INVESTING IN AMERICA'S NEW MARKETS

JOINING WITH CORPORATE AMERICA TO MOBILIZE INVESTMENT IN UNTAPPED MARKETS. On May 11, 1999, President Clinton announced that he will take a bipartisan delegation of CEOs, Members of Congress and Cabinet Secretaries to untapped markets throughout America during the week of July 5, touring economically distressed communities and highlighting new opportunities that are being created in these communities.

- **A Trade Mission to America's New Markets the Week of July 5.** The trip will be modeled after the trade missions that Cabinet Secretaries and CEOs often take overseas to identify markets, which -- through trade and commercial agreements – help to create jobs and expand economic development.

- **Announcing New Private Sector Commitments.** As part of the 3-4 day trip, President Clinton will announce new commitments and innovative initiatives developed by companies, community leaders, non-profit organizations and investment firms in some of the most economically distressed areas of this country -- America's new markets.

ENCOURAGING PRIVATE SECTOR EFFORTS TO ATTRACT CAPITAL TO UNDERSERVED AREAS. President Clinton and Vice President Gore have already met with Chief Executive Officers from a number of major American corporations and investment firms to discuss ways to mobilize new private investment in America's underserved communities. On the July trip, the President hopes to focus on new and expanded efforts that companies are undertaking in these undeserved areas.

The types of efforts that the President will highlight include:

- New investment efforts in underserved areas or in disadvantaged businesses
- Location or relocation of plants and business offices operated by large companies in low- and moderate-income communities
- Technical assistance provided by large businesses to new, small companies
- New investment commitments in Empowerment Zones, Community Development Financial Institutions, and Small Business Investment Companies (SBICs) targeted to low- and moderate-income communities
- New Community Reinvestment Act commitments that banks may be making
- New workforce, mentoring and training programs focused on economic development

RESPONDING TO THE CHALLENGE. If your company is creating or expanding its efforts in any of these areas, or if you have other ideas or are working in other ways to expand economic development in our nation's underserved urban and rural areas, *please let us know* – we would be very interested in making you a part of our announcements. Already several companies have expressed interest in announcing new investment commitments as part of the President's July trip. But we need more of your ideas and assistance – especially over the next several weeks – to make this trip a success.

Please feel free to contact Cheri Carter, Special Assistant to the President for Business Liaison, at 456-2682.

BACKGROUND ON THE CLINTON-GORE ADMINISTRATION'S NEW MARKETS INITIATIVE

BUILDING ON SIX YEARS OF WORK TO EXPAND ECONOMIC DEVELOPMENT. The Clinton-Gore Administration has made community development a priority since taking office. The recently-announced efforts build upon a number of critical economic development initiatives to help communities that need it most. These initiatives include the Community Reinvestment Act, Community Development Financial Institutions, Micro-Enterprise Programs, the Economic Development Initiative and Section 108 Loan Guarantee Program, Empowerment Zones and Enterprise Communities, and the Brownfields Tax Incentive.

PROPOSING NEW INITIATIVES TO ENCOURAGE PRIVATE SECTOR INVESTMENT: President Clinton's New Markets Initiative will build upon these existing initiatives and help create conditions for economically successful investment in underserved inner city and rural areas. The New Markets Initiative is designed to prompt approximately $15 billion in new investment. Elements of the plan that require new legislation include:

- **The New Markets Tax Credit.** President Clinton and Vice President Gore have proposed a tax credit worth 25 percent for investments in a wide range of vehicles to help spur $6 billion in equity capital for investment in America's new markets. Eligible investment companies include community development financial institutions, community development venture capital funds, and new types of investment companies created by this initiative.
- **America's Private Investment Companies (APICs).** This new program will provide equity capital for large-scale businesses in inner cities and rural areas. Just as America's support for the Overseas Private Investment Corporation helps promote growth in emerging markets abroad, APIC will encourage private investment in this country's untapped markets. APICs will be eligible for up to $200 million in government guaranteed debt for every $100 million in private equity invested.
- **New Markets Venture Capital (NMVC) Firms.** SBA will select ten to twenty NMVC firms whose management has successful records in community-based venture capital investment. The equity funds of private investors will be matched with government debt guarantees. Each firm will also be required to match technical assistance grants from SBA with private funds.

In addition to these new programs, the New Markets Initiative includes the expansion of several existing programs:

- **SBIC's Targeted to New Markets.** For over 40 years, SBA's Small Business Investment Company (SBIC) program has provided roughly $20 billion in equity and debt financing, helping companies them grow from small businesses to household names, like AOL and Staples. SBA will now offer more flexibility and new financing terms for SBICs that invest in underserved areas.
- **New Markets Lending Companies (NMLC).** 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. Firms must have a strategy to target lending in underserved areas.
- **Community Development Financial Institutions (CDFI) Fund.** The Presidents FY 2000 budget proposes a $30 million increase in funding for the CDFI Fund to $125 million. This Fund increases the availability of credit, investment capital, and financial services, in distressed communities.
- **BusinessLINC.** The President's FY 2000 budget includes seed money to expand BusinessLINC -- an innovative public-private partnership launched by Vice President Gore -- for new markets in economically distressed communities. BusinessLINC (Learning, Information, Networking and Collaboration) is designed to encourage large businesses to mentor and work collaboratively with small business owners and entrepreneurs.

BACKGROUND ON THE CLINTON-GORE ADMINISTRATION'S COMMUNITY DEVELOPMENT AGENDA

May 11, 1999

TODAY'S ANNOUNCEMENT BUILDS ON PRESIDENT CLINTON'S AND VICE PRESIDENT GORE'S SIX-YEAR RECORD OF PROMOTING GROWTH AND OPPORTUNITY IN AMERICA'S COMMUNITIES

Since 1993, President Clinton and Vice President Gore have been committed to tapping the potential of America's urban and rural communities. They have a demonstrated record of creating new initiatives and expanding existing initiatives to promote community and economic development. The Clinton-Gore Administration has worked with the private sector, states, and localities to help revitalize America's communities by bringing capital, jobs, and opportunity to distressed areas and cleaning up the urban environment. President Clinton and Vice President Gore have created or expanded the following initiatives over the last six years:

Helping to Bring Private Enterprise and Capital to Distressed Areas. The Clinton-Gore Administration has renewed the commitment of the Federal government to help bring private enterprise into underserved communities and improve access to capital for low-income households, minorities, and traditionally underserved borrowers.

- *125 Empowerment Zones and Enterprise Communities.* The Clinton Administration has announced 105 EZs and ECs across the country. This effort was proposed by President Clinton and passed by Congress in 1993. The EZ/EC effort has generated more than $2 billion of new private sector investment in community development activities. The President has also signed into law a second round of EZs -- 15 new urban and 5 new rural zones -- which will include tax incentives, small business expensing, and private activity bonds. In FY 1999, President Clinton and Congress provided first-year funding of $55 million for the new EZs, and $5 million in first-year funding for 20 new rural Enterprise Communities announced in January.

- *Strengthened and Simplified the Community Reinvestment Act (CRA).* In April 1995, the Clinton Administration reformed the CRA regulations to emphasize performance. 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. Banks made $18.6 billion in community development loans in 1997 alone. Lending to minority and low-income borrowers is also on the rise.

- *Created the Community Development Financial Institutions Fund (CDFI).* Proposed and signed into law by the President in 1994, the CDFI Fund, through grants, loans, and equity investments, is helping to create a network of community development financial institutions in distressed areas across the United States. The CDFI fund was established in 1994. In FY99, funding was increased 19 percent to $95 million from $80 million.

- *The Economic Development Initiative and Section 108 Loan Guarantee.* EDI grants are used to infuse capital into community development projects, enhancing the debt financing provided by the Section 108 loan guarantee program. Together, the programs support critical economic development in distressed communities. Estimated jobs supported by EDI and the Section 108 loan guarantee have grown by 300,000 from 1994 to 1998. During this time period EDI and the Section 108 loan guarantee program have funded $3.5 billion for more than 650 separate project commitments.

Helping to Bring Jobs and Opportunity to Distressed Areas. A cornerstone of the Administration's community empowerment agenda is helping to bring jobs and opportunity back to distressed areas:

- *$3 Billion Welfare-to-Work Jobs Initiative.* The Clinton Administration fought for a $3 billion welfare-to-work jobs initiative, as part of the Balanced Budget Agreement. The Administration is implementing these welfare-to-work grants directly to both cities and states for allocating additional resources to help long-term, hard-to-serve welfare recipients find and keep jobs.

- *Welfare-to-Work Tax Credit and Work Opportunity Tax Credit.* The Welfare-to-Work Tax Credit, enacted in the 1997 Balanced Budget Agreement, provides a credit equal to 35 percent of the first $10,000 in wages in the first year of employment, and 50 percent of the first $10,000 in wages in the second year, to encourage the hiring and retention of long-term welfare recipients. This credit complements the Work Opportunity Tax Credit (WOTC), which expands eligible businesses to include those who hire young adults living in Empowerment Zones and Enterprise Communities. In FY 1999, the President requested and Congress accepted extending the credit through June 30, 1999.

- *Community Development Block Grant (CDBG) Expansion.* President Clinton's FY 2000 budget included an expansion of CDBG. The final budget increases funding for CDBG from $4.750 billion in FY 1999 to $4.775 billion in FY 2000, a $25 million expansion this year.

Cleaning Up the Urban Environment. The Clinton Administration has launched a landmark effort, including the Brownfields Tax Incentive, to clean up and redevelop Brownfields sites. In total, the Brownfields action agenda has marshaled funds to clean up and redevelop up to 5,000 properties, leveraging between $5 billion and $28 billion in private investment and creating and supporting 196,000 jobs.

PRESIDENT CLINTON AND VICE PRESIDENT GORE ARE BUILDING ON THEIR PAST ACHEIVEMENTS THROUGH A NUMBER OF NEW INITIATIVES THIS YEAR.
While Americans are enjoying the fruits of our strong economy, we still need to do more to improve conditions in underserved urban and rural communities. To address this need, President Clinton and Vice President Gore are working on several fronts:

The New Markets Initiative. President Clinton's FY 2000 balanced budget provides a new initiative designed to create the conditions for economic success by prompting approximately $15 billion in new investment in urban and rural areas through:

- *The New Markets Tax Credit.* To help spur $6 billion in new equity capital, this tax credit is worth up to 25 percent for investments in a wide range of vehicles serving these communities, including community development banks, venture funds, and the new investment company programs created by this initiative (see below). 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.

- *America's Private Investment Companies (APICs).* Just as America's support for the Overseas Private Investment Corporation helps promote growth in emerging markets abroad, APICs will encourage private investment in this country's untapped markets, by leveraging up to $1.5 bilion in investment in new development projects and larger businesses that are expanding or relocating in inner city and rural areas.

- *SBIC's Targeted to New Markets.* For over 40 years, 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 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. SBA now will be offering more flexibility and new financing terms for Small Business Investment Companies (SBICs) that invest in underserved areas.

- *New Markets Venture Capital (NMVC) Firms.* NMVC firms will make both capital and expert guidance available to small business entrepreneurs in inner-city and rural areas. Ten to twenty NMVC firms are planned. SBA will match the equity and technical assistance of private investors.

- *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 made by a lender to a creditworthy small businesses that cannot otherwise secure financing on reasonable terms. Firms must have a strategy to target lending to underserved areas.

- *Microenterprise Lending and Technical Assistance.* Microenterprise initiatives in the FY 2000 budget include the proposed PRIME Act, under which the CDFI Fund will provide microenterprise technical assistance through competitive grants to microenterprise development organizations that focus on low-income entrepreneurs. President Clinton's and Vice President Gore's proposal also includes a doubling of support for technical assistance in SBA's Microloan Program and a doubling of support for SBA lending to leverage over $75 million in new microlending. The microenterprise strategy will also involve new funding for Individual Development Accounts (IDAs) and for SBA's One-Stop Capital Shops.

- *Regional Connections.* Regional Connections will provide competitive funding to States and partnerships of local governments to develop and implement new, locally driven "smarter growth" strategies that create more livable communities by addressing economic and community development needs across jurisdictional lines. Regional Connections, as part of the Administrations' Livability Agenda, will complement existing federal programs that respond to growth and investment patterns. The budget proposes funding at $50 million in FY 2000.

- *The Economic Development Initiative and Section 108 Loan Guarantee Program.* This program supports critical economic development in distressed communities in conjunction with the Section 108 loan guarantee program to help bring economic development to residents. In FY 2000 many projects will be eligible to participate in the Community Empowerment Fund Trust, a pilot program, which will enable the pooling of loans and the creation of a private sector secondary market for economic development loans. The CEF specifically targets Welfare-to-Work and City-Suburb Business Connections, building upon the success of HUD's EDI and Section 108 loan guarantee program.

- *Empowerment Zones and Enterprise Communities.* The 2000 Budget proposes mandatory funding for ten years: $150 million a year for urban EZs and Strategic Planning Communities; $10 million a year for rural EZs; and $5 million a year for rural ECs.

- *Community Development Financial Institutions (CDFI) Fund.* The budget proposes to expand funding for the CDFI Fund to $125 million--a $30 million increase from 1999. The Fund increases the availability of credit, investment capital, financial services, and other development services in distressed communities.

- *BusinessLINC.* The President's FY 2000 budget includes seed money to expand Business LINC --- an innovative public-private partnership launched by Vice President Gore --- for 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.

- *Low-Income Housing Tax Credit.* Since its creation in 1986, the Low-Income Housing Tax Credit (LIHTC) has given states tax credits of $1.25 per capita to allocate to developers of affordable housing. While building costs have increased 40 percent in the last decade, the amount of the credit has not been adjusted for inflation. Therefore, President Clinton and Vice President Gore propose to increase the cap on the LIHTC from $1.25 per capita to $1.75 per capita -- restoring the value of the credit to its 1986 level and helping to an create additional 150,000-180,000 new low-income rental housing units over the next five years.

- *Play-by-the-Rules.* This program will allow renters with solid payment track records to own a home. The 2000 Budget proposes a second round of $15 million for this initiative.

- *Helping America's Communities Redevelop Abandoned Buildings.* Redevelopment of Abandoned Buildings, as part of the Administrations' "Livability Agenda," would attack one of the primary causes of blight in urban neighborhoods: abandoned apartment buildings, single-family homes, warehouses, office buildings, and commercial centers. Under the proposal, HUD will provide $50 million in competitive grant funds in FY2000 to local governments to support the demolition or deconstruction of blighted, abandoned buildings.

New Markets Initiatives

Summaries

5/11/99

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NEW MARKETS TAX CREDIT:
SPURRING INVESTMENT FOR BUSINESS GROWTH IN URBAN AND RURAL COMMUNITIES

AMERICA'S PRIVATE INVESTMENT COMPANIES
Summary

In the six years since President Clinton took office, the economy has created nearly 18 million new jobs. But we have not yet ensured that no community will be left behind. Concentrations of poverty and joblessness continue to have a devastating effect on the social and economic fabric of communities across the country.

The evidence is clear--there are attractive business opportunities in distressed inner city and rural communities that are not being served. A key step to tapping these markets--with purchasing power of over $85 billion per year according to the Harvard Business School--is expanding access to private equity investment in business and industry that serve these communities.

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 and economic development of America's untapped new markets is not lost.

The America's Private Investment Companies (APIC) initiative is a key component of the president's New Markets Initiative. It will be a Department of Housing and Urban Development (HUD) program administered by HUD and supported by SBA to combine SBA's venture investment expertise with HUD's expertise in large scale economic revitalization in distressed areas. It complements SBA's equity investment programs, encouraging substantial business expansion into inner cities and rural areas.

America's Private Investment Companies

Described as "the domestic OPIC," it was inspired in part by the Overseas Private Investment Corporation which encourages investing in emerging markets overseas. This new program will provide equity capital for larger-scale businesses in inner cities and rural areas. It will fund large, investment partnerships formed by private investors for this purpose.

APICs will be organized as for-profit private venture capital funds with an estimated minimum private capitalization of $100 million. APICs will be eligible for twice that amount in Government guaranties on loans obtained from private sources. These significant pools of investment capital will be available to take advantage of the opportunities described above and will help to create good jobs in inner cities and rural areas.

HUD and SBA will jointly solicit proposals for the creation of the investment partnerships. Approximately five organizations will be selected. HUD and SBA will enter into a negotiated financing agreement with each selected APIC. APIC investments will be in low and moderate-income areas and have prior Government approval for conformance with the APIC program's public policy objectives. But it is private investors who will identify and pursue the most promising business opportunities in the communities.

HUD/SBA anticipate that the budget authority authorized in FY 2000 will provide $1 billion of government-backed private loans at a budget cost of just $37 million in credit subsidy. Combined with a private equity investment of $500 million by investors in the selected organizations, the program is expected to have a total impact of $1.5 billion per year. So $37 million in government subsidy will leverage $1.5 billion in private investment in these untapped markets.

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 anticipates that the program will involve $100 million in SBA-backed funding at a budget cost of $15 million, and $30 million in technical assistance grants in the FY 2000 budget, at a budget cost of $30 million. Establishing the program will require enabling 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 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.

NEW MARKETS OUTREACH
AND THE LMI 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 LMI 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 intensive technical assistance and equity-type capital in rural and inner city areas.

Outreach Workshops

In July 1998, 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 enabling 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.

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 rural areas and inner cities.

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

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.

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.

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.

NEW MARKETS TAX CREDIT:
SPURRING INVESTMENT FOR BUSINESS GROWTH IN URBAN AND RURAL COMMUNITIES
Summary

President Clinton's 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 inner cities and isolated rural communities 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 vehicles would qualify. Under the proposal, the Treasury Department would allocate tax credits to investment vehicles whose primary mission is to serve low and moderate income communities. These might include community development banks or venture funds, community development corporations (including for-profit subsidiaries of nonprofits), small business investment corporations focused on low and moderate income communities, funds established under SBA's new programs - America's Private Investment Companies and New Market Venture Capital Firms - 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 funds. Similarly, tax credits could be provided for secondary market investments for qualified purposes.

What businesses would qualify? The designated 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? Investment funds would apply 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 investment funds would report to the Treasury Department on the tax credit allocations made and on the use of the investment for qualified purposes.

"The New Markets Tax Credit is the most significant proposal for the economic development of distressed urban and rural communities in a generation." Michael Rubinger, President and CEO of Local Initiatives Support Corporation (LISC)

PARTICIPATING CEOs

1. Duane Ackerman, Chairman & CEO, Bell South
2. Dan Amos, President & CEO, AFLAC Incorporated
3 Donald Carty, Chairman, President & CEO, American Airlines
4 Emma Chappell, Chairman, President & CEO, United Bank of Philadelphia
5. Jon Corzine, Senior Director, Goldman Sachs
6. Charles Gifford, Chairman & CEO, BankBoston
7. Martin Grass, Chairman & CEO, Rite Aid Corporation
8. Richard Grasso, Chairman & CEO, NYSE (*not traveling*)
9. Dan Hesse, President & CEO, AT & T Wireless
10. Richard Huber, Chairman, President & CEO, Aetna, Inc.
11. Debra Lee, President & COO, BET Holdings, Inc.
12. Leo Mullin, President, Chairman & CEO, Delta Airlines
13. Frank Newman, Chairman & CEO, Bankers Trust
14. Frank Raines, Chairman & CEO, Fannie Mae (*not traveling*)
15. Maceo Sloan, Chairman, President & CEO, Sloan Financial Group
16. Sy Sternberg, Chairman, President & CEO, New York Life
17. Sanford Weill, Chairman and Co-CEO, Citigroup

News Clips:

Atlanta New Markets Trip

Tuesday, May 11, 1999

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Clinton Implores Firms to Invest in Poor Areas

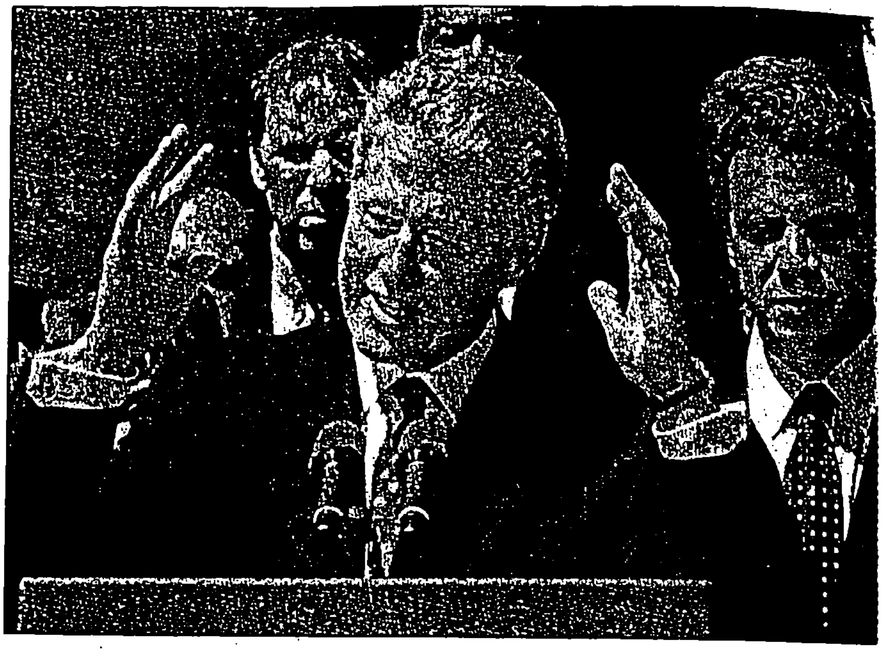
■ **Economy:** President describes initiative to help nation's poverty-plagued neighborhoods share wealth.

By JAMES GERSTENZANG
TIMES STAFF WRITER

ATLANTA—From the White House Rose Garden to the cradle of the civil rights movement, President Clinton conducted a traveling seminar Tuesday on the need to invest in stubborn areas of urban and rural poverty, declaring: "We can bring the benefits of free enterprise to every neighborhood in America."

In an era when the nation's peacetime unemployment rate is at its lowest point in four decades, the rate in 37 cities is twice the national average, the president said.

Touting his plan to spur investment in "underserved" areas, Clinton challenged executives of some of the nation's largest companies to spend money in some of its poorest communities. "We don't have to leave anyone behind," the president said. "And if we can't do this now, when in the wide world will we ever get around to it?"



Agence France-Pr

President Clinton, with HUD's Andrew Cuomo at right, discusses plan.

The New Markets Initiative was rolled out at the beginning of the year but has been given little attention in a White House focused first on preserving the Clinton presidency and then on the war in the Balkans.

The president unveiled plans Tuesday for a grand tour in early July of some of the nation's most notorious pockets of poverty—perhaps the Mississippi Delta, Appalachia, a Native American reservation and several cities, said Housing and Urban Development Secretary Andrew Cuomo.

The initiative is built around a p posed tax credit worth 25% of inve ments in community developm banks, venture funds and corporatio and other vehicles intended to cre $6 billion in equity capital for inner c ies and poverty-stricken rural areas.

It would operate similarly to fed ally sponsored programs that guar tee private investments by America in emerging markets overseas. T plan also would provide guarantees HUD and the Small Business Admin

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LOS ANGELES TIMES

CLINTON: Investment Plea

Continued from A3

tration, through a $300-million fund, for development projects or larger businesses relocating in poorer neighborhoods.

Funds have not been earmarked, however, for specific communities. The plan still needs congressional approval.

On a day that began with a White House meeting with the chief executives of 15 major corporations, Clinton devoted an unusual amount of time drawing attention to his effort to tackle one of the most difficult economic issues still facing him after six years in office.

"Our greatest untapped markets are here at home—at the least, $85 billion in untapped markets," he told the executives.

Later, he flew to Atlanta with many of his White House guests, toured the Sweet Auburn Curb Market and conducted a second round of his investment seminar.

Atlanta's Sweet Auburn neighborhood is home to the Ebenezer Baptist Church, where the Rev. Martin Luther King Jr. and his father preached. The King Center, where the civil rights leader's crypt is located, is nearby, as are the headquarters of the Southern Christian Leadership Conference.

About 24 small businesses are located in the market, among them produce vendors, a florist, a garden center, a seafood market and restaurants. The enterprises receive more than $8.3 million in federal assistance, including grants for equipment and property rehabilitation, according to the White House.

Admittedly tossing aside all dietary restraint, Clinton fueled himself with a free sample of sweet potato cheesecake. And he couldn't refrain from conducting an inventory of other goods in a bakery case—calling out "apple pie, cherry pie," and then explaining to Sonya Jones, the proprietor of the Sweet Auburn Bread Company: "I'm just curious what you make."

The goal of black Atlanta has been to revitalize the Sweet Auburn community, and the King Center is one of the largest tourist attractions in the South. But it has failed to generate widespread economic revenue, and has shrunk as an economic hub since the days when Atlanta was segregated and the community was the center of African American life.

Some merchants said they are struggling—some for want of customers, others from the difficulty of attracting employees.

Before an audience that included the chief executives of enterprises such as American Airlines and the Goldman, Sachs investment house, the president drew Jones into a discussion of how health- and child-care benefits could help attract workers—a problem at the market even in a community of perpetually elevated unemployment.

"We should be able to pool together within the area," Jones said, and, joining in a benefits program with larger companies, offer the same health care programs as major firms.

Times staff writer Sam Fulwood III in Washington contributed to this story.

WEDNESDAY, MAY 12, 1999

Clinton Tries to Sell Executives on Inner-City Economics

By KATHARINE Q. SEELYE

ATLANTA, May 11 — Eager to keep his domestic agenda going, President Clinton flew here today to call for corporate investment in inner-city America and said he would tour some of the nation's pockets of poverty, which he characterized as great economic opportunities.

The tour, in July, is to be modeled on the overseas missions that Cabinet secretaries and corporate officers frequently make to help American businesses take advantage of emerging markets. Mr. Clinton said today that some of America's neglected rural and urban areas constituted such emerging markets.

"Our greatest untapped markets are here at home," the President said at the White House this morning after a closed-door session with 15 chief executives of major corporations. Mr. Clinton brought the executives here later for a tour of local businesses that have profited from Federal investment.

Aides said Mr. Clinton's tour was to take him to Appalachia, the Mississippi Delta, Indian reservations and aging industrial cities like Gary, Ind. The aides said he would try to get the executives to see the tour sites as sources of customers and make substantial investments in them. There was no immediate reaction from the executives.

The President's schedule was intended to highlight a part of the domestic agenda he laid out when he first campaigned for President, when he said repeatedly that "no one should be left behind." With the war in Kosovo, the shootings in Littleton, Colo., and other issues now dominating his time in Washington, Mr. Clinton is eager to revive this aspect of his Presidency, particularly as former Senator Bill Bradley challenges Mr. Clinton's designated heir, Vice President Al Gore, on broad questions of race and economic equality. Mr. Gore spoke extensively with the executives this morning.

Much of the United States is enjoying the biggest economic expansion in more than three decades. And Mr. Clinton noted that in particular, African-American and Hispanic residents were enjoying the lowest rates of unemployment since statistics have been kept. But he said that parts of the country had had no new investment, no new business and no new jobs and that 37 cities had unemployment rates that were double the national average.

"In the midst of all our prosperity," the President said here, he wanted to point out "both the obligation and the opportunity we have to do better."

The President's support for investment at home was inspired by the Rev. Jesse Jackson's pleadings in the last year to Wall Street to encourage private investors, said Gene Sperling, Mr. Clinton's economic adviser. Mr. Jackson was not with Mr. Clinton today but is supposed to be part of the July tour.

Mr. Clinton spent his day emphasizing that people in poor areas could succeed if someone invested in those areas and if they are aided by federally sponsored tax credits, loan guarantees and technical support. He is also proposing $1 billion in tax credits for businesses in poor areas.

He brought the executives with him here on Air Force One for a round-table discussion staged between stalls at a historic farmers' market. He talked about tax incentives for empowerment zones, areas in the inner city earmarked for economic initiatives, but not before cruising for munchies and coming up with some coffee and sweet potato cheesecake.

Trips in the U.S. are modeled on the ones Cabinet members make to emerging markets abroad.

"I have lifted things from almost every entrepreneur here," the President said with a laugh. He said the woman who gave him the cheesecake "destroyed my diet today — and I loved every bite of it."

The market, the Sweet Auburn Curb Street Market, is in Southeast Atlanta's first black commercial district, not far from the home of the Rev. Dr. Martin Luther King Jr. In operation since 1923, the market has fallen on hard times over the years and has been aided with more than $8 million in Federal financing.

The market now employs about 800 people in 24 shops. The President was intrigued by a bin of cows feet and pig ears, recalling that when President Boris N. Yeltsin of Russia visited him in Washington, he presented Mr. Clinton with a roasted pig and cut off the ear, telling Mr. Clinton that he would eat it if he were a true Russian.

Many shop owners said business was slow as the executives made their way through the market. The corporate delegation included representatives from Bell South, Aetna, American Airlines, Goldman Sachs, the Rite Aid Corporation, AT&T Wireless, Delta Air Lines, Bankers Trust and New York Life.

The corporation chieftains said they supported Clinton's plans.

Richard Huber, head of Aetna, said his company already employed residents from low-income areas and trained them to sell insurance tailored to low-income consumers. The goal, Mr. Huber said, is to "get in there and really penetrate these communities."

The New York Times

WEDNESDAY, MAY 12, 1999

Clinton takes his pitch to market to stress economic development

By Susan Page
USA TODAY

ATLANTA — President Clinton snacked on sweet-potato cheesecake, listened intently to an explanation of how pregnant women sometimes crave a mineral-laden dirt called kaolin and warily eyed a meat counter featuring cows' feet and pigs' ears.

He was on a quick trip to illustrate the value of investing in distressed neighborhoods, but Clinton was reminded of the dedication ceremony for the Russian Embassy in Washington. He recalled that Russian President Boris Yeltsin rolled out a roast pig, cut off its ear and challenged him: "You'd eat this if you were a true friend of Russia."

Judging by the way Clinton told the story, he must have demurred.

Clinton's tour of the Sweet Auburn Street Market here Tuesday was part of a White House campaign to urge U.S. businesses to invest more in distressed urban and rural communities that have been left behind in the nation's current economic good times.

He convened a roundtable of CEOs at the White House in the morning. Then he took most of them with him on Air Force One as he held a similar discussion with the owners of small shops at this 77-year-old market, refurbished in 1992 with the help of $4.9 million in federal loans.

With him were bankers, airline executives and others. Among them: Jon Corzine of investment bank Goldman Sachs, Leo Mullin of Delta Air Lines, Ted Gifford of the Bank of Boston and Sy Sternberg of New York Life. They listened as Sonya Jones of the Sweet Auburn Bread Co. — sweet-potato cheesecake a specialty — and others described their efforts to build their businesses.

"I have lifted things from almost every entrepreneur here," Clinton boasted, with a small plastic bag of kaolin in one pocket and a white bakery box of cheesecake in the hands of an aide. "I'm trying to highlight you, and people like you all over the country, so people will know this can be done."

"When you look at the inner city, the opportunities are apparent," Atlanta Mayor Bill Campbell said. "It's access to capital that we think has been the biggest impediment." Eight of the 24 shops in the market, on the edge of the Martin Luther King Jr. Historic District, have received federal aid through an empowerment zone program.

The White House has proposed a $1 billion, five-year program of tax credits and the creation of an agency to promote investment in the USA much as the government promotes investments in foreign countries.

Clinton announced that he would spend two or three days in early July visiting such places as Appalachia, the Mississippi Delta, Indian reservations and cities. Civil rights leader Jesse Jackson, who pushed Clinton to undertake the initiative, will accompany him, though he wasn't invited to Tuesday's forum. "For manageability reasons, we kept this meeting to just CEOs," White House adviser Gene Sperling said.

"I'm going places not just to remind America of the plight of the Americans who live there, but to highlight their enormous economic potential," Clinton said.

But several shop owners at the market said business has been slow lately.

Sandy Song, 29, runs a produce stand that her family has owned since 1976. "I can't say definitely we're going to survive," she said. Business flourished when a food stamp office operated in the market, but food stamps have been replaced by debit cards, closing the office and reducing foot traffic.

Still, Song said she was thrilled by Clinton's visit: "You don't get to meet the president every day."

By Joyce Naltchayan, Agence France-Presse

In Atlanta: President Clinton holds a sample bag of kaolin Tuesday as he tours the Sweet Auburn Street Market with Rep. Cynthia McKinney, D-Ga.

Clinton Touts 'New Markets' Plan

President, 15 CEOs Back Investment in Poorer Urban, Rural Areas

By Charles Babington
Washington Post Staff Writer

ATLANTA, May 11—President Clinton and the top executives of 15 major corporations met at the White House and in Atlanta today to tout the administration's proposals to boost the economies of areas with high jobless rates.

As the head of the Goldman Sachs & Co. brokerage house mingled with the owner of Atlanta's little Eureka Restaurant, Clinton said the government and the private sector should do more to help rural communities and urban neighborhoods that have missed the nation's economic boom.

"Even though we have the lowest peacetime unemployment rate since 1957, there are still 37 cities ... where unemployment is double the national average," Clinton said in a White House speech before boarding Air Force One—with the 15 corporate executives on board—for Atlanta. "We have been given an opportunity now ... to prove that we can bring the benefits of free enterprise to every neighborhood in America."

The president's proposals, outlined in earlier speeches, mainly involve offering tax credits, loan guarantees and other incentives to stimulate investments and create jobs in economically lackluster communities. Some of the proposals in Clinton's "New Markets Initiative" will require congressional approval.

The day's schedule gave the corporate leaders an unusually generous amount of face time with the president—an hour-long private meeting with Clinton and Vice President Gore at the White House and rides to and from Atlanta on the president's plane. Federal records show that six of the executives have contributed to Gore's campaign and that one has given to Gore's chief GOP rival, Texas Gov. George W. Bush.

Richard Huber, CEO of Aetna Inc., said in an interview that his insurance company views areas such as the federally subsidized Sweet Auburn Curb Market the president visited today as "emerging markets." Aetna has pilot programs in Atlanta and other cities in which it hires residents from high-unemployment districts and trains them to sell products tailored for consumers with modest incomes, Huber said. The goal is to "get in there and really penetrate these communities."

Other CEOs who joined Clinton were F. Duane Ackerman of BellSouth, Daniel P. Amos of AFLAC, Donald J. Carty of American Airlines, Emma Chappel of United Bank of Philadelphia, Jon Stevens Corzine of Goldman Sachs, Charles Gifford of BankBoston, Martin Grass of Rite Aid, Dan Hesse of AT&T Wireless, Debra Lee of BET Holdings, Leo Mullin of Delta Air Lines, Frank Newman of Bankers Trust, Maceo Sloan of Sloan Financial Group, Sy Sternberg of New York Life and Sandy Weill of Citigroup.

Clinton said today he will make a three-day tour in early July of struggling areas, including the Mississippi Delta, Appalachia, Indian reservations and cities such as Gary, Ind.

Clinton's New Markets Initiative calls for a tax credit worth 25 percent of a participant's investment in targeted areas. It also would establish a government subsidy for 10 to 20 "New Market Venture Capital Firms," which would make "both capital and expert guidance available to small business entrepreneurs in inner-city and rural areas," according to White House briefing papers.

Dating to 1918, the Sweet Auburn market was in disrepair in 1992 when Atlanta obtained a federally guaranteed loan of $4.9 million to refurbish it. About two dozen businesses, including a food court and produce, fish and meat vendors, operate in the market, where they have various tax credits as part of Atlanta's "empowerment zone." President George Bush tried to end the subsidy in 1992, calling it a "pork barrel" project.

The Washington Post

Wednesday, May 12, 1999

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CRA Protests Rarely Play Role in Stopping Mergers, Treasury Report Says

◆ By KATHARINE FRASER

WASHINGTON — To counter attempts to curb the Community Reinvestment Act, the Clinton administration has armed itself with data showing that activists rarely succeed in stopping bank mergers.

good Fewer than 1% of more than 86,000 bank applications filed since 1985 were protested on CRA grounds, according to a Treasury Department report. Of those 755 CRA protests, 690 were rejected by regulators, according to the Treasury analysis. weaker

"This data suggests that banks need not capitulate to unwarranted protests," said Richard S. Carnell, assistant secretary of the Treasury for financial institutions. "Public comment plays a meaningful role in the process of identifying and assessing CRA performance."

Since CRA rules were revamped in 1995, the Treasury said, regulators are handling protests faster. From the beginning of 1996 to the end of 1998, 42% of CRA challenges were resolved within 60 days, and 75% within three months.

Protests by community groups do not hamper bank mergers and should not be used as an "excuse" to scale back CRA requirements, said John E. Taylor, president and chief executive officer of National Reinvestment Coalition, a Washington-based association of community organizations.

Fewer than 1% of applications are protested, and regulators reject most CRA protests.

"The impact of CRA on bank applications has been grossly exaggerated," Mr. Taylor said. "I wish it were true."

The financial reform legislation adopted May 6 by the Senate on a 54-to-44 vote would make it harder to stop many bank mergers.

Merger applications filed by banks with "satisfactory" or better CRA ratings for three consecutive years could not be protested on community reinvestment grounds. Rural banks with less than $100 million of assets would be exempt from CRA compliance.

The Senate bill also would require banks to disclose cash payments to merger opponents.

In January, Sen. Gramm asked banking regulators for information about merger protests, including the names of the challengers. He plans to hold hearings on CRA later this year.

A spokeswoman reiterated the Texas Republican's concern that banks are subject to intimidation. "Community groups have gotten very adept at using CRA to get agreements with banks with just the threat of a protest," she said.

That concern was behind Sen. Gramm's support of disclosure of "how much money these organizations are getting from insured institutions," the spokeswoman added.

Mr. Taylor of the National Reinvestment Coalition said he knew of no such agreements. He added that attacks on CRA as costly are unfounded.

"If God showed up and said 'My son Phil, this is a good thing and not the burden you purport,'" Mr. Taylor added, "he would come out with a statistic to prove God wrong."

The House takes a different approach to CRA in its version of financial reform legislation. Banks merging with securities or insurance firms would be required to have and maintain "satisfactory" ratings.

Assuming the bill is approved by the House, lawmakers from both chambers would have to negotiate a compromise. The Clinton administration has vowed to veto legislation that rolls back CRA. ◇

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Roughly 2,300 would be covered OCC rules. Together $322 billion of assets, o the industry's total. Ban trade group officials prai comptroller's proposal.

"What's not to like?" said Thomas, director of regul affairs at the Independent C munity Bankers Association. recognizes that communit are an important part of the cial landscape and their abil compete should not be un hampered by regulatory burde

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That blocks smaller institu from serving some local bor ers that larger banks are abl accommodate, Mr. Hawke sa

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Clinton Urges Business Leaders To Boost Inner-City Investment

◆ By JARET SEIBERG

WASHINGTON — Seeking support for his community development initiatives, President Clinton met Tuesday with bankers and businessmen at the White House.

"We should go to the 21st century leaving no one behind," the President said during a Rose Garden ceremony attended by Citigroup chairman Sandy Weill, BankBoston chairman Charles Gifford, New York Life chairman Sy Sternberg, and other business leaders.

The private sector should consider inner-city markets as potential sources of revenue, much like they view developing countries, Mr. Clinton said. "Our greatest untapped markets are here at home," he said.

Later in the day, the President led the executives on a tour of dilapidated sections of Atlanta. He plans to visit another economically depressed community July 5.

Vice President Gore touted the Community Reinvestment Act, saying it "played a big role" in sparking economic revitalization in some neighborhoods. Industry officials did not speak at the event.

In an interview, Michael Schlein, Citigroup's director of corporate affairs, said Mr. Weill attended because the company is a strong supporter of the President's reinvestment initiatives. "Citigroup has a long history of developing financial markets around the world and here at home," Mr. Schlein said.

The administration's "new markets" initiative, first unveiled in his fiscal 2000 budget proposal, seeks to draw $15 billion in new investment to poor urban and rural areas. Proposed inducements include a 25% tax break for investments in community development banks and other financial institutions devoted to sparking economic development.

The administration also would encourage small business investments to focus on economically depressed areas, establish up to 20 venture capital firms specializing in poor areas, and give 10 more nonbank lenders permission to participate in the Small Business Administration's guaranteed loan program.

All these changes would require congressional approval, a fact the President acknowledged in his speech. "We need to have the Congress work with us in a bipartisan way," Mr. Clinton said.

A House Banking Committee spokesman said the panel will review the President's proposals. A hearing on some of the programs is scheduled for May 26, he said.