a strategy to target their lending to underserved areas.

<u>*Budget Impact:*</u> ***No additional budget authority is necessary to license these new non-bank lenders.***

<u>Continued Growth for CDFIs.</u> Community Development Financial Institutions (CDFIs), locally-based institutions with expertise in lending and investment in underserved areas, represent an important vehicle for greater investment in new markets. The federal contribution to building these institutions must continue to grow.

<u>*Budget impact:*</u> ***The CDFI Fund will cost $125 million in FY 2000, including $15 million for new microenterprise activities under the Program for Investments in Microentrepenuers (PRIME) Act (now pending with***

bipartisan support before Congress) and an increase of $15 million over FY 99 levels.

Microenterprise Lending and Technical Assistance. Microenterprise initiatives in the FY 2000 budget include: (1) PRIME, under which the CDFI Fund will provide microenterprise technical assistance and capacity building program to award grants on a competitive basis to microenterprise development organizations and programs that focus on low-income entrepreneurs; (2) doubling support for technical assistance in SBA's Microloan Program, which links loans entrepreneurs with the provision of training and technical assistance; (3) doubling support for SBA lending to leverage over $75 million in new microlending; (4) doubling funding for Individual Development Accounts (IDAs), to empower lower-income individuals to start a new business, invest in a first home, or save for post-secondary education; and (5) tripling funding for SBA's One-Stop Capital Shops, which offer microenterprise development (including direct access to microlenders), personal finance, and even credit repair services in Empowerment Zones.

Budget impact: ***(1) As described above, PRIME will cost $15 million in FY 2000; (2) SBA's microloan technical assistance and training will cost $ 32 million in FY 2000 (up from $16 million in FY 99); (3) SBA's microlending will cost $5 million in credit subsidy (up from $3 million in FY 99); (4) IDAs will cost $20 million in FY 2000 (up from $10 million in FY 99); and (5) One-Stop Capital Shops will cost $10 million in FY 2000 up from $3.1 million in FY 99.***

BusinessLINC. The President's budget provides resources to expand BusinessLINC -- an innovative public-private partnership launched by Vice President Gore and led by Treasury Secretary Rubin and SBA Administrator Alvarez --to new markets in economically distressed communities. BusinessLINC (Learning, Information, Networking and Collaboration) is designed to encourage large businesses to work with small business owners and entrepreneurs in order to improve the economic competitiveness of smaller firms located in distressed areas, both urban and rural. The funds will be used to leverage private sector efforts to spur new BusinessLINC partnerships at the national and local level.

Budget Impact: ***BusinessLINC will cost $3 million in FY 2000.***

Specialized Small Business Investment Companies (SSBICs). The President's budget will expand current tax incentives to increase the amount of equity capital available to economically disadvantaged people by making it easier for Specialized Small Business Investment Companies (SSBICs) to qualify as tax-favored regulated investment companies.

Budget Impact: ***This change to tax rules will have a negligible budget impact.***

NEW MARKET INITIATIVE
BUDGET AND INVESTMENT SUMMARY --1/14/98

PROGRAM	'99	'00	5 yr Cost	Inc Over '99	1yr NM invstmt	Total yr NMinvtmt
APIC						
Credit Subsidy	$0	**$36m**	**$180m**	**$36m**		
Subsidy Rate	--	3.6%				
Commitment Level	$0	$1,000				
Admin Expenses	$0	**$3m**	**$15m**	**$3m**	**$1,500m**	**$7,500m**
NMVC						
Credit Subsidy	$0	**$15m**	**$75m**	**$15**	**$200m**	**$1,000m**
Subsidy Rate	--	15%				
Commitment Level	$0	$100m				
TA	$0	**$30m**	**$150**	**$30m**	**$60m**	**$300m**
SBICs						
Debentures(inc LMI)						
Credit Subsidy	$8.8m	**$0**		**$0**		
Subsidy Rate	1.38%	0.0%				
Commitment level	$640m	$800m		$160m		
LMI portion	$40	$200	**$0**	$200m	**$300m**	**$1,500m**
Business Link	$0	**$3m**	**$15m**	**$3m**	n/a	n/a
7(a) Ldg in NMLCs						
Credit subsidy	$0	**$4.5m**	**$22.5m**	**$4.5**		
Loan Volume	$0	$300m	$1,500m	$300	**$300m**	**$1,500m**
CDFI (prog. level) (See also PRIME)	$95m	**$125m**	**$150m**	**$30m**	**$67.5m**	**$337.5m**
TOTAL			**$607.5m**			**$12,138m**

Notes on Tax Credit:
- .98 billion (5 year cost) will generate $6 billion in new investment.
- Assume that 50% of the tax credit will be allocated to activities that are in the new initiative and the new investment is already counted above, so assume an additional $3 billion in new investment leveraged by the tax credit.
- The total investment leveraged (over 5 budget years but with investment occuring over 10 years) could be approximately $15 billion.

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Divider Title: **B**

POTENTIAL ORIGINAL SPONSORS FOR NEW MARKET LEGISLATION

* indicates a commitment or strong indication of interest

Bill	House Committees	Senate Committees
Tax	**Ways and Means** Becerra (D-CA) Jefferson (D-LA) Rangel (D-NY-Ranking)* Houghton (R-NY) Lewis (R-KY) Ramstad (R-MN) Check Johnson, N (Subcomm chair) Portman **Other** Roybal-Allard (D-CA)	**Finance** Moynihan (D-NY)-??? Rockefeller (D-WV) Robb (D-VA) (better) Chafee (R-RI) Jeffords (R-VT) Roth **Other** Daschle (D-SD) Lieberman (D-CT)
NMVC	**Small Business** Velazquez (D-NY-Ranking)* Rogers Talent (R-MO-Chair) **Appropriations** Roybal-Allard (D-CA) Mollahan (D-WV) Serrano ( ) **Other** LaFalce (D-NY) Watts (R-OK)	**Small Business** Edwards (D-NC) Kerry (D-MA-Ranking) Levin (D-MI) Lieberman (D-CT) Wellstone (D-MN) Burns (R-MT) Enzi (R-WY) **Appropriations** Byrd (D-WV-Ranking) Lautenberg (D-NJ) Leahy (D-VT) Stevens (R-AK-Chair) **Other**
APIC	**Banking and Finance** Frank (D-MA-Subcomm. Ranking) Hooley (D-OR)* Kanjorski (D-PA-Subcomm. Ranking)* LaFalce (D-NY-Full Comm. Ranking) Vento (D-MN) Baker (R-LA-SubComm. Chair)* Leach (R-IA) **Appropriations** Mollohan (D-WV-Subcomm. Ranking) Price (D-NC)	**Banking, Housing and Urban Affairs** Edwards (D-NC) his people Sarbanes (D-MD) Evan Bayh - IN -Kerry Santorum Shelby **Appropriations** Byrd (D-WV-Ranking) Lautenberg (D-NJ) Leahy (D-VT) Stevens (R-AK)

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Divider Title: **12**

New Micro-Enterprise Initiatives

- **President's Domestic Micro-Enterprise Agenda to increase funding by 159%, from $32M to $83M, including:**
  - $15M and new legislation for the CDFI Fund's Program for Investments in Micro-Entrepreneurs (PRIME)
  - Doubling technical assistance and lending in the SBA's Micro-Loan Program

BusinessLINC: Learning, Information, Networking and Collaboration

- In 1998, Vice President Gore launched Treasury/SBA's BusinessLINC.
- BusinessLINC encourages large businesses to work with small businesses to improve the competitiveness of firms located in economically distressed areas.
- The Vice President has released *BusinessLINC: Business-to-Business Relationships that Increase the Economic Competitiveness of Firms,* which details successful strategies.

BusinessLINC: Learning, Information, Networking and Collaboration

- A BusinessLINC website will serve as a national database to identify business linkages.
- BusinessLINCs help smaller firms...
  - Obtain technical advice
  - Enhance management development
  - Access sources of financing
  - Increase marketplace credibility
  - Enter subcontracts and joint ventures
- New private sector BusinessLINC coalition will work with local communities to foster more BusinessLINCs.

New Markets Tax Credit

"Businesses must have equity capital before they are considered viable candidates for debt financing... Continued efforts to develop the markets for private equity investments will be rewarded by an innovative and productive business community. This is especially true in lower income communities, where the weight of expansive dept obligations on small firms can severely impede growth prospects..."

Alan Greenspan, Federal Reserve Board Chairman

New Markets Tax Credit

"I remember from my time on Wall Street that there really had been no practical means, even for professional investors, to invest in inner cities even if they wished to do so. Hopefully the creation of CDFI and other vehicles, and this new tax credit, will interact to make investment opportunity more readily available and to provide incentive for such investment."

Robert E. Rubin, U.S. Treasury Secretary

New Markets Initiative

White House National Economic Council
U.S. Small Business Administration
U.S. Department of Housing and Urban Development
U.S. Department of the Treasury

1999

Goals of the New Markets Initiative:

- Provide incentives to stimulate $15 billion of new private capital investment in targeted areas;
- Build a network of private investment institutions focused on economic development in underserved areas; and
- Provide the expertise to small businesses and microenterprises that will allow them to use new investment to grow.

Elements of the New Markets Initiative

- New Markets Tax Credit
- America's Private Investment Companies (APICs)
- SBICs Targeted to New Markets (SBIC-LMI)
- New Markets Venture Capital Firms (NMVCs)
- Microenterprise Lending and Technical Assistance
- Continued Growth for CDFIs
- BusinessLINC

New Markets Initiative

U.S. Small Business Administration

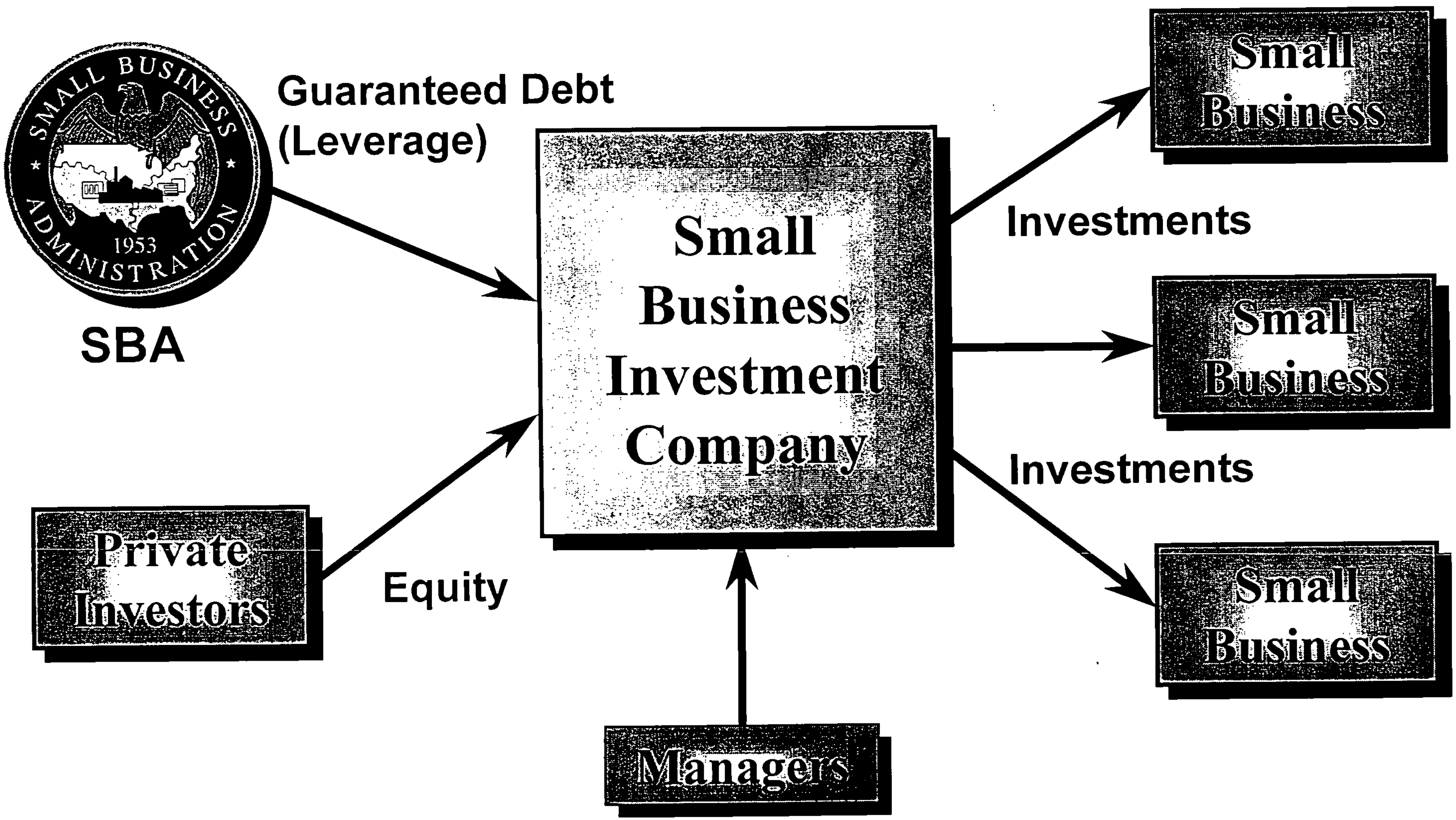
1999

What is an SBIC?

- A Private Company
- With Private Management
- And Private Investors

Formed specifically to invest in small businesses, generally where equity participation is a significant component of the financial return.

How SBICs Work



What is an LMI (Low and Moderate Income)-Focused SBIC?

- A Regularly Licensed SBIC
- $5 Million Minimum Capital
- Up to 3:1 Debenture Leverage
- Five Year Deferment of Interest

Formed to invest in LMI areas where 20% of the population is below poverty level or median income is less than 80%.

What Is the SBIC/LMI Target Market?

- Growth Small Businesses in Rural Areas, Inner Cities, or
- 35% of Employees from LMI Areas
- Investments from $150,000 to $1 Million

What is New Markets Venture Capital (NMVC)?

- A Community Based Venture Capital Fund
- 5 Year Deferment of Interest
- Formed to Invest in Companies Requiring both Equity and Technical Assistance in LMI Areas

What Is the NMVC Target Market?

- Small Businesses in Rural Areas or Inner Cities that Require both Equity and Technical Assistance
- Small Business Has Unique Market Niche
- Moderate Growth Prospects
- Investments from $50,000 to $300,000

New Markets Initiative

U.S. Department of Housing and Urban Development

1999

Overview: Goals and Need

APIC Adapted from:

SBA's Small Business Investment Companies

APIC Created to:

- Expand private investment in large-scale businesses in LMIs.
- Reach untapped markets in urban and rural areas.
- Complement HUD's existing programs for large-scale revitalization.
- Enable a wide variety of project types, including commercial real estate.

APIC: Long-term Capital Targeted to Development Needs

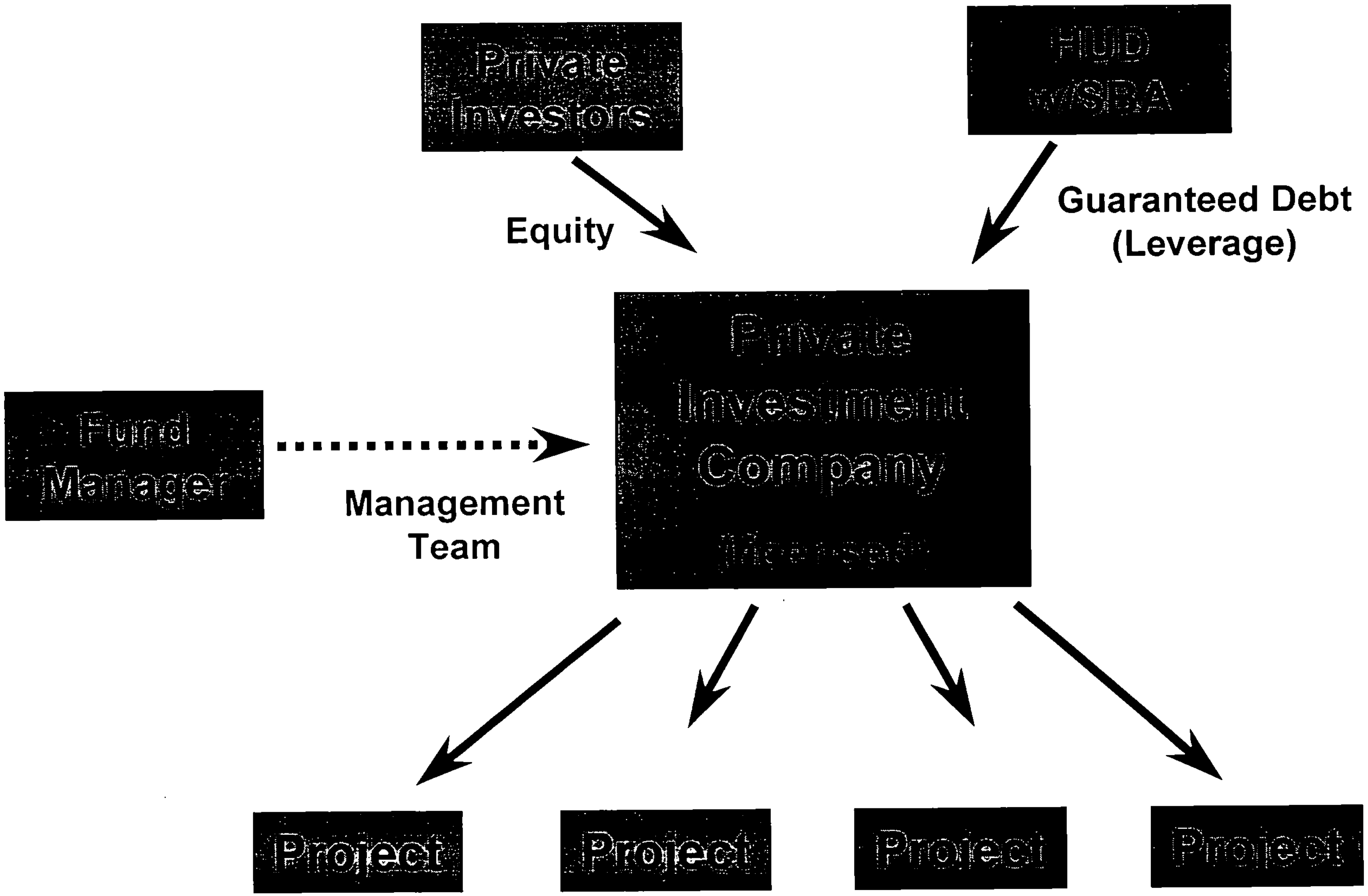
- Direct investments in active businesses
- "Patient capital" -- long-term equity and debt
- Eligibility for New Markets Tax Credit

Scale

- **$36M in credit subsidy leverages $1 billion in private loans and $500M in private equity** ($1.5 billion per year)

- **APIC will create large investment companies** (expected $75 - 450M) **able to fund large projects** (expected $5 - 50M)

How the APICs Will Work



The Investors

Broad Array Eligible:

- **Corporations**
- **Insurance Companies**
- **Banks** (eligible for CRA credit)
- **Pension Funds**
- **"Social Investors"**
- **Other Individual and Institutional Investors**

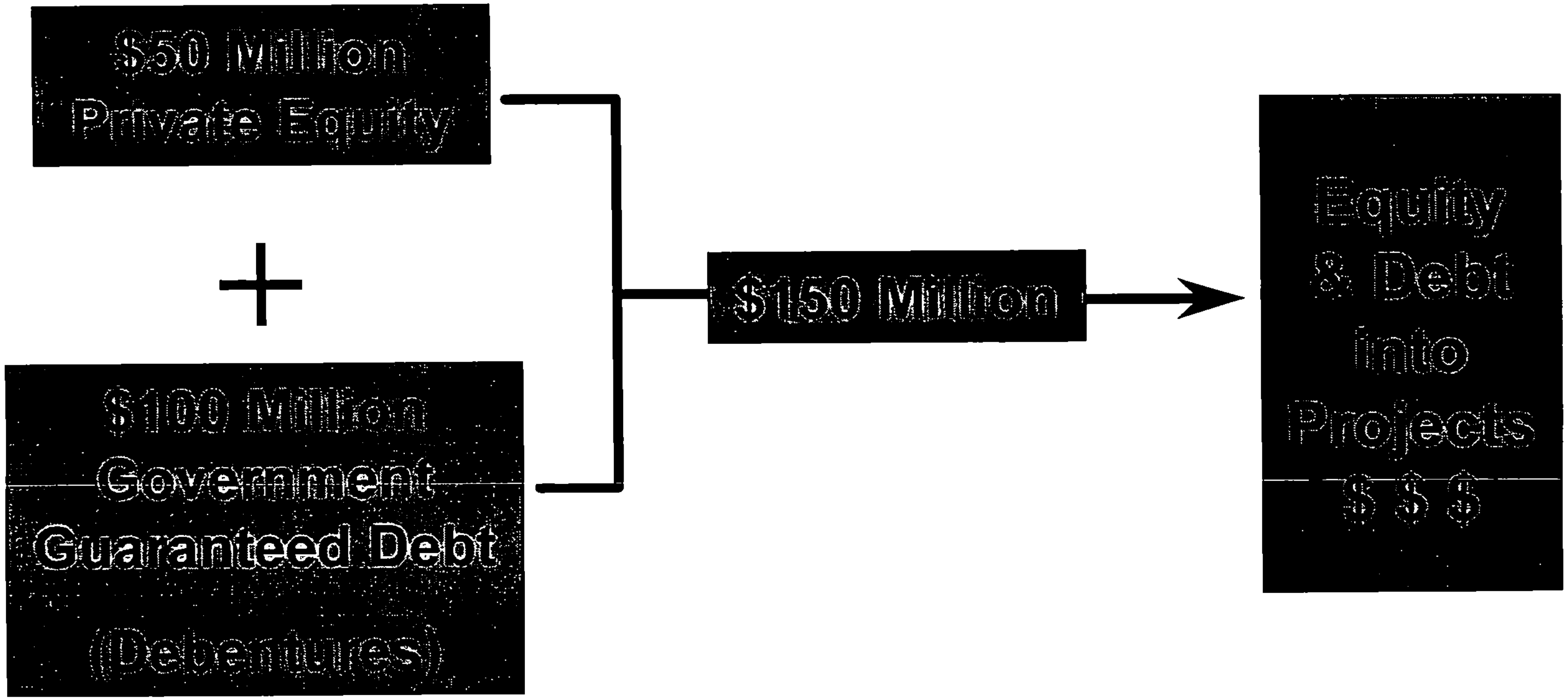
Selecting Experienced Fund Managers

Team Qualifications:

- Proven track record in direct equity investment and portfolio management
- Demonstrated ability to raise capital from private investors
- Experience in community development settings

APIC: Basic Numbers

Example



Ensuring Financial Soundness and Rewarding Performance

- Financial Soundness Review
- Performance Review
  - Local hiring, quality jobs, other community benefits target by APICs themselves
- High performers eligible for more favorable financing

New Markets Initiative

U.S. Department of the Treasury

1999

New Markets Tax Credit

- Attract New Equity Capital to Businesses located in Economically Distressed Communities
- Build the Capacity of Institutions with Business Development Expertise and Knowledge of their Local Community
- Promote Partnerships between Skilled Community Development Entities and Mainstream Sources of Capital

What Community Development Entities Can Use the New Markets Tax Credit?

- **A Flexible Approach**
- **The Community Development Entity Must meet a 3-Part Test:**
  - Primary mission to serve or provide investment capital for low and moderate-income communities
  - 60% of gross assets invested in qualified investments or residential property located in low-income communities
  - Accountable to residents of low-income communities

Eligible Community Development Entities

- **Community Development Financial Institutions:**
  Banks, Thrifts, Credit Unions, Venture Funds, Micro-Enterprises
- **Community Development Corporations (for-profit subsidiaries of nonprofits)**
- **Small Business Investment Companies Primarily Serving Low and Moderate-Income Communities**

Eligible Community Development Entities

- New Market Venture Capital Firms
- America's Private Investment Companies
- Funds that Invest in Other Community Development Entities
- Funds that Purchase, Pool and Sell Loans Made by Community Development Entities
- Other Targeted Investment Funds

New Markets Tax Credit

Qualified Business:

- Must be located in low or moderate-income area
- Must meet certain criteria to assure active business

Examples of businesses that may qualify include:

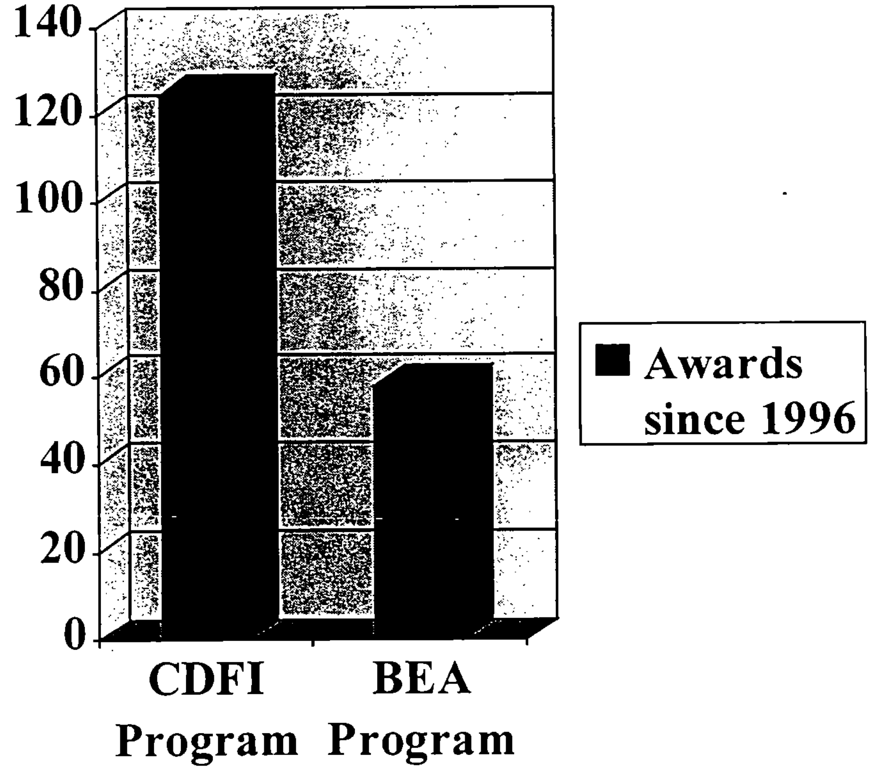
- Small technology firms
- Inner-city shopping centers
- Manufacturers
- Retail stores

New Markets Tax Credit: How Would it Work?

- Community Development Entities would apply for designation.
- Designated entities would be able to allocate a given amount of tax credits to investors.
- Community Development Entities use the tax credits to attract investment capital.
- The investors would claim a 6% tax credit for 5 years on their investment.
- The designated Community Development Entities would report the tax credit allocations made and the use of investment to the Treasury Department.

CDFI Fund Awards

- CDFI Program
  - 123 institutional awards
  - $122 Million
- BEA Program
  - 171 awards
  - $58 Million



CDFI Program Awardees by Type

	Total Awards	Total Institutions	Established Institutions	Start-up Institutions
Banks and Bank Holding Companies	13	11	5	6
Business Loan Funds	45	38	34	4
Community Development Credit Unions	40	37	33	4
Multi-Bank Community Development Corporations	7	7	7	0
Intermediaries	4	3	3	0
Housing/Facilities Loan Funds	53	46	40	6
Microenterprise Funds	24	21	17	4
Total Number of Awards	186	163	129	24

Includes all three years of CDFI funding (1996 - 98). For 1998, includes both Core and Technical Assistance awards.

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Divider Title: **13**

Draft

PROMOTING INVESTMENT IN AMERICA'S NEW MARKETS
January 15, 1998

Despite the longest peacetime economic expansion in history, marked by tremendous business and job growth, and much capital in search of good investment opportunities, many urban and rural areas of the country have not participated in the capital investment that has spurred job growth and economic development elsewhere at home and abroad. President Clinton's commitment to building one America is a commitment to making progress for all Americans, in every home and community in the nation.

President Clinton challenged the leaders of Wall Street, who are fueling America's economic growth, to take the lead in investing in America's own "New Markets" -- inner-city areas, like New York's East Harlem, and distressed rural areas like parts of Appalachia. The President's FY 2000 balanced budget includes a new initiative designed to create the conditions for success by:

- providing tax credit and loan guarantee incentives to stimulate billions of new private capital investment in targeted areas;
- building a network of private investment institutions to funnel credit, equity, and technical assistance into businesses in America's new markets; and
- providing the expertise to targeted small businesses that will allow them to use new investment to grow.

WORKING WITH EXPERTS AND CONGRESS

The President's New Markets Initiative was developed by an Administration task force that consulted with investment advisors, community development financial and venture capital pioneers, and Members of Congress who have lead efforts to promote investment in underserved areas. President Clinton has laid out a solid framework from which to build, but he will further solicit the reactions and ideas of a wide range of experts and Congressional leaders before he sends the legislation to Congress.

HARNESSING THE POWER OF THE PRIVATE MARKET TO REVITALIZE COMMUNITIES

The New Markets initiative will prompt approximately $15 billion in new investment in urban and rural areas through:

1. ***The New Markets Tax Credit*** -- To help spur $6 billion in new equity capital for investment in America's New Markets, President Clinton has proposed a tax credit worth up to 25 percent for investments in a wide range of vehicles serving these communities, including community development banks, venture funds and corporations, the new investment company programs announced by the President (see descriptions below), and other targeted investment funds. Credits would be allocated to the targeted investment vehicles which could use the tax credits to **attract** investors. The investment funds would make their own decisions about what investments or loans to make to help create and grow businesses in the New Markets. A wide range of businesses could be financed by these investment funds, including small technology firms, inner-city shopping centers, manufacturers with hundreds of employees, and retail stores.

2. ***America's Private Investment Companies (APICs)*** -- For years, America has supported OPIC, the Overseas Private Investment Corporation, to promote growth in emerging markets abroad. Now we must do the same thing in America's New Markets. Under this program, investors will put a minimum of $100 million in equity into new private investment partnerships to be known as America's Private Investment Companies (APICs). HUD and SBA working together will provide up to another $200 million in loan guarantees for each. APICs will make equity investments in larger businesses that are expanding or relocating in inner cities and rural areas. Under the financing structure, the private investors' funds are at risk ahead of the government. However, the individual investment decisions must be approved by the government for consistency with the public policy mission of the program.

3. ***SBICs Targeted to New Markets*** --Over 40 years, the SBA's small business investment company (SBIC) program has provided roughly $20 billion in equity and debt financing to more than 85,000 different companies, helping them at a critical stage to grow from small businesses to household names, like AOL and Staples. However, too little of the capital invested has benefited our cities and rural distressed communities. Last summer, the Vice President challenged the SBA to find ways to meet better the needs of minority firms and underserved markets. In response, SBA determined that, under existing legislation, the Agency can offer more flexibility and new financing terms to make it more attractive for SBICs to invest in businesses in low and moderate income (LMI) areas. Specifically, SBICs making LMI investments will be eligible for a new type of federally guaranteed loan to augment their capital for business investment. Interest on the guaranteed funding will be deferred for the first five years of the 10-year term to give SBICs more time to nurture their investments in small businesses before they must produce a return. In addition, SBA will conduct an aggressive outreach campaign around the country to promote LMI investments.

4. ***New Markets Venture Capital Firms (NMVCs)*** -- There are thousands of inner-city and rural entrepreneurs who need both capital and expert guidance to transform their small businesses and great ideas into thriving companies. SBA will select ten-to-twenty NMVC firms whose management has successful records in community-based venture capital. The equity funds of private investors will be matched with government debt guarantees of up to $10 million per NMVC, with interest on the debt deferred. Investors

must also provide at least $1.5 million in technical assistance over five years to the target firms, matching SBA's grants of technical assistance. The program should provide long-term, patient growth capital and facilitate critically needed technology and management skills development for smaller businesses in new markets.

5. *New Markets Lending Companies (NMLC)* -- For the first time in many years, SBA will approve approximately 10 new non-bank lenders -- firms authorized to originate loans under SBA's largest loan program -- the 7(a) General Business Loan Guaranty program. Under the 7(a) program, SBA guarantees up to 80% of a loan that is made by a lender to a creditworthy small business that cannot otherwise secure financing on reasonable terms. The firms selected must have a strategy to target their lending to underserved areas.

6. *Continued Growth for CDFIs* -- The President's initiative to develop community development financial institutions (CDFIs), locally-based institutions with expertise in lending and investment in underserved areas, will continue to grow. His FY 2000 balanced budget will include $125 million for the CDFI fund. Thus far, CDFI has made over $180 million in awards to community development organizations and financial institutions.

7. *BusinessLINC* -- The President's budget will include $3 million in seed money to expand BusinessLINC -- an innovative public-private partnership launched by Vice President Gore and led by Treasury Secretary Rubin and SBA Administrator Alvarez -- to new markets in economically distressed communities. BusinessLINC (Learning, Information, Networking and Collaboration) is designed to encourage large businesses to work with small business owners and entrepreneurs in order to improve the economic competitiveness of smaller firms located in distressed areas, both urban and rural. The funds will be used to leverage private sector efforts to spur new BusinessLINC partnerships at the national and local level.

8. *Specialized Small Business Investment Companies (SSBICs)* -- The President's budget will expand current tax incentives to increase the amount of equity capital available to economically disadvantaged people by making it easier for Specialized Small Business Investment Companies (SSBICs) to qualify as tax-favored regulated investment companies.

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Divider Title: **15**

NEW MARKETS INITIATIVE
Questions and Answers: January 15, 1999

Q: Is there anything new here or are you just re-packaging existing programs?

A: Absolutely this is new.

- We have a new billion dollar tax credit unlike any other we have proposed before.
- We have two new programs -- America's Private Investment Companies (APICs) and New Market Venture Capital Firms (NMVCs) that use similar mechanisms to today's Small Business Investment Company program (SBIC) but differ significantly in (a) the size of the firms targeted for investment (both smaller and larger), (b) the terms of the financing; (c) the addition, in the case of NMVCs, of technical assistance and the innovation that the technical assistance is delivered to the business by the investment fund making the investment; (d) the approval mechanisms and other ground rules.
- In addition, we are making significant modifications to the existing SBIC program to stimulate more investment under that program in targeted areas.
- Finally, we are creating a new category of lenders under the regular SBA small business lending program who -- in order to be approved as a new SBA lender -- must concentrate their efforts in new markets.

Q: How is this all paid for?

A: [Refer to standard answer for all initiatives.]

Q: How does the tax credit work?

A: Investment fund managers, for example, would decide to create a API. They would seek approval of their plan from HUD and SBA. At the same time, they would seek an allocation of the tax credit. (The credits will be allocated under Treasury regulations, but it is envisioned that a portion will be allocated to the various programs that are part of this initiative.) Armed with an approved API plan and an allocation of tax credit, they would then seek investors, based on their general plan. Once the investors are lined up, they would decide on a set of investments. When the capital is actually invested in the qualified investment vehicle, the investor would be eligible to take a credit against their obligations equal to 6% of the dollars they had invested in the qualified vehicle for each of five years -- a credit worth 25% net present value.

Q: Does this initiative have any chance of going anywhere in the current Congress?

A: There are many members of Congress, on both sides of the aisle, that seem to believe in finding ways to harness the power of the private market to meet societies' needs. This is a creative solution to meet the needs of distressed communities that relies on private investment. We believe that there is a unique coalition of community development groups, advocates for our cities and rural areas, and the investment community that should coalesce around this proposal. However, we plan to listen to the ideas and reactions of these interests and key members of Congress as we shape the details and before we send a bill to Congress. This work should improve its chances of passage.

Q: Is this payback to Rev. Jackson for his support of the President during the current impeachment process?

A: This effort builds on President Clinton's strong record of major initiatives in community development, including Empowerment Zones and Enterprise Communities, Brownfields, and his support for the Community Reinvestment Act. This effort also is inspired by the challenge that Reverend Jackson has laid before many of us. He asked us what more can the government do to stimulate investment in untapped markets? He has asked Wall Street to provide the capital for the good business opportunities available in our cities and rural areas. And he has asked the residents of underserved communities to see their own entrepreneurship as a way to rebuild their distressed communities. We have responded, each in our own ways, because they are the right questions and we should have answers. That is the Reverend's gift.

Q: Why are two different government agencies -- HUD and SBA -- both going to be administering the API program? Isn't that unusual?

A: Each agency has unique capacities that led us to conclude that we were better off finding a way to involve each and get the benefit of all of their expertise. The SBA has decades of experience with the financial model upon which the APICs program is based -- Small Business Investment Companies (SBICs). However, SBA's mission is small business. APICs are designed to generate jobs through expansions or relocation of larger firms. Job creation on that scale often involve various partners in a broader community development scheme, an area where HUD's expertise on large scale urban revitalization is invaluable. Other programs have a role for more than one agency -- for example, the empowerment zone initiative, where both HUD and USDA play a role, or Brownfields, where both HUD and EPA are involved.

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Divider Title: **16**

NEW MARKETS TAX CREDIT
Summary

President Clinton announced January 15 that his FY 2000 budget includes a New Markets Tax Credit to help spur $6 billion in private sector investment for business growth in low- and moderate-income rural and urban communities.

Businesses in our nation's isolated rural communities and inner cities often lack access to equity capital to grow and succeed. To help attract new capital to these businesses, President Clinton is proposing a new tax credit for equity investments in these communities. Investors would be able to claim a tax credit worth 25 percent of the amount invested, in present-value terms. Investments in a wide range of investment vehicles focused on serving these communities would be eligible for the credit. Over the next five years, these funds would be able to attract an aggregate of $6 billion in new equity capital eligible for the tax credit.

What investment funds can use the tax credit? To provide flexibility and attract a range of investors, investments in a wide range of community development investment vehicles would qualify. Under the proposal, the Treasury Department would allocate tax credits to these community development investment vehicles, entities whose primary mission is to serve low- and moderate- income communities. These might include community development banks or venture capital funds, community development corporations (including for-profit subsidiaries or nonprofits), SBA-licensed Small Business Investment Companies focused on low- and moderate-income communities, funds established under SBA's New Markets Venture Capital Companies (NMVCs) – or other investment funds set up to serve low- and moderate-income communities. Tax credits could also be provided for investments in designated national or regional funds that, in turn, invest in local community development organizations.

What businesses would qualify? The community development investment entities would make their own decisions, based on local knowledge and expertise, about what investments or loans to make to help create and grow businesses in low- and moderate-income communities, subject to certain rules designed to ensure that the businesses are operating in these communities. A wide range of businesses could be funded by these investment entities, from small technology firms to inner city shopping centers, from manufacturers with hundreds of employees, to retail stores.

How would the tax credit work? Community development investment entities – whether local organizations or national and regional funds – would apply to the Treasury Department for designation. Designated entities would be given the authority to allocate a given amount of tax credits to investors. The entities would use the tax credits to attract investment capital, and then provide the investors with tax credit authorizations, worth approximately 25 percent of their investment (in present-value terms). On their tax returns, the investors would claim a 6 percent tax credit for each of five years of a mandatory minimum holding period on their investment. The community development entities would report to the Treasury Department on the tax credit allocations made, as well as on the use of the investment funds for qualified purposes.

The New Markets Tax Credits require authorizing legislation.

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Divider Title: **17**

NEW MARKETS VENTURE CAPITAL COMPANIES
Summary

In the six years since President Clinton took office, the economy has created nearly 17.7 million new jobs. Yet even during one of the greatest periods of sustained economic growth in American history, we still have not achieved true equality of opportunity. Concentrations of poverty and joblessness continue to have a devastating effect on the social and economic fabric of communities across the country. This lack of opportunity is at the heart of our deepest social divisions.

The evidence strongly suggests that there are attractive business opportunities in rural and inner city communities that are not being met. Among the most critical needs of these communities is access to equity investment and technical assistance.

President Clinton's New Markets Initiative is designed to make it more attractive to invest in these communities and ensure that the opportunity to stimulate job growth, neighborhood revitalization and economic development of America's untapped new markets is not lost.

SBA's New Markets Venture Capital Company (NMVC) is a key component of the President's New Markets Initiative. It complements SBA's existing equity investment program, encouraging small business expansion by providing intensive technical assistance and equity-type capital in rural and inner city areas.

New Markets Venture Capital Companies

The SBA is proposing a program to fund between 10 and 20 New Markets Venture Capital Companies (NMVC).

NMVCs will be venture capital companies that provide a combination of equity venture capital financing and technical assistance to smaller businesses located in low- and moderate-income (LMI) areas.

LMI areas are census tracts where at least 20 percent of the population is beneath the poverty level, or where median family income is less than 80 percent of median family income for the surrounding area. SBA also intends to include other areas in which economic development is lagging, including HUBZones, Enterprise Communities, Empowerment Zones and counties with persistent poverty.

The NMVC program will involve community-based development organizations whose managers have established successful records in venture capital investing in small businesses. By providing equity capital with intensive technical assistance, they play a major role in the creation and expansion of small businesses in these areas. Their efforts have been severely limited by a lack of adequate funding for both investments and technical assistance.

The NMVC program will meet this need by providing government-guaranteed long-term funding, combined with technical assistance grants, to private for-profit community development venture capital companies that will target their efforts in these geographical areas.

SBA will select applicants that meet the program's public policy goals. Existing community development venture capital companies and groups with equivalent experience will be encouraged to apply for NMVC status. SBA's objective is to fund a variety of organizational structures and operating strategies, and provide the broadest geographical coverage possible.

NMVCs must be organized as for-profit entities and raise at least $5 million in investment capital, which SBA will match up to $10 million for any single NMVC. The interest on the Government funding will be deferred for the first five years. NMVCs must also obtain commitments to provide at least $1.5 million in technical assistance funding over five years. SBA will provide matching technical assistance grants. These grants will cover the costs of technical assistance provided by NMVCs to the small businesses in which they invest.

SBA will require each NMVC to invest principally in smaller businesses located in LMI areas. These venture capital investments will typically range between $50,000 and $300,000.

SBA is requesting $15 million to support a program level of $100 million, and $30 million in technical assistance grants in the FY 2000 budget. Establishing the program will require authorizing legislation.

SBA's SBIC Program

The NMVC pilot program will complement SBA's existing Small Business Investment Company (SBIC) program. At the end of FY 98, the SBIC program had a total investment pool of $9 billion, up by more than $2.1 billion from FY 97. In FY 98, licensees made 3,456 investments worth $3.2 billion in small businesses. Over the past 40 years, the SBIC program has provided roughly $20 billion in equity and debt financing to more than 85,000 different companies. Many of them have become household names: Intel, Apple Computer, Federal Express, America On Line, Callaway Golf, Compaq, Sports Authority, Outback Steakhouse, Staples and Sun Microsystems.

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Q & A
NEW MARKETS VENTURE CAPITAL

1/30/99

Q1 *How is this program different from the existing Small Business Investment Company (SBIC) programs, and why do you believe there is a need for a new program?*

A1. The SBIC programs are structured for investments in the range of $300,000 to $5,000,000, and they are oriented towards equity-type investments in companies that have reasonably complete management teams necessary for high growth. The New Markets Venture Capital (NMVC) program is designed for equity-type investments in the $100,000 to $300,000 range in companies where the management teams need assistance to grow at the time of the investment. The NMVC program is also targeted towards businesses that lie within what are termed "low and moderate income geographies" or "LMI geographies". Sixty percent of investments made by NMVC firms will have to be made in these geographies, and each NMVC will be providing technical assistance (TA) to small businesses along with their investment dollars.

Q2. *What is the difference between the purposes of the NMVC program and those of the Specialized SBIC (SSBIC) program?*

A2. The SSBIC program had its roots in the predecessor MESBIC or Minority Enterprise SBIC program which was created for making investments in minority-owned businesses. When succeeded by the SSBIC program, the investment criteria was broadened to include businesses that are owned by persons who are "socially or economically disadvantaged". The NMVCs will be focused on geography rather than on ownership, and will also be providing significant technical assistance which was not designed into the SSBIC program.

Small businesses located in many urban and rural areas of America are severely deprived of investment capital. These geographies contain large numbers of minorities, as well as others who are both socially and economically disadvantaged. When capital flows to businesses in these areas, not only do the entrepreneurs themselves benefit, but communities start to go through a rejuvenation. Therefore, investments made in businesses located in "LMI geographies" will achieve a double public policy benefit.

Q3. *What types of firms do you expect to apply to become NMVCs?*

A3. We expect that companies that are already doing financings of urban and rural small businesses will seek to form NMVCs. They have the skills and the network among the entrepreneurial community that is being targeted, and such community development investment firms will want to avail themselves of the benefits of the SBA guaranteed leverage and supplemental TA grant.

Q4. *Just what is this "leverage", and how does it work?*

A4. An NMVC firm will be eligible to obtain leverage through the issuance of U.S. government guaranteed debentures up to $7.5 million in an amount equal to its private capital.

Q5. *Are there any other financial benefits to being an NMVC?*

A5. Each NMVC will be able to obtain funds for financial technical assistance from the government equal to 6% per year of its private capital, over a period of five years. This is to assist in covering the overhead necessary to have the staff that can work with, and consult to entrepreneurs who are both prospects for obtaining financing and who subsequently do obtain financing from the NMVC company.

Q6. *What is the purpose of the technical assistance or TA being provided by a NMVC company?*

A6. If a small business that is financed is to succeed, the management must develop the skills necessary for growth, and have guidance along the path to growth. In today's world, being an entrepreneur is increasingly more complex. The NMVCs will need to be able to afford to have the staff to provide such assistance and guidance.

Q7. *Will this program require legislation for implementation?*

A7. Yes, it will require enabling legislation.

Q8. *Will the NMVC program require appropriations and have its own subsidy rate?*

A8. Yes, it will require appropriations, and it will have its own subsidy rate of 15%, completely independent of that for any of the SBIC programs.

Q9. *What size program are you seeking?*

A9. We are proposing a program of $100 million in leverage to launch the program, projected to be allocated among 10 to 20 NMVC firms.

Q10. *Is there a minimum amount of private capital that an NMVC firm must have in order to qualify, and is there a maximum amount of leverage that would be available to any single firm.*

A10. In order to qualify, at least $5 million of private investment capital must be raised, as well as 30% more for TA, or a total of $6.5 million. The maximum that will be matched is $7.5 million of private capital plus $2.25 million of TA.

Q11. *Do you expect NMVCs to be as profitable as SBICs? If not, why not?*

A11. NMVC investments, while expected to be profitable, may not necessarily produce the high internal rates of return (IRRs) of SBICs. NMVCs will be investing in companies that are smaller in size, and which have the potential for growth, but not necessarily on the same scale as that projected for SBIC investments. In addition, the management of NMVC investments are not expected to be as prepared for growth at the inception of an investment. Thus, the growth may take longer which will reduce the returns to investors. Risks in NMVC investing are projected to be higher, and this also would reduce investor returns.

Q12. *If the IRRs to investors are projected to be lower, why can you expect that there will be any investors in NMVCs at all?*

A12. We expect that there will be three main categories of investors in NMVCs. (1) There will be individuals and companies that want to invest in their own communities in order to grow and improve them. (2) There will be socially conscious investors who believe that you can earn a reasonable return on your investment while investing in a manner that also produces high social returns, and (3) there will be financial institutions that will be responding to the intent of the Community Reinvestment Act (CRA) regulations.

Q13. *How will NMVC firms be selected?*

A13. An underlying principle of NMVC investing is that the NMVC firm must be community-oriented. We at the SBA recognize that different types of NMVCs are needed for different geographic areas with different challenges. It is the goal of the SBA to initially have about 10 to 20 NMVC firms, each one operating in a structure that meets the specific requirements of investing in the targeted community. Thus, we at the SBA believe that there will have to be significant tailoring of the relationship between the SBA and each NMVC. Therefore, the controls for SBICs that are embodied in extensive regulations will be embodied in the contract signed with each NMVC firm.

Immediately upon enactment of legislation, the SBA will seek requests for proposals, and a competition will be held. In selecting the winning candidates, we will take into account (1) competency at making small business investments, (2) capability of providing appropriate technical assistance, (3) proposal for meeting the public policy purposes of the program, and (4) probability of raising the capital required. Finally, we will take into account geographic diversification.

Q14. *What type of monitoring and oversight will you employ for this program to ensure its success to manage losses?*

A14. There will be a separate staff located within the Investment Division of SBA where we will have analysts dedicated to specific NMVCS. These analysts will not only perform oversight, but will maintain a very close relationship with each NMVC in order to gain an in-depth understanding of NMVC strategies and operations. We will support these analysts with SBIC examiners who will do on-site examinations.

Q15. *What is the small business size standard for purposes of obtaining financing from a NMVC firm?*

A.15. A small business will have to have no more than $2 million in after-tax income and no greater than $6 million of net worth.

Q16. *Are there any fees that NMVCs will have to pay to the SBA?*

A16. The only fees they will be required to pay the SBA are for the examinations that are performed.

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NEW MARKETS OUTREACH AND THE LOW- AND MODERATE-INCOME INVESTMENT INITIATIVE

Summary

In the six years since President Clinton took office, the economy has created nearly 17.7 million new jobs. Yet even during one of the greatest periods of sustained economic growth in American history, we still have not achieved true equality of opportunity. Concentrations of poverty and joblessness continue to have a devastating effect on the social and economic fabric of communities across the country. This lack of opportunity is at the heart of our deepest social divisions.

The evidence strongly suggests that there are attractive business opportunities in untapped rural and inner city communities that are not being met. One of the most critical needs of these communities is access to equity investment.

The president's New Markets Initiative is designed to make it more attractive to invest in these communities and ensure that the opportunity to stimulate job growth, neighborhood revitalization and economic development of America's untapped new markets is not lost.

SBA's New Markets Outreach and Low- and Moderate-Income Investment Initiative for Small Business Investment Companies (SBICs) are key components of the President's New Markets Initiative. They complement SBA's existing equity investment program, encouraging small business expansion by providing equity-type capital in rural and inner city areas.

Outreach Workshops

President Clinton directed SBA to hold workshops to promote the Small Business Investment Company (SBIC) program with the primary goal of encouraging the formation of SBICs focused on meeting the needs of the underserved, primarily in rural and inner city areas. As a result, SBA has expanded its existing efforts to recruit potential SBIC investors and management teams with experience in investing in small businesses in these areas.

SBA has organized a series of six workshops designed to bring together three main constituencies: 1) funding sources, primarily the banking community; 2) venture managers, including existing SBICs and Specialized SBICs; and 3) community development organizations. Beginning in late March, workshops are scheduled for Chicago, Kansas City, New York, Atlanta, Dallas and San Francisco.

These workshops will result in the creation of new SBIC licensees, new interest in rural and inner city investing, and a database of investment and community development professionals that will be available to work with SBA on this effort.

LMI Investment Program

As part of its outreach effort, SBA is encouraging existing SBA licensed SBICs to seek out investment opportunities in low- and moderate-income (LMI) areas, and is encouraging formation of new SBICs that will focus their investments in these areas. In addition, the SBA will create a new funding mechanism to provide financial incentives to encourage SBICs and Specialized SBICs to invest in these areas.

LMI areas are census tracts where at least 20 percent of the population is beneath the poverty level, or where median family income is less than 80 percent of median family income for the surrounding area. SBA also intends to include other areas in which economic development is lagging, including HUBZones, Enterprise Communities, Empowerment Zones and counties with persistent poverty.

Under the LMI Investment program, SBA will create a new funding mechanism for licensees in SBA's SBIC and Specialized SBIC programs. The funding will be provided to licensees in amounts that match the level of their investments in small businesses that: 1) are located in LMI areas, or 2) hire at least 35 percent of their workforce from among residents of LMI areas.

SBICs making LMI investments will be eligible for a new form of debenture financing, known as LMI debentures. LMI debentures are debt instruments that are sold with an SBA guarantee in the Nation's capital markets to raise funds. The funds raised are, in turn, provided to SBICs to augment their private capital. The SBICs combine the debenture funds and their private capital to finance their investments in small businesses. Interest on the Government funding will be deferred for the first five years of the 10-year term. That gives SBICs more time to nurture their investments in small businesses before they have to start making payments on the money used to finance them.

As an additional incentive for LMI Investments, SBA will modify some SBIC regulations involving control, minimum investment terms and the use of royalty payments.

The LMI Investment Initiative will fit within SBA's FY 1999 and proposed FY 2000 budget levels for the Small Business Investment Company (SBIC) program. It will not require authorizing legislation and can be established through changes in SBA's regulations.

SBA's SBIC Program

At the end of FY 98, the SBIC program had a total investment pool of $9 billion, up by more than $2.1 billion from the end of FY 97. In FY 98, licensees made 3,456 investments worth $3.2 billion in small businesses. Over the past 40 years, the SBIC program has provided roughly $20 billion in equity and debt financing to more than 85,000 different companies. Many of them have become household names: Intel, Apple Computer, Federal Express, America On Line, Callaway Golf, Compaq, Sports Authority, Outback Steakhouse, Staples and Sun Microsystems.

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Q&A
LMI INVESTMENTS

1/30/99

Q1. *Why is a separate initiative needed to encourage LMI investments?*

A1. Small businesses located in rural and urban areas have greater difficulty raising capital than small businesses located elsewhere. Explanations for this may vary, but surely include the perceived risks associated with investing in any previously untapped market. Especially when the untapped market is in an area of above-average unemployment and poverty, the perceived risks may overshadow the real opportunities.

Q2. *What small businesses will be served?*

A2. Businesses that are located in LMI Zones or which have 35% of their full-time employees living in LMI Zones.

Q3. *What are the incentives for SBICs to make LMI investments?*

A3. SBA is proposing a program of narrowly-tailored regulatory and financial incentives to encourage SBICs to expand their investment activity into rural areas and urban areas. The incentives would be available to any SBIC making qualified investments (LMI Investments) in qualified small businesses (LMI Enterprises) that are located in, or that provide employment for urban and rural areas (LMI Zones). The proposed incentives fall into two categories. First, SBA would allow SBICs greater regulatory flexibility when structuring and making LMI Investments. Second, SBA would make available a deferred-interest debenture exclusively for the financing of LMI Investments.

Q4. *What is an LMI Zone?*

A4. An LMI Zone means any area located within a HUBZone (as defined in 13 CFR §126.103), an Urban Empowerment Zone or Urban Enterprise Community (as designated by the Secretary of the Department of Housing and Urban Development), a Rural Empowerment Zone or Rural Enterprise Community, or a rural county with persistent poverty (as classified by the Economic Research Service of the Department of Agriculture), or an area of low Income or Moderate Income (as recognized by the Federal Financial Institutions Examination Council).

Q5. *Do we expect performance of these investments to be different from traditional SBIC investments? If not, why not, if these are non-traditional investments? If so, what are the performance assumptions, i.e., will a separate subsidy rate be used for LMI debentures, and if so, what will it be?*

A5 We believe that LMI Investments fall within the same overall risk spectrum as do other SBIC investments, but that the risk profile may be slightly skewed to a somewhat riskier end of the traditional curve. To compensate for the slightly added risk, SBICs will be permitted to take temporary control of the small business when they make their investment, an activity that is normally not permitted by SBA regulations. This relaxation of the regulations should compensate for the added risk, and thus enable an SBIC investor to move its investing back into a normal statistical risk distribution. Therefore, a separate subsidy rate is not necessary.

Q6. *What monitoring and oversight will SBA provide to ensure success of the program, and to ensure compliance with investment criteria, and to manage losses?*

A6. SBA currently performs an examination of all leveraged SBICs every 13 months. In addition, SBICs file regular financial reports and other information, all of which is reviewed by SBA staff. The SBA will perform the same oversight and performance evaluation as it does for all leveraged SBICs.

Q7. *What is the projected level of leverage? Will this impact the traditional debenture program, and if so, in what way?*

A7. We do not have projections of usage at this time. Since the subsidy rate for LMI debentures is the same as for regular debentures, and the interest rates and fees are the same, LMI debentures will be committed and issued from the same pool of program authority as are regular debentures.

Q8. *Will LMI investments be made by existing SBICs and SSBICs?*

A8. Yes. Any SBIC or SSBIC may make LMI investments.

Q9. *Will there be certain SBICs that concentrate on LMI Investments, and if there are, will they have to meet the same licensing criteria as do regular applicants for an SBIC license?*

A9. We anticipate that there will be SBIC applicants that wish to specialize in LMI investments. They will have to meet the same licensing criteria as do all applicants.

Q10. *How will you measure the success of this program?*

A10. We will utilize measurements similar to those being employed by the existing SBIC program — number of firms financed, growth in these firms in revenues, employment, profits, and taxes paid.

Q11. *What resources will be needed to administer this program?*

A11. We will require the same growth in resources that we would require in order to administer growth in the regular SBIC program.

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21

Divider Title: ___________________________________

BUSINESSLINC
Summary

In the six years since President Clinton took office, the economy has created 17.7 million new jobs. Yet even during one of the greatest periods of sustained economic growth in American history, we still have not achieved true equality of opportunity. Concentrations of poverty and joblessness continue to have a devastating effect on the social and economic fabric of communities across the country. This lack of opportunity is at the heart of our deepest social divisions.

The evidence strongly suggests that there are attractive business opportunities in underserved rural and inner city communities that are not being met. One of the most critical needs of these communities is access to technical assistance.

The President's BusinessLINC Initiative is designed to encourage and support mentoring relationships between businesses. This will improve the commercial prospects of small businesses and ensure that the opportunity to stimulate job growth, neighborhood revitalization and economic development of America's untapped new markets are not lost.

BusinessLINC is a key component of the president's New Markets Initiative. It complements SBA's existing small business counseling programs and encourages small business expansion by providing mentoring and technical assistance from larger businesses.

BusinessLINC Initiative

The BusinessLINC Initiative is a new partnership between the Federal government and America's business community to encourage large businesses to work with small business owners and entrepreneurs, especially in America's rural areas and inner cities. BusinessLINC, which stands for Learning, Information, Networking, and Collaboration, is designed to stimulate business-to-business relationships that will produce one-on-one technical advice and consulting, classroom and group training, peer group consulting, strategic alliances, and supplier and marketing development for small businesses.

BusinessLINC will help facilitate the technical advice and assistance, access to resources and personal contacts that are necessary for small businesses to compete successfully. SBA is requesting $3 million for this initiative in FY 2000.

The SBA and the Department of Treasury will jointly create mentor-protégé programs. The Treasury Department program – Success Partnerships – will help increase the participation of small, disadvantaged and women-owned businesses as contractors and subcontractors by offering technical advice, financial and management skills, endorsement credibility, and one-on-one advice from large companies. The SBA counterpart will seek to enhance the capabilities of participants in the Agency's 8(a) business development program, and to improve their ability to compete and receive Federal Government contracts. In addition, SBA will expand *ACENet* (Angel Capital Electronic Network), which helps link minority and women-owned businesses with investment capital.

SBA will recruit national and local organizations to advocate BusinessLINC strategies through their networks, and encourage companies to 1) build them into their core business strategies, 2) disseminate best practices, 3) create forums for businesses to exchange information and practices, and 4) support an Internet website to encourage BusinessLINC activities.

SBA will assemble a BusinessLINC leadership coalition of experts, comprised of both public and private sector representatives. The coalition will work to expand business-to-business relationships between large and small businesses and will provide businesses with on-line information, resources, and a database of companies with an interest in mentor or protégé programs (www.businesslinc.sba.gov).

SBA also will support activities throughout the Country that foster direct business relationships between larger and smaller firms on specific projects.

The Federal Government's HUBZone Empowerment Contracting program also will support the BusinessLINC initiative. Under the HUBZone program, up to $6 billion in new federal contracts will be targeted to small businesses and distressed areas by the year 2000. In addition, it will widen the pool of potential government contractors and create an estimated 25,000 new jobs in more than 7,000 rural and inner city communities.

Several large private sector firms have already committed resources to the project. Those include:

- GE Capital will expand its Small Business Colleges, which offer business advice to entrepreneurs in distressed areas, and to open a fifth college in St. Louis and a new pilot program for women business owners in Washington, D.C.

- Science Applications International Corporation (SAIC) will execute joint marketing agreements with small businesses and support relationships with small businesses in the new HUBZone areas.

- Chase Manhattan Bank will create a new program that will connect its senior bank officers with women and minority small business owners, and a new partnership with the National Association of Black Management Consultants.

- Bell Atlantic will spend $1.8 billion, through a partnership with SBA, to increase purchasing and subcontracting with minority and women-owned businesses.

22

Divider Title: ______________________________

NEW MARKETS LENDING COMPANY PROGRAM
Summary

In the six years since President Clinton took office, the economy has created nearly 17.7 million new jobs. Yet even during one of the greatest periods of sustained economic growth in American history, we still have not achieved true equality of opportunity. Concentrations of poverty and joblessness continue to have a devastating effect on the social and economic fabric of communities across the country. This lack of opportunity is at the heart of our deepest social divisions.

The evidence strongly suggests that there are attractive business opportunities in untapped markets that are not being met. One of the most critical needs of these communities is access to affordable commercial credit.

The President's New Markets Initiative is designed to make it more attractive to lend in these communities and ensure that the opportunity to stimulate job growth, neighborhood revitalization and economic development of America's untapped New Markets is not lost.

New Markets are current and prospective small businesses owned by minorities, women, veterans and handicapped individuals, who are underrepresented in the population of business owners compared to their representation in the overall population, as well as businesses located or locating in low- and moderate-income urban and rural areas.

SBA's New Markets Lending Company Initiative is a key component of the President's New Markets Initiative. It complements SBA's lending network, encouraging small business expansion by providing debt financing to these untapped markets.

New Markets Lending Companies (NMLC)

SBA's proposed NMLC program is a limited term, limited participation pilot lasting between 5 and 10 years. Under the pilot, the SBA will select approximately 10 non-depository lending institutions to make SBA guaranteed loans targeted to New Market small businesses.

NMLCs will make SBA guaranteed loans under the 7(a) General Business Loan Guaranty program, the Agency's largest financial assistance program. Under the 7(a) program, SBA guarantees up to 80 percent of a loan that is made by a commercial lender to a creditworthy small business that cannot otherwise secure financing on reasonable terms.

SBA will select the NMLCs from applicants experienced in all phases of making, servicing and liquidating loans, with a capital base sufficient to finance loan-making activities and a strategy consistent with the program's public policy purpose of making loans to New Markets small businesses.

SBA's monitoring and oversight of NMLCs will include annual safety and soundness examinations, as well as the same program reviews that are required of other SBA lenders. SBA will publish program eligibility criteria shortly, and expects to implement the program no later than October 1, 1999.

Funding for loan guaranties made under the NMLC program will come from the SBA's appropriation for 7(a) program loans, which is funded at a level of $10 billion for the current fiscal year.

The NMLC program will fit into the existing SBA framework of the 7(a) program, which provided guaranties on loans to nearly 42,270 small businesses in FY 1998. Those loans amounted to more than $9 billion. Since 1992, SBA has guaranteed more than $49 billion in commercial loans to more than 252,000 small businesses, more than in the previous 12 years combined.

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Divider Title: **23**

COMMUNITY REINVESTMENT ACT

More than $1 Trillion of Financial Commitments to Underserved Communities

President Clinton Said Today That He Will Protect the Community Reinvestment Act (CRA), Which Has Helped Bring More than $1 Trillion of Financial Commitments to America's Underserved Communities. In 1977, Congress enacted CRA to combat the practice of "red-lining" communities by publicly insured banks and thrifts. CRA encourages banks and thrifts to meet the credit needs of their communities, consistent with safe and sound banking practices. Federal bank and thrift supervisors assess financial institution's performance: loans made, services provided, and investments in their communities. Banks and thrifts make their CRA ratings public and the public has an opportunity to comment on CRA performance before the start of a scheduled examination.

CRA Helps Bring Capital To Our Neighborhoods Without Being Burdensome to Banks:

- In April 1995, the Clinton Administration dramatically simplifed and strengthened CRA. Under the new regulations, CRA compliance is less intrusive and burdensome -- and more productive. The emphasis is now on results -- not paperwork and process. As James McLaughlin of the American Bankers Association said: "For the vast majority of banks it reduced record keeping, exams went quicker, and banks now know what is required of them."

CRA Is Working To Bring The Spark of Private Enterprise To America's Communities:

- According to the National Community Reinvestment Coalition (NCRC), the private sector has pledged more than $1 trillion going forward in loans to distressed communities -- and more than 95 percent of these financial commitments have been made since 1992. That means that there have been 23 times more financial commitments to distressed communities from banks in the past six years than in the previous 15 years combined.

- According to Home Mortgage Disclosure Act data, lending to minorities and low-income borrowers is on the rise. For example, since 1993, the number of mortgage loans to African Americans increased by 58 percent, to Hispanics by 62 percent, and to low- and moderate-income borrowers by 38 percent -- well above the overall market.

CRA Helps Small Businesses -- The Engine of Our Economic Growth:

- Small business lending is an integral part of bank CRA compliance. Banks are assessed on their effort to support small businesses under the lending, investment, and services tests. And for the first time, large banks are reporting small business loan data by census tract.

CRA IS GOOD BANKING BUSINESS

- **Lawrence Lindsey, former Governor of the Federal Reserve:** "Many [institutions] now recognize that in an era of growing competition, CRA performance may be critical to an institution's ability to adjust to the new banking environment. CRA-related activities can help develop new markets, potentially profitable business, and improve a bank's public image."

- **Mario Antoci, Chairman and CEO of American Savings:** "Lending in the inner city [has] turned out to be the most profitable part of our business over the past few years."

CRA Fact Sheet

What is CRA?

- Congress enacted CRA in 1977 to combat the practice of "red-lining" communities by publicly-insured banks and thrifts.
- CRA encourages banks and thrifts to meet the credit needs of their communities, consistent with safe and sound banking practices.

How Does CRA work?

- Federal bank and thrift supervisors assess financial institution's performance: loans made, services provided, and investments in their communities. The CRA regulation provides a streamlined examination for banks and thrifts with assets under $250 million.
- Banks and thrifts make their CRA ratings public. The public has an opportunity to comment on CRA performance before the start of a scheduled examination.

What are the benefits of CRA to communities?

- CRA is working to restore healthy markets in distressed communities.
- 1996 Home Mortgage Disclosure Act data show that lending to minority and low income borrowers is on the rise. For example, since 1993, the number of home mortgage loans to African Americans increased by 58 percent, to Hispanics by 62 percent, and to low and moderate income borrowers by 38 percent, well above the overall market.
- Since 1992, the National Community Reinvestment Coalition estimates that the private sector has pledged over $1 trillion in loans going forward for community development.

What are the benefits of CRA to small businesses?

- Small business lending is an integral part of bank CRA compliance. Banks are assessed on their effort to support small businesses under the lending, investment and services tests. For the first time, large banks are reporting small business loan data by census tract.

What are the benefits of CRA to banks?

- CRA is good banking business. "Businesses that learn how to meet [community reinvestment] demand profitably, and integrate it into their business lines, will gain a tremendous competitive advantage." Richard Rosenberg, former Chairman and CEO, BankAmerica Corporation.
- "Lending in the inner city [has] turned out to be the most profitable part of our business over the past few years." Mario Antoci, Chairman and CEO, American Savings.
- "Many [institutions] now recognize that in an era of growing competition, CRA performance may be critical to an institution's ability to adjust to the new banking environment. CRA-related activities can help develop new markets, potentially profitable business, and improve a bank's public image." Lawrence Lindsey, former Governor, Federal Reserve System.

LONGER/MORE DETAILED VERSION OF PREVIOUS PAGE + MORE BACKGROUND.

What is CRA?

- Congress enacted CRA in 1977 to combat the practice of "red-lining" communities by publicly-insured banks and thrifts.

- The goal of CRA is to encourage banks and thrifts to meet the credit needs of their entire communities, including low and moderate income areas, consistent with safe and sound banking practices.

How Does CRA work?

- Under CRA, federal bank and thrift supervisors assess financial institution's performance: loans made, services provided, and investments in their communities.

- The CRA regulation provides a streamlined examination procedure for banks and thrifts with assets under $250 million.

- Banks and thrifts make their CRA ratings public. The public has an opportunity to comment on CRA performance before the start of a scheduled examination.

- Under the Home Mortgage Disclosure Act, banks and thrifts report on their home mortgage lending, which is considered in the assessment of CRA performance. Under CRA, larger banks and thrifts also collect and report aggregate data on their small business and small farm loans by census tract. This data is made publicly available.

What are the benefits of CRA to communities?

- CRA is working to restore healthy markets in distressed communities.

- ~~[illegible]97 Home Mortgage Disclosure Act data show that [illegible] 1993 [illegible] 1997, the [illegible] loans extended [illegible] 62 [illegible] Blacks, 58 percent for [illegible] 25 percent [illegible] Americans, and [illegible] Whites. During the same five-[illegible] of home purchase [illegible] lower income appli[illegible] (applicants having incomes [illegible] 80 percent of the [illegible] for their metropolitan statistical area) increased 38 percen[illegible] home [illegible] loans extende[illegible] increased 27 [illegible]~~

- In 1996 alone, large commercial banks made nearly $18 billion in community development loans, in addition to their affordable housing and small business loans.

- Since 1992, nonprofit community groups estimate that the private sector has pledged nearly $1 trillion in loans going forward for community development, which represents over 95% of CRA pledges made since CRA's enactment in 1977.

What are the benefits of CRA to small businesses?

- Under the CRA regulations, small business lending is an integral part of bank CRA compliance. Banks are assessed on their effort to support small businesses under the lending, investment and services tests. For the first time, large banks will report small business loan data by census tract, in order to identify new market opportunities.

What are the benefits of CRA to banks?

- Good CRA performance is good banking business.

- "Businesses that learn how to meet [community reinvestment] demand profitably, and integrate it into their business lines, will gain a tremendous competitive advantage." Richard Rosenberg, former Chairman and CEO, BankAmerica Corporation.

- "Lending in the inner city [has] turned out to be the most profitable part of our business over the past few years." Mario Antoci, Chairman and CEO, American Savings.

- "Many [institutions] now recognize that in an era of growing competition, CRA performance may be critical to an institution's ability to adjust to the new banking environment. CRA-related activities can help develop new markets, potentially profitable business, and improve a bank's public image." Lawrence Lindsey, former Governor, Federal Reserve System.

Isn't CRA burdensome?

- The banking regulators, after an exhaustive period of review and public comment, revised the regulations under CRA in April 1995. Under the new revised regulations, CRA compliance is now less intrusive and burdensome, and more productive. The emphasis is now on actual performance, rather than paperwork and process.

- CRA exams are now tailored to differences in institutions' structures and operations. There is an assessment method for large retail institutions that focuses on lending, investment, and services; a streamlined method for small institutions focused on lending; and separate methods for wholesale or limited purpose institutions; institutions may also choose to submit strategic plans to implement CRA.

- As James D. McLaughlin, director of regulatory and trust affairs at the American Bankers Association has said, "For the vast majority of banks it reduced record keeping, exams went quicker, and banks now know what is required of them." (American Banker, Jan. 20, 1998).

- "We commend the regulators for instituting a meaningful, streamlined tiered examination system.... The new rules should alleviate the paperwork nightmare of CRA for community banks." Richard Mount, President, Independent Bankers Association of America.

- The GAO has found that "the regulators have made extensive efforts in revising the regulations to address the diverse concerns raised about the effectiveness of CRA. GAO wrote that "the burden associated with documenting efforts and processes is to be eliminated."

Isn't CRA credit allocation?

- No. CRA has nothing to do with quotas or allocations. CRA does not specify the number or types of loans that must be made. CRA is broad and flexible.

- "The essential purpose of the CRA is to try to encourage institutions who are not involved in areas where their own self interest is involved, in doing so. If you are indicating to an institution that there is a foregone business opportunity in an area X or loan product Y, that is not credit allocation. That, indeed, is enhancing the market." Alan Greenspan,

Why is CRA important for small banks?

- While many small banks do a good job of serving their communities, research shows that a significant number of smaller banks invest only a small portion of their depositors' funds in their local communities.

- In 1997, for example, banks under $100 million in assets received 82% of the substantial non-compliance ratings.

- Many small banks have low loan to deposit ratios; fully half of small banks have loan to deposit ratios of 70%, and a quarter of small banks have ratios of less than 58%.

What about a small bank exemption?

- In the Senate Banking Committee, an amendment was offered to the credit union bill that would have exempted all banks under $250 million in assets from the CRA. This amendment was defeated on a tie vote.

- The Clinton Administration has repeatedly stated that it would veto legislation containing a small bank exemption to CRA. This amendment, which is divisive and not germane to the credit union legislation, would prevent enactment of this historic legislation.

- The amendment would exempt more than 85% of all banks from CRA. A small bank exemption would hurt thousands of local communities in states across the country.

- In 30 states, small banks make up over 80% of the banks in the state.

- There is no need for this amendment. The new CRA rules already lifted the regulatory burden on small banks, with a streamlined examination. These institutions are exempt from reporting requirements, and are no longer subject to process-based documentation requirements. Instead, examiners rate their loan performance.

- CRA regulatory reform reduced burdens on small banks and thrifts early and in overwhelming numbers. Small banks and thrifts benefited from the regulatory burden reduction effective January 1, 1996 – more than a year earlier than large institutions. In addition, more than 80% of all banks covered by CRA qualify for the streamlined performance standards for small banks and thrifts.

- Actual time spent in community banks on CRA examinations has been reduced by 30%.

- The Independent Bankers Association of America "hailed the final interagency CRA rules... as a big step in regulatory burden reduction for community banks." The IBAA "commended the regulators for instituting a meaningful, streamlined tiered examination system that recognizes the differences between community banks and their large regional and multinational brethren." IBAA press release, April 19, 1995.

- "There are some real benefits to both communities and banks under the new rules. The streamlined exam [for small banks] is particularly positive because it will free up much needed resources at these smaller institutions." Donald Ogilvie, American Bankers Association.

- Small banks have praised the reduction in burden under the revised CRA rules. Bankers have said: -- "The new regulation takes a lot of burden off our bank and is much fairer." -- "The recent change in regulation helped. The examination was less burdensome and less time consuming." -- "We are comfortable with the new examination; it was much better than the old one." – "I loved the last exam. It was straightforward and easy to comply with." (Bankers in Raymond, IL, Hawley, MN, Madill, OK, and Lancaster, OH).

Why is CRA important to Rural America?

- Many rural communities, faced with high poverty rates and low incomes, are desperate for new economic activity. Access to bank credit in rural communities, where markets are often dominated by a few institutions, is often scarce. Banks in rural communities often receive poor CRA ratings and lag behind their peers in local lending for consumers and businesses.

Why is CRA important to Indian Country?

- CRA encourages banks to lend in their entire communities, including in Indian reservations near the banks' main offices, branches or deposit-taking ATMs. CRA has helped to increase lending, service and investment in Indian country. For example, on the Navajo reservation in 1994, before the CRA regulatory reform, there were three bank branches. Today, there are 12. In 1994, the Navajo had 2 ATMs; today they have 19. Today, the Navajo branches are highly profitable for the banks, and the residents of the reservation have benefitted from an array of new mortgage and small business loans.

Why should we require credit unions to serve their entire field of membership?

- H.R. 1151 rightly reaffirms and reinforces credit unions' mission of serving persons of modest means. Section 204 would require periodic review of each federally insured credit union's record of meeting the needs of such persons within its field of membership. This requirement is flexible, tailored to credit unions, and will impose no unreasonable burden.

- The requirement rests on the Congressionally mandated mission of credit unions and on the benefits of federal deposit insurance. Such deposit insurance gives credit union members ironclad assurance about the safety of their savings, and thus helps credit unions compete for deposits with larger, more widely known financial institutions (just as it helps community banks and thrifts).

- Section 204 is particularly appropriate in view of how the bill liberalizes the common bond requirement and thus facilitates credit unions' expansion beyond their core membership groups.

- Under Section 204, the NCUA would periodically review the record of federally insured credit unions in serving persons of modest means within their field of membership. The NCUA would develop criteria for evaluating community credit unions, and to issue regulations that emphasized performance, not paperwork.

- Credit unions would **not** be required to serve non-members, or to make preferential loans to persons of modest means. Credit unions are cooperative institutions, and are organized to serve their membership. The bill would simply require credit unions to serve their entire field of membership, including persons of modest means.

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Divider Title: 24

Community Development Financial Institutions Fund:
Expanding Access to Capital in America's Communities
January 15, 1998

Today, President Clinton announced that his FY 2000 budget will include $125 million for the Treasury Department's Community Development Financial Institutions (CDFI) Fund.

The CDFI Fund was created in 1994 to expand the availability of credit, investment capital, and financial services in distressed urban and rural communities. By stimulating the creation and expansion of a diverse network of CDFIs, and by providing incentives to traditional banks and thrifts through the Bank Enterprise Award (BEA) Program, the Fund's investments work toward building private markets, creating healthy local tax revenues, and empowering residents. The CDFI Fund's activities leverage private-sector investments from banks, foundations, and other funding sources. Since the Fund's creation, it has made over $180 million in awards to community development organizations and financial institutions.

CDFIs are specialized financial institutions that work in market niches that have not been adequately served by traditional financial institutions. These CDFIs provide a wide range of financial products and services, including mortgage financing for first-time home-buyers, financing for needed community facilities, commercial loans and investments to start or expand small businesses, loans to rehabilitate rental housing, and financial services needed by low-income households and local businesses. In addition, these institutions provide services that help ensure that credit is used effectively, such as technical assistance to small businesses and credit counseling to consumers. CDFIs include community development banks, credit unions, loan funds, venture capital funds, and microenterprise loan funds.

Community Development Financial Institutions Program
The Community Development Financial Institutions (CDFI) Program invests in and builds the capacity of private, for-profit and non-profit financial institutions, leveraging private capital and private-sector talent and creativity. The Fund invests in CDFIs using flexible tools such as equity investments, loans, grants, deposits, and technical assistance, depending upon market and institutional needs.

Through the first three rounds of the CDFI Program, the Fund has made $122.8 million in investments to CDFIs, serving both rural and urban areas in local, regional, statewide, and multi-state markets in 46 states and the District of Columbia.

Bank Enterprise Awards Program
The Bank Enterprise Award (BEA) Program recognizes the key role played by traditional financial institutions in community development lending and investing. It provides incentives for banks and thrifts to invest in CDFIs and to increase their lending and provision of financial services in distressed communities. The BEA Program supports the community reinvestment efforts of these financial institutions.

Through the first three rounds of the BEA Program, the Fund has awarded $58 million to banks and thrifts. These institutions provided nearly $133 million in equity investments and financial support to CDFIs, and $143 million in total direct lending and financial services in distressed communities.

Presidential Awards for Excellence In Microenterprise Development
The CDFI Fund administers a non-monetary award program to bring wider attention to the important role and the successes of domestic microenterprise development in enhancing the economic opportunities of disadvantaged individuals across America. In the first round of these awards, seven organizations were recognized for their work assisting individuals to become successful entrepreneurs.

For More Information...
Please visit the CDFI Fund's website at www.treas.gov/cdfi, or call the CDFI Fund at (202) 622-8662.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 23, 1998

To: Paul Weinstein
Domestic Policy Council

cc: Ellen Lazar
Maurice Jones

From: Cliff Kellogg and Lilith von Foerster CUK

Re: Summary Statistics on CDFI Fund

Paul –

Here are summary statistics on CDFI awards made during the three years of funding (1996, 1997 and 1998), including the first round of technical assistance funding in 1998. The Fund defines start-up institutions as those in operation for less than two years at the time of their award. These is the first tabulation of start-ups funded by the Fund, and indicates the Fund is doing a good job of catalyzing new CDFIs. Certified CDFIs are those that the Fund has determined meet the statutory eligibility criteria to receive funding.

Type of Institution	Total Awards	Total Institutions	Established Institutions	Start-up Institutions	Certified CDFIs
1. Banks and Bank Holding Companies	13	11	6	5	20
2. Community Development Credit Unions	40	36	32	4	57
3. Other Types of CDFIs:					
Intermediaries	4	3	3	0	
Venture Capital Funds	10	9	6	3	
Multi-bank CDCs	7	7	7	0	
Business Loan Funds	45	33	30	3	
Housing/Facilities Loan Funds	53	45	39	6	
Microenterprise Funds	24	20	16	4	
Total Other Types	143	125	107	16	185
Total Number	196	164	139	25	
Total Dollars	$125,371,471		$109,259,579	$16,111,892	