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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	From Lisa Green To Melissa G Green (2 pages)	06/21/1999	P5
002. email	From Lisa Green To Melissa G Green (1 page)	05/22/1999	P5
003. paper	Treasury News; RE: phone numbers/personal info [partial] (1 page)	05/26/1999	P6/b(6)

COLLECTION:

Clinton Presidential Records
Policy Development
Lisa Green
OA/Box Number: 20587

FOLDER TITLE:

Prime [1]

2012-0043-S
ms258

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
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P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

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1250 Eye Street, Suite 902, Washington D.C., 20005
Fax: 202-393-3034 Phone: 202-393-5225

PRIME MEMO

Robert A. Rapoza Associates

Fax

To: Lisa Green | From: Alison Feighan
Fax: | Pages: 4
Phone: | Date:
Re: | CC:

☐ Urgent ☐ For Review ☐ Please Comment ☐ Please Reply

• Comments:

Call me when you have a chance — A

Congress of the United States

Washington, DC 20515

Supplemental Views

We strongly support the goals of the Program for Investments and Micro Entrepreneurs ("PRIME") Act. It is vital that we provide technical assistance and capacity building to low-income and very low-income micro-entrepreneurs.

Technical assistance programs for micro-entrepreneurs, as well as funding for these programs, are desperately needed. Although the PRIME program was drafted to provide much-needed assistance to low-income micro-entrepreneurs, it does not address the largest issue confronting micro-enterprise programs – the need for adequate funding. Funding for the SBA Microloan program has historically been inadequate. Although the authorization for the Microloan technical assistance program has remained at $40 million since FY 1998, the Administration requested only $16.5 million for the program in FY 1998, and the Congress appropriated just over $12.9 million. In FY 1999, the Administration again requested $16.5 million and the Congress appropriated that same amount. In Fiscal Years 1998 and 1999, the SBA Microloan technical assistance program has received only $17.4 million in total funding. This clearly insufficient amount represents less than one-fourth of the program's total authorized funding level during that period.

FY 98. [illegible]
FY 99 16.

We are concerned that the PRIME program will be forced to share already scarce funding with the SBA Microloan program, creating two well-intentioned, but underfunded programs.

As members of the Banking Committee who also serve on the Small Business Committee, we have spent a great deal of time working to assist low- and moderate-income entrepreneurs which programs like PRIME are targeted to assist. We are especially concerned that this program complement-- and not simply duplicate-- the services already provided by the Small Business Administration, especially the 7(m) Microloan program.

The similarities between the proposed PRIME Act and the SBA Microloan program are demonstrated by each program's statement of purpose. As approved by the Committee, the PRIME program's purpose is:

> "To authorize qualified organizations to provide technical assistance and capacity building services to micro enterprise and development organizations and programs to disadvantaged entrepreneurs . . . "

According to the statement of purpose for the SBA's Microloan technical assistance and capacity building program, as originally authorized in 15 U.S.C. Sec. 636 7(m), the program's purpose is:

> "To make grants available to eligible nonprofit entities that, together with non-Federal matching funds, will enable such entities to provide intensive marketing, management, and technical assistance to assist low-income entrepreneurs and other low-income individuals . . . "

" OBTAIN private sector financing for their businesses "

Because of the potential for duplication, we have several concerns about how the PRIME program will work with existing federal micro-enterprise technical assistance and capacity building grant programs, especially those that already exist at the Small Business Administration. We are hopeful that further work will be done to ensure that PRIME works in conjunction with existing programs, especially in the following areas:

Coordination to Allow PRIME to Complement SBA Microloan Program

We believe that, for PRIME to be successful, it is critical that it build on the lessons learned by more experienced federal programs, such as SBA's Microloan program. By working in concert with SBA to develop the regulations to implement the PRIME program, CDFI will prevent any conflict or duplication. As a result, this step will enable PRIME to operate more efficiently and effectively. It would be unfortunate in this time of budget restraints for Congress to create a new government program, one that closely resembles an existing program, while ignoring the lessons learned and the expertise developed in the operation of a similar program.

Pregulation

Since the inception of the Microloan program, SBA has learned what regulations are necessary to ensure the efficient and effective operation of a technical assistance and capacity building grant program. Since the PRIME program is substantively similar to the existing SBA Microloan program, we believe that CDFI and, in the end, the micro-enterprise community could benefit from the expertise SBA has to offer in developing the initial regulations for the program.

SBA Microloan Technical Assistance and Capacity Building Programs

The PRIME Act holds the potential to complement and supplement what the SBA Microloan program is currently doing. A main component of the PRIME Act, as is the case with SBA's Microloan program, is its focus on capacity building. It should be noted that, in addition to the technical assistance SBA provides with its 7(m) Microloan program, it has the ability to provide technical assistance without the loan component. Through its Non-lending Technical Assistance Provider ("NTAP") program, SBA can provide up to $125,000 in capacity building loans-- like the PRIME Act-- for the specific purpose of capacity building.

NOT capacity Building Loans

Because SBA has spent a considerable amount of time on the areas targeted by the PRIME Act, namely technical assistance and capacity building, it has cultivated a network of experienced entrepreneurial intermediaries that have developed critical expertise in serving the micro-entrepreneurial community. To move forward with an entirely new program without including or providing an incentive for the already existing network of micro-intermediaries to participate would be a detriment the micro-entrepreneurial community. If the PRIME Act is to be successful, it must take into account the experience of these intermediaries and provide a catalyst for them to participate in this new program.

What do they want

SBA has no capacity Building program.

Conclusion

Our greatest concern with the PRIME Act is that it has the potential to duplicate existing federal programs. Therefore, we urge that steps be taken to ensure this new program work in concert with existing programs, especially those administered by the SBA. If these steps are not taken, then it is likely that a duplicative program will be created. As a result, two underfunded programs will be operating, neither of which will be serving the target community. This is especially of concern since the Microloan program has been traditionally underfunded.

Specifically, we believe for PRIME to be successful that CDFI should work with SBA to draft any regulations regarding the PRIME Act. The Administration has developed a great deal of expertise over the years with technical assistance and capacity building, and their knowledge of the special needs of this type of program is invaluable. At the same time, existing intermediaries with experience in providing technical assistance and capacity building to micro-enterprises must be included in any new program. We believe that the ultimate goal of any program of this nature must be to get technical assistance to the nation's micro-entrepreneurs. The most effective way to do this is to ensure that the PRIME Act works in conjunction with existing programs to provide our entrepreneurs with the technical assistance and capacity building they need to succeed.

Nydia M. Velázquez
Congresswoman Nydia Velázquez

Donald A. Manzullo
Congressman Donald Manzullo

Sue Kelly
Congresswoman Sue Kelly

Dennis Moore
Congressman Dennis Moore

Rick Hill
Congressman Rick Hill

Stephanie Tubbs Jones
Congresswoman Stephanie Tubbs-Jones

John E. Sweeney
Congressman John Sweeney

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 8, 1998

Tally Points for King CDI

Mr. John Gray
Associate Deputy Administrator
Small Business Administration
409 3rd Street, SW
Suite 8200
Washington, DC 20416

Dear Mr. Gray:

With respect to implementation of the PRIME Act, should it be enacted, and subject to the views of the authorizing and appropriations committees and applicable law, this memorandum is to confirm that it is the CDFI Fund's intent to implement the Act in such a way as to provide additional consideration to qualified organizations that have been previously selected for an award under the Small Business Administration's Micro-Loan Program.

To that end, we would support report language to accompany the PRIME Act, along the lines of the following:

"In implementing the PRIME Act, it is the Committee's expectation that, although the Administrator of the Fund shall have sole discretion in the selection of applications for assistance under this subtitle, in evaluating such applications, the Administrator shall accord additional consideration to those applications from qualified organizations serving low income micro-entrepreneurs that have been previously selected for participation in the program established by section 7(m) of the Small Business Act (15 U.S.C. section 636(m))."

We look forward to working with the SBA on this important new initiative.

Sincerely,

Ellen Lazar
Ellen Lazar
Director
Community Development Financial Institutions Fund

Michael S. Barr
Michael S. Barr
Deputy Assistant Secretary
Community Development Policy

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What does this mean

SBA has no capacity Building program

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technical assistance to low income entrepreneurs. SBA has a good history of providing assistance to small business lenders that typically serve higher income populations. Based on several recent conversations and explanations of the two programs, I believe they are not duplicative. Although the actual product is similar the target groups and the delivery mechanism differ.

SBA's Past Concerns and Current Position
Last year, SBA raised concerns about what they believe to be a duplication in PRIME and their programs. In recent conversations with SBA (Jane Merkin and Jane Butler) I was told that they still have these concerns. I communicated that the Adminstration strongly supports PRIME, and does not want there to be any controversy over the bill around this issue. I further stated that we believed this issue was resolved last year, when increased funding was provided in ~~the budget for SBA's microlending programs.~~

SBA believes the issue was not actually resolved, but rather that the issue went away --- the parties involved, agreed to disagree. They stated that they have not contacted members of the Small Business Committee about this issue but that they did recieve a call from Velazquez's office and communicated their position. They also acknowledged that they do and will support PRIME and that they understand our concern about any controversy surrounding the bill. **SBA has agreed to place a joint call with me and leg affairs to Michael Day in Velazquez's office to express the Administration's support of the PRIME legislation.**

Good

Next Week's Hearing and Markup (Possible Velazquez Amendment)
The hearing and markup for PRIME will be held on Wednesday, May 25. We have heard from several different sources (Kennedy's office, CDFI, Treasury, and Rapoza Associates - representing the industry coalition) that they have well founded concerns about Velazquez introducing an amendment ~~at next week's hearing~~. The amendment ~~would likely~~ create a preference ~~or priority for~~ SBA microlenders to ~~recieve PRIME~~ funding. It might also include a role for SBA in creating the regulations. This amendment would muddy the distinction between the two programs and would be seen as a threat to CDFI's administration of the program. It would also raise the issue of duplicative programs to the attention of the full committee.

Testimony will be provided at the hearing by several microlenders who operate programs funded by SBA. These microlenders will be prepared to talk about the differences they believe exist between SBA's program and the proposed CDFI program. Kennedy and Domenici are also expected to testify.

Friday's Briefing for the Congressional Black, Hispanic, and Womens Caucuses
This past Friday, May 22, I participated in a briefing on PRIME organized by Bobby Rush's office with the help of Rapoza Associates. Other presenters included Michael Barr, Maurice Jones from CDFI, and a Microlender and Microentrepreneur. I stated very clearly that the Adminstration supports the legislation as proposed. We received a few questions about whether we anticipated any amendments or concerns to be raised about SBA's program. I responded (as did Michael) by emphasizing that the programs are distinct, and that increased funding has been provided f~~or~~ SBA microenteprise as well as this new program. Lastly, I stated that we are hopeful there will be no amendments, although markup is always unpredictable.

Next Steps
On Monday, SBA and I, along with Broderick Johnson, will place a call to Velazquez's staff to reiterate our position about this legislation. Once this call takes place I will give you an update. Depending on the outcome of this call, we may recommend that you place a call to Velazquez on the matter.

Good

Attachments
Attached are the following:
- Letter dated October 8, reflecting CDFI's understanding of the gentleperson's agreement between SBA and CDFI.
- Letter to CDFI and Treasury outlining SBA's response to the October 8 and recommendations about

SBA's role in PRIME

- Suggested Amendments to the Senate Version of PRIME that SBA was presumably asked to comment on

All parties involved recieved the two letters attached. SBA's position is that they never agreed to CDFI's letter. CDFI and Treasury's position is that they never agreed to SBA's letter. To some extent the issue did just go away once the budget was prepared. The status of any final agreement or arrangement is also a little murky because John Gray, who is no longer at SBA, was the SBA's primary negotiator.

Lisa Green
05/27/99 06:02:33 PM

Record Type: Record

To: Broderick Johnson/WHO/EOP@EOP

cc: Sarah Rosen Wartell/OPD/EOP@EOP
Subject: PRIME

Thanks for your help and guidance on PRIME. Although I was in Texas yesterday, I heard that the markup went smoothly --- no amendments. I also heard that Velaquez raised some fairly sharp criticisms and questions. You were exactly on target with what we should expect. Your assistance was greatly appreciated and has helped in my efforts to develop some credibility with the agencies.

Have you heard the possibility that Velazquez may be seeking a sequential referral to the SBA committee? In a recent conversation, Sarah said she didn't think that a request had been made and that such a request would not likely be granted to a Democrat. It's something that a few agency folks mentioned to me and I was just wondering whether we knew anything about it.

Sarah Rosen Wartell
05/26/99 02:50:43 PM

Record Type: Record

To: Derek A. Chapin/OMB/EOP@EOP
cc: Lisa Green/OPD/EOP@EOP
bcc:
Subject: Re: CDFI & PRIME bills passed by voice vote

Thanks. Please share CDFI/PRIME stuff with lisa green also.
Derek A. Chapin

Derek A. Chapin
05/26/99 02:49:16 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:
Subject: CDFI & PRIME bills passed by voice vote

Today the House Banking Committee **passed** both HR 629 (CDFI Reauthorization Act) and HR 413 (PRIME Act) **by voice vote with no amendments**.

Significant statements and questions:

- Sen. Kennedy testified before the committee, and declared that "some of the best ideas in the world are left in bank parking lots."
- Rep. LaFalce urged the committee not to debate whether CDFI programs belong in the Treasury or somewhere else, such as SBA; the program is working at Treasury, so there is no need for change.
- Rep. Velazquez, with guns blazing, criticized the existence of CDFI, proclaiming that reauthorizing SBA underfunds two very similar programs: CDFI and SBA's Microloan program. Rep. Velazquez also asked CDFI director Lazar to state the CDFI did not intend to become a loan-making program (Lazar did). I asked CDFI's Maurice Jones whether they were expecting this line of questioning from Rep. Velazquez, and he replied that "SBA had gotten hold of her."
- Other than Rep. Goode's question about admin expenses in FY98, the issue of a cap on admin expenses was not discussed.

Message Sent To:

PRIME

THE WHITE HOUSE

OFFICE OF LEGISLATIVE AFFAIRS
HOUSE LIAISON
--FAX COVER SHEET--

DATE: 6-23-99

TO: Melissa + Lisa

FAX: 6-2878

FROM:

___ CHUCK BRAIN
___ AL MALDON
___ DARIO GOMEZ
___ LISA KOUNTOUPES
_X_ BRODERICK JOHNSON
___ JANELLE ERICKSON
___ JADE RILEY

(202)456-6620 (TELEPHONE)
(202)456-2604 (FAX)

SUBJECT:

1 OF 5

F:\PCC\BANK106\HR413SB.008
[en bloc: no paragraph (2)]
H.L.C.

AMENDMENT TO H.R. 413

OFFERED BY MR. TALENT AND MS. VELAZQUEZ

[Page & line nos. refer to H.R. 413, as introduced on 1/19/99]

Page 5, line 17, before the period insert ", except that grant amounts made not be used to make loans of any kind".

Page 7, after line 22, insert the following new subsection:

"(e) CONSIDERATION OF INTERMEDIARIES PARTICIPATING IN MICROLOAN PROGRAM.—The Administrator shall establish and use criteria for selecting applications for grants under this subtitle from among applications that meet the requirements under this subtitle for approval for a grant, which—

"(1) may not exclude from consideration any application made by a qualified organization that is an intermediary participating in the program established under section 7(m) of the Small Business Act (15 U.S.C. 636(m)); and

"(2) shall provide positive consideration to an application made by a qualified organization that is an intermediary participating in the program established under section 7(m) of the Small Business Act (15 U.S.C. 636(m)).

Page 9, after line 6, insert the following new section:

"SEC. 180. REPORT.

"Not later than 1 year after the date of the enactment of this section, the Administrator shall submit to the Committees on Banking and Financial Services and Small Business of the House of Representatives and the Committees on Banking, Housing, and Urban Affairs and Small Business of the Senate a report on the microenterprise technical assistance and capacity building program under this subtitle, which shall include the Administrator's evaluation of the effectiveness of the first year of operation of the program and the following information:

"(1) The number and locations of the qualified organizations funded under the grant program.

"(2) The amount of each grant made to a qualified organization.

"(3) A description of the matching contributions provided in accordance with section 177 by each qualified organization receiving a grant.

"(4) The numbers and amounts of subgrants made by qualified organizations to small business concerns.

"(5) For each grant made under the program, the purpose for which the grant funds were used.".

Page 9, line 7, strike "**SEC. 180.**" and insert "**SEC. 181.**".

Page 9, line 16, strike "**SEC. 181.**" and insert "**SEC. 182.**".

Page 9, line 17, before "The" insert "(a) REGULATIONS.—".

Page 9, line 19, after the first period insert the following:

The Administrator of the Fund shall submit a copy of any such proposed, preliminary, interim, or final regulation to the Administrator of the Small Business Administrator for review and comment by such Administrator, and shall review any comments of such Administrator submitted pursuant to such review. No regulation issued to carry out this subtitle may take effect before the expiration of the 90-day period beginning upon the submission of such regulation to the Administrator of the Small Business Administration.

(b) COORDINATION WITH SMALL BUSINESS ADMINISTRATION.—Notwithstanding any other provision of this subtitle, the Administrator of the Fund may not make any grant under this subtitle before the Administrator enters into a memorandum of understanding with the Administrator of the Small Business Administration providing that the program under this subtitle and the microloan demonstration program under section 7(m) of the Small Business Act (15 U.S.C. 636(m)) will be carried out in conjunction and coordination with each other in a manner that advances the purposes of both such programs.

Ms. Ellen Lazar
Director
Community Development Financial
Institutions Fund
Department of Treasury
Washington, DC 20220

Mr. Michael S. Barr
Deputy Assistant Secretary
Community Development Policy
Department of the Treasury
Washington, DC 20220

Dear Ms. Lazar and Mr. Barr:

Thank you for your letter of October 8, 1998. We are pleased to be able to continue discussions on this important subject.

However, in reviewing the content of your letter, we are concerned that it does not reflect the tenor of our previous agreement to ensure that SBA's input will be made in a meaningful manner and that SBA micro-intermediary participants are given preference in receiving funds. Consequently, we have the following requirements relative to the implementation of the Prime Act:

1. SBA will be required to concur in any regulations that are promulgated relative to this program.

2. The implementing regulations will specify that intermediaries who participate under SBA's Microloan Program as authorized by 15 U.S.C. 7(m) will be given substantive numerical preference in the evaluation of applications to receive funds under the PRIME Act.

3. Loans made by micro-intermediaries participating in SBA's program will be subject only to the general requirement of the PRIME Program that, overall not less than 50 percent of the grant's made are used to benefit very low income persons including those residing on Indian Reservations.

Please acknowledge your acceptance of the above requirements in writing as soon as possible. We look forward to working with you on this important initiative which will make additional critically needed technical assistance support available to micro-intermediaries, and microenterprises.

Sincerely,

/s/

John L. Gray
Associate Deputy Administrator

I agree to the additional requirements proposed by SBA for implementation of the PRIME Program.

Ellen Lazar
Director
Community Development Financial
Institutions Fund

Michael S. Barr
Deputy Assistant Secretary
Community Development Policy

Suggested Amendments to S.409
May 3, 1999

- Insert at the end of Sec. 172. DEFINITIONS the following:
  - (c) or is a small business eligible to receive a microloan under 15 U.S.C. 7(m)
- Insert at the end of Sec.175, QUALIFIED ORGANIZATIONS, a new paragraph-
  - (5) an organization designated by the U.S. Small Business Administration as a participant in the Microloan Program
- Amend Sec. 176. ALLOCATION OF ASSISTANCE; SUBGRANTS to read
  - (1) Low Income- The Administrator shall ensure that not less than 50 percent of the grants made under this subtitle are used to benefit very low-income persons, including those residing on Indian reservations, and
  - (2) Other Organizations- The Administrator shall ensure that organizations participating in the program authorized by 15 U.S.C. 7(m) receive not less than 50 percent of the total grant amounts available under this section.
- Amend Sec. 177, MATCHING REQUIREMENTS by changing "(c) Exception" to "(c) Exceptions" and amending (c) by substituting the following words as (2) and renumbering existing (2) to (3)-
  - (2) in the case of applicants participating in the program authorized by 15 U.S.C. 7(m) HUD Community Development Block Grant funds may be used to fulfill the matching requirement without impact on the stipulations of this paragraph.
- Amend Sec. 178, APPLICATIONS FOR ASSISTANCE by adding the words "(a) In General-" to the beginning of the existing paragraph and adding-
  - (b) Selection procedures shall include a requirement for consultation with the Small Business Administration regarding the award of grants to organizations participating in the program authorized by 15 U.S.C. 7(m).

Consultation with [illegible]
[illegible]

THE WHITE HOUSE

LISA GREEN
SENIOR ADVISOR
NATIONAL ECONOMIC COUNCIL
202-456-2803 (ph)
202-456-2223 (fax)

TO: MELISSA

PHONE:

FAX:

DATE: PAGES TO FOLLOW:

COMMENTS: ATTACHMENT TO PRIME E-MAIL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 8, 1998

Mr. John Gray
Associate Deputy Administrator
Small Business Administration
409 3rd Street, SW
Suite 8200
Washington, DC 20416

Dear Mr. Gray:

With respect to implementation of the PRIME Act, should it be enacted, and subject to the views of the authorizing and appropriations committees and applicable law, this memorandum is to confirm that it is the CDFI Fund's intent to implement the Act in such a way as to provide additional consideration to qualified organizations that have been previously selected for an award under the Small Business Administration's Micro-Loan Program.

To that end, we would support report language to accompany the PRIME Act, along the lines of the following:

"In implementing the PRIME Act, it is the Committee's expectation that, although the Administrator of the Fund shall have sole discretion in the selection of applications for assistance under this subtitle, in evaluating such applications, the Administrator shall accord additional consideration to those applications from qualified organizations serving low income micro-entrepreneurs that have been previously selected for participation in the program established by section 7(m) of the Small Business Act (15 U.S.C. section 636(m))."

We look forward to working with the SBA on this important new initiative.

Sincerely,

Ellen Lazar
Ellen Lazar
Director
Community Development Financial Institutions Fund

Michael S. Barr
Michael S. Barr
Deputy Assistant Secretary
Community Development Policy

Ms. Ellen Lazar
Director
Community Development Financial
Institutions Fund
Department of Treasury
Washington, DC 20220

Mr. Michael S. Barr
Deputy Assistant Secretary
Community Development Policy
Department of the Treasury
Washington, DC 20220

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Consultation with [illegible]
[illegible]

DEPARTMENT OF THE TREASURY

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Text as Prepared for Delivery
May 26, 1999

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND DIRECTOR ELLEN W. LAZAR TESTIMONY BEFORE THE HOUSE BANKING COMMITTEE

INTRODUCTION

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

STRONG AND EFFECTIVE MANAGEMENT

Since becoming Director of the Fund in January of 1998, one of my top priorities has been the implementation of improvements to the Fund's financial and program management, reporting systems, internal controls, operating procedures, and awards monitoring. I am very pleased to report to the Committee that over the past 16 months we have made great progress in these areas. I would also like to acknowledge the role the Committee (particularly the Subcommittee on General Oversight) has played in helping to strengthen the Fund's organizational capacity.

In the Fund's financial audit for Fiscal Years 1995 through 1997, our independent auditors, KPMG Peat Marwick, LLP (KPMG), provided an unqualified opinion, affirming that our financial statements fairly presented the financial position of the Fund as of September 30, 1997, 1996, and 1995. KPMG also confirmed our identification of material weaknesses that we needed to correct.

RR-3175

KPMG recently completed the Fund's fiscal year 1998 audit, and I am pleased to report that we have again received an unqualified opinion. In addition, KPMG verified that we have successfully corrected all material weaknesses identified in last year's audit. They have reported no new material weaknesses for this year's audit.

We are in compliance with the Federal Managers' Financial Integrity Act (FMFIA). Our system of internal management, accounting and administrative control has been strengthened and is operating effectively. Our enhanced policies and procedures ensure that our programs achieve their intended results; our resources continue to be used in a manner that is consistent with our mission; and our programs and resources are protected from waste, fraud, and mismanagement.

As evidenced by our auditor's report, the Fund has taken critical steps to strengthen and build its infrastructure and hire staff. During FY 1998, a Deputy Director for Management/Chief Financial Officer, Awards Manager and Financial Manager were hired -- critical positions for ensuring proper internal controls and accountability. In addition, a Deputy Director for Policy and Programs was appointed and program managers for each program were hired. The Fund's legal department was substantially increased and additional staff have been hired to help carry out the Fund's many programs. Our enhanced internal procedures and staff capacity has helped us to deliver more effectively our award dollars to the institutions selected to receive awards. For example, with respect to our Core Component CDFI Program, all of our 1996 awardees have received disbursements and 92 percent of our 1997 awardees have received disbursements. We are currently disbursing the 1998 awards, which were announced in late September of last year. We anticipate disbursing funds to all 1998 awardees by August of this year. Our 1999 awards have not yet been determined.

The Fund is committed to managing for results. We have undertaken a rigorous review of the Fund's five-year strategic plan, goals, and performance measures. I am happy to report that we have completed this process and have forwarded to you our new strategic plan along with our 1998 Annual Report. The Fund was established by Congress in 1994 and I would like to again, acknowledge the strong role this Committee has played as we work to achieve our mission.

STRENGTHENING COMMUNITIES: PROVIDING ACCESS TO CAPITAL

Overview

The Fund's mission is to promote access to capital and local economic growth by directly investing in and supporting community development financial institutions (CDFIs) and expanding banks' and thrifts' lending, investment, and services within underserved markets.

Currently, the CDFI Fund pursues its mission primarily through five initiatives: the CDFI Program, which includes the Core, Technical Assistance and Intermediary Components; the

5 initiatives: (1) CDFI Program
(2) BEA Program
(3)
(4)
(5)

Bank Enterprise Award (BEA) Program; the Presidential Awards for Excellence in Microenterprise Development; the Native American Lending Study and Action Plan; and our Policy and Research Programs. The CDFI Fund also administers a Certification Program for community development financial institutions.

CDFI Program and Certification

1 2 3

The CDFI Program has three funding components: Core, Intermediary and Technical Assistance. These three components promote the CDFI Fund's goal, articulated in its strategic plan, of strengthening the expertise and the financial and organizational capacity of CDFIs to address the needs of the communities that they serve. CDFIs include community development banks, community development credit unions, non-profit loan funds, micro-enterprise loan funds, and community development venture capital funds. CDFIs

Under each component, the CDFI Fund selects awardees through a rigorous and competitive evaluation process. The Fund examines, among other things, the applicant's financial strength, management capacity, programmatic track record and, if applicable, ability to raise matching funds. The Fund selects awardees that clearly demonstrate private sector market discipline and the capacity to positively impact underserved communities long after they have received assistance from the Fund.

Core

The *Core Component* builds the financial capacity of CDFIs by providing equity investments, grants, loans or deposits to enhance the capital base -- the underlying financial strength -- of these organizations so that they can better address the unmet community development needs of their target markets. In addition, under the Core Component, the Fund provides technical assistance grants in conjunction with loans and investments in order to maximize the community development impact of the Fund's awards. This component leverages additional private and public sector investments into these CDFIs through its one-to-one non-federal match requirement for financial assistance.

Intermediary

The *Intermediary Component* allows the Fund to invest in additional CDFIs indirectly, through intermediary organizations that support CDFIs. These intermediary entities, which are also CDFIs, generally provide intensive financial and technical assistance to small and growing CDFIs, thereby strengthening the industry's financial and institutional capacity. The Intermediary Component also has a one-to-one non-federal match requirement for financial assistance.

Since inception, under the Core and Intermediary Components, the Fund has made 135 awards totaling $ 132 million.

TA

The *Technical Assistance (TA) Component* of the CDFI Program is the Fund's newest funding program. Introduced in 1998, this component builds the capacity of startup, young and small institutions. The TA Component allows the Fund to direct relatively small amounts of funds to CDFIs that demonstrate significant potential for generating community development impact but whose institutional capacity needs to be strengthened before they can fully realize this potential.

TA 98

In the first TA Component round held in 1998, the Fund awarded $3 million to 70 institutions.

98

Under the 1998 funding rounds, the Fund awarded a total $54 million to 54 institutions through its CDFI Program. In 1998 as in all previous years, demand for CDFI Program funding far exceeded the funding we announced as available. Under the Core and Technical Assistance Components we announced the availability of approximately $45 million. We received requests for more than $176 million.

99

For 1999, with the help of the $95 million appropriated to the Fund for FY 99, we anticipate that we will make $62 million in awards to 130 institutions under the CDFI Program. In October, the Fund published the FY 99 Notice of Funds Availability (NOFA) for both the Core and Intermediary Components, announcing a total of $57.5 million available, $50 million for the Core Component and $7.5 million for the Intermediary Component. We received 153 Core applications requesting a total of $192 million. We anticipate making approximately 55 Core awards. We received eight Intermediary applications requesting a total of $16 million. We anticipate making five Intermediary awards. In January, we published the FY 99 NOFA for the Technical Assistance Component. With the $5 million available for TA awards, we anticipate making 75 awards. We received 160 TA applications, requesting a total of $8.3 million.

43 states

5 new states had Core & Int workshops (19 total workshops) Mar 18 TA

To date, institutions in 43 states plus Puerto Rico and the District of Columbia have received CDFI Program awards. To encourage applications from a diverse pool of applicants, the Fund conducts informational workshops. Among the 19 Core and Intermediary workshops conducted in 1998, five were located in States that have not had previous Core or Intermediary Awardees. In March of this year, the Fund held 18 informational workshops on the Technical Assistance Component around the country, again selecting several regions in which there are no current awardees.

To further our goal of building the institutional capacity of the CDFI field, we provide debriefings to applicants that are not selected for an award. Applicants are given valuable feedback about strengths and weaknesses of their applications as observed by those community development professionals involved in reviewing their requests for funding. Many of these applicants use the information gathered from the debriefing to build the strength of their operations and to improve their performance.

CDFI Certification Program *

In addition to our CDFI funding programs, the Fund administers a CDFI Certification Program. CDFI certification increases the credibility of community lending organizations in the eyes of potential funders and investors. An organization that is certified is better able to attract private sector investments from local banks, corporations, foundations, and individuals.

To date, we have certified a total of 300 organizations in 47 states, plus the District of Columbia and Puerto Rico. New applications arrive each month.

+DC+PR

2 Bank Enterprise Award Program

The Bank Enterprise Award (BEA) Program is the Fund's primary tool for pursuing its strategic plan goal of expanding banks' and thrifts' community development lending and investment activity. By providing incentives to these mainstream financial institutions, the Fund encourages them to increase their investments in underserved communities. These financial institutions do this in two ways: 1 by providing loans, investments and services directly to the communities in need; and 2 indirectly, by investing in local CDFIs or other community development programs, that then provide financial and development services to the communities.

→ mult = 17x

BEA

The leveraging involved in this program is impressive. To date, 124 banks and thrifts in 30 states have received $58 million in BEA funding. This $58 million actually translates into investments in underserved communities of $983 million, seventeen times the amount of the CDFI Fund's investment. The awardees have invested $712 million in direct loans, investments and services to the community, and $271 million into CDFIs.

direct loans etc
+CDFIs

Award values each yr

The Fund increased its BEA awards in 1998 when it made 79 awards totaling $28 million. In 1996, we made 38 awards totaling $13.1 million; in 1997 we made 54 awards totaling $16.5 million. For the FY 99 funding round, we conducted twelve informational workshops around the country and received 139 applications. The Fund anticipates selecting approximately 80 of these institutions to receive awards totaling $25 million.

3 Presidential Awards for Excellence in Microenterprise Development

recog. + seeks to bring attention

The Presidential Awards for Excellence in Microenterprise Development is a non-monetary program administered by the Fund that recognizes and seeks to bring attention to organizations that have demonstrated excellence in promoting micro-entrepreneurship. By recognizing outstanding microenterprise organizations, the Presidential Awards seek to promote best practices and bring wider public attention to the important role and successes of microenterprise development especially in enhancing economic opportunities among women, low-income people and minorities who have historically lacked access to traditional sources of ~~credit.~~ This program is one of the ways that the Fund is promoting best practices in the industry.

→ 6 orgs received recognition Feb 99

In February of this year, the President presented awards to six organizations for their work in the microenterprise industry.

4 Native American Lending Study and Action Plan

Our Native American Lending Study and Action Plan is intended to stimulate private investment on Indian Reservations and other land held in trust by the United States. The first step in accomplishing this goal is identifying the barriers to private financing in these areas. In 1998, we launched an action plan that will examine lending and investment practices on Native American lands, identify lending and investment barriers and their impacts, and make recommendations for removing them. As part of that plan, we are holding workshops in 13 cities across the country this year. The workshops involve the Native American community, financial institutions, state agencies and community development organizations. With the assistance of the participants in these workshops, we anticipate that the study will be completed in fiscal year 2000.

5

Policy and Research

The Fund is perhaps the largest single source of capital available to the CDFI industry nationwide. It has access to data from hundreds of community development financial institutions nationwide. This includes information about the institutions as well as their target markets. In addition to baseline data derived from the process of certifying or funding applicants, the Fund collects longitudinal data on all of its awardees over at least a five-year period. Our policy and research goals include: (1) measuring and reporting on the performance and outcomes of the Fund and its awardees and (2) seeking to advance the CDFI industry as a whole through involvement in industry-wide research and development efforts.

In 1998 and 1999, we moved forward on the first of these, measuring and reporting on the performance and outcomes of Fund awardees. As you know, the Fund invests in CDFIs to promote their long-term viability and ability to serve distressed communities. Today, I am pleased to be able to report some preliminary findings of our efforts thus far with respect to the accomplishments of our awardees.

PERFORMANCE AND IMPACT

Surveys

30 1st Round Awardees

Using surveys, the Fund collected performance and outcome data on 30 of our 31 first-round CDFI Core Component awardees. These awardees were chosen in 1996. We began our evaluation on only first round awardees because they have had at least a year to absorb the Fund's investments and put them to work. Our sample of 30 first round awardees includes six credit unions, 14 loan funds, three community development banks, three venture capital funds, two microenterprise programs, and two multifaceted CDFIs. Together, they received $34 million in CDFI awards. What has our $34 million helped these institutions to accomplish?

Awardees

Our preliminary findings demonstrate that these awardees have generated significant community development over the past three years. For example, they have made $565 million in community development loans and investments. These loans and investments have helped to create or expand 1,895 microenterprises and 1,148 businesses; create or retain 12,412 jobs; develop 8,617 units of affordable housing, 98 childcare centers serving 7,168 children, 17 health care facilities serving 32,723 clients and 170 additional community, cultural, human services and educational facilities. Further, these awardees have provided business training, credit counseling, homebuyer training and other development services to 10,641 individuals.

Stats

Based on our sample, 70 percent of the clients of the average 1996 awardees are low-income individuals. Sixty percent are minority individuals. Fifty percent are women. Fifty-three percent live in the inner city. Eleven percent live in rural communities. Thirty-six percent live in suburban areas.

↑122% since receiving Fund awards

Since receiving their Fund awards, the 1996 awardees in our sample have strengthened their capacities to deliver products and services to their target communities. Their total assets have increased by 122 percent, growing from $473 million in the aggregate before they received their awards to $1.05 billion in the aggregate in 1998.

Case Studies

Case Studies: (1) on-site evaluations

In addition to the outcomes surveys, the Fund is conducting in-depth case studies of a sample of awardees. The case studies include on site evaluations by the Fund to examine the CDFI's activities within the local economic development context. To date, we have completed the fieldwork for three case studies. We anticipate undertaking several more case studies in the coming year. The three on site evaluations that have been completed thus far have been in Boston, Massachusetts, San Antonio, Texas and Santa Cruz, California. Our initial research suggests how CDFIs are positively affecting their communities.

Boston

In Boston, many of the city's poorer neighborhoods did not benefit from the economic growth in the 1980s; their conditions actually worsened during that period. Yet these same neighborhoods have experienced notable improvements in the past 10 years, thanks in no small part to the work of CDFIs such as the Boston Community Loan Fund and the Local Initiatives Support Corporation, two CDFI Fund awardees. These CDFIs have been critical behind-the-scenes actors. They have provided badly needed financial and technical support to two of the city's most effective community development corporations (CDCs), enabling the groups to develop the scale necessary to carry out affordable housing and commercial projects that have revitalized long-declining communities such as East Boston and Egleston Square. Since the mid-1980s, the CDFIs have provided over $7.5 million to the CDCs, which in turn have: built or rehabbed over 800 units of affordable housing; managed an additional 900 apartments and commercial properties; and operated after-school and other programs for 150 neighborhood youths. The CDFIs have also played a crucial intermediary role, working with bankers, city officials, and corporate and foundation leaders to encourage additional targeted investment in these neighborhoods. A number of bankers view the CDFIs as important partners in their community development work, crediting the CDFIs with effectively serving organizations and individuals that the banks cannot afford to serve.

San Antonio

All around San Antonio, public and private sector institutions recognize the important work of ACCION Texas, a CDFI Fund awardee. From the city's Economic Development Office to local Chambers of Commerce to banks ranging in size from local independent banks to Chase Manhattan, ACCION is viewed as the source of financial services for a previously neglected -- yet significant -- segment of the population: the low- and moderate-income micro entrepreneurs who live and work in some of the city's poorest neighborhoods. ACCION is seen as the organization that can get loan capital into the hands of this underserved population -- and just as important -- get it back. ACCION's 400 clients include plumbers, electricians, seamstresses, independent taxi drivers, and street vendors. They are primarily Hispanic. Without ACCION, they would not have access to credit for their businesses. The stories are by now familiar: these micro entrepreneurs do not have sufficient collateral; they don't have good business records; or they don't need enough money to make them attractive to a bank. With ACCION, they are able to get the financial and technical assistance they need to grow their businesses and to make them more prosperous through better business management. ACCION's success in San Antonio has led it to begin opening offices around the state, in the Rio Grande Valley, Houston, Dallas, Austin, and Fort Worth.

Santa Cruz

In Santa Cruz county in California, the third largest community development credit union in the nation, the Santa Cruz Community Credit Union (SCCCU), offers a wide range of financial products and services designed to meet the financial needs of a predominantly rural low income population. The need is perhaps greatest in Watsonville, where the unemployment rate is 15.8 percent -- more than three times the national average. Adding to the unemployment rate are the former-migrant agricultural workers who are settling in the area in increasing numbers, even though agricultural work remains seasonal. The employment and income figures highlighted the importance of focusing on the Watsonville population. With the help of its CDFI Fund award, the Santa Cruz Community Credit Union opened a branch in Watsonville so that it could ensure credit and banking access for all citizens, especially the Latino population which had historically distrusted traditional banking enterprises due to discrimination and neglect.

H.R. 629: Reauthorization : through FY 2003

H.R. 629 proposes to extend the appropriations authorization for the CDFI Fund through FY 2003 and enable the Fund to more efficiently and effectively promote economic revitalization, community development, and community development financial institutions (CDFIs).

The proposal is intended to improve the management of the Fund by clarifying that the Secretary of the Treasury (Secretary) has supervisory responsibility over the Fund and that the Treasury Inspector General is the Inspector General of the Fund. In addition, the proposal is intended to improve the efficiency and effectiveness of four of the Fund's authorized

Impr. 4 programs:

programs: the CDFI Program; the Training Program; the BEA Program; and the Small Business Capital Enhancement (SBCE) Program.

As previously mentioned, under the CDFI Program, the Fund has authority to provide technical assistance to CDFIs to enhance their abilities to serve their target markets. H.R. 629 proposes to expand the tools with which the Fund can provide such assistance by authorizing it to enter into cooperative agreements with these organizations.

Currently, the Fund has authority to operate a training program for CDFIs and other members of the financial services industry that engage in community development finance activities. The reauthorization legislation will allow the Fund to administer this training through a competitive grant program.

BEA

Under the BEA Program, the Secretary is authorized to award grants to insured depository institutions that increase their level of qualified activities in the form of investments, loans, technical assistance and deposits in both CDFIs and distressed communities. The current eligibility criteria for determining which communities are distressed appear disadvantageous to insured depository institutions serving rural communities. The proposal addresses this problem by authorizing the Fund to promulgate alternative eligibility criteria.

SBCE

The purpose of the SBCE Program is to promote economic opportunity and growth by encouraging financial institutions to expand their lending to small businesses. Under the SBCE Program, the Fund is authorized to enter into funding agreements with States in which it will match on a quarterly basis up to 50 percent of a State's contributions to a small business loan loss reserve. The Fund has not been able to implement the SBCE Program, because implementation is contingent upon a $50 million, no-year appropriation. The proposal would repeal this requirement. In addition, the proposal would allow CDFIs to participate in the SBCE Program.

Finally, the reauthorization legislation contains safeguards designed to ensure that the Fund administers its programs in an effective, proper and thorough manner.

H.R. 413: The PRIME Act

H.R. 413, the Program for Investment in Microentrepreneurs Act of 1999 (the PRIME Act), was introduced in the House on January 19 of this year by Congressman Bobby Rush. House Banking Chairman James Leach and Ranking Member John LaFalce are among the bill's sponsors. Similar legislation was introduced in the Senate on February 10 of this year. Senator Kennedy introduced the bill. Senators Domenici, Reid, Grassley, Abraham, Robb, Collins, Boxer, Santorum, Sarbanes and Snowe are also sponsors of the bill.

In his FY 2000 budget, the President requests $15 million to administer a program under the PRIME Act. Funding for PRIME is one part of the support for domestic microenterprise

FY 2000: Pres wants $15 mil

Clinton wants 159% increase for domestic microenterprise programs

programs contained in the President's FY 2000 budget. Overall, President Clinton's FY 2000 budget includes a 159% increase in support for domestic microenterprise programs.

The primary purpose of the PRIME Act is to build the institutional strength of microenterprise development organizations and programs and other qualified entities and assist these organizations to effectively meet the training and technical assistance needs of low-income and disadvantaged entrepreneurs. The proposed program would be a competitive grant program under which the Fund would provide funds to microenterprise development organizations, microenterprise development programs, intermediaries or other qualified organizations for the following purposes: (i) to provide training and technical assistance to low-income and disadvantaged entrepreneurs interested in starting or expanding their businesses; (ii) to engage in capacity building activities in order to enhance their ability to serve low-income and disadvantaged entrepreneurs; and (iii) to engage in research and development activities aimed at identifying and promoting entrepreneurial training and technical assistance programs that effectively serve low-income and disadvantaged entrepreneurs.

comp. grant to:

PRIME would allow the Fund to meet a growing need that it currently cannot address. This is the need to strengthen organizations that are providing critical training and technical assistance to the most vulnerable population of entrepreneurs: low-income and disadvantaged microentrepreneurs. One of the clearest lessons that has emerged from the first decade of microenterprise development in the United States is that provision of training and technical assistance is a necessary ingredient for building successful entrepreneurs. In the highly developed U.S. economy, starting and running a successful business requires a solid understanding of, among other things, business regulations, tax issues, record keeping, and marketing. Many of the thousands of people who have started microenterprises to make ends meet do not have these skills. PRIME would address this issue.

other Fed programs supporting microenterprise

Several agencies within the Federal government currently support microenterprise-related programs. They include the Small Business Administration (SBA), Department of Agriculture, Department of Health and Human Services and the Department of Housing and Urban Development. These programs, which have proven to be very effective, help to empower individuals who are often left out of the economic mainstream. A sign of how important these currently existing programs are to this Administration is the Administration's budget request to significantly increase funds for the SBA's microenterprise programs.

GOAL

Except for SBA's Microloan Program which provides technical assistance funding to lending and non-lending intermediaries, most federal support for microenterprise-related programs is in the form of loan capital. PRIME aims to effectively meet the training and technical assistance needs of low-income entrepreneurs. It is a human capacity development strategy as opposed to a credit and finance development strategy. It focuses on developing the knowledge and skills needed to succeed in business, rather than on providing finance. Both strategies are necessary to assist low-income people to enter the economic mainstream.

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[003]

Also, PRIME is targeted to some of the most vulnerable citizens. While all PRIME funds are targeted to economically distressed areas and to serve low-income individuals, at least ~~50 percent of the grants made under the PRIME program must be used to benefit very low-income individuals,~~ people with incomes of not more than 150 percent of the poverty line. Further, in order for an organization to qualify for PRIME funds, it must be able to demonstrate the ability to match any federal PRIME dollars with \$0.50 for every dollar.

750% benefit low-income individuals ≤150% of poverty line

Match grant

Should H.R.413 be enacted, the Fund would administer the PRIME Program in a manner similar to its administration of its existing assistance programs. We would create a competitive grant program. Under that program, the Fund would seek to provide grants to those qualified organizations that demonstrate that they are viable institutions that can deliver quality training and technical assistance services to disadvantage microentrepreneurs for some time to come.

CONCLUSION

Mr. Chairman, Members of the Committee, thank you for giving me the opportunity to provide you with this information on the Fund's current activities and the proposed legislation regarding its reauthorization and the PRIME Act. I look forward to working with you on this legislation. I would be happy to respond to any questions you may have.

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TREASURY UNDER SECRETARY GARY GENSLER TESTIMONY BEFORE THE HOUSE COMMITTEE ON BANKING AND FINANCIAL SERVICES

Chairman Leach, Ranking Member La Falce, members of the Committee, it is an honor to appear before you today. I will speak in support of reauthorization of the Community Development Financial Institutions (CDFI) Fund and the enactment of the Program for Investments in Micro-entrepreneurs (PRIME) Act, which authorizes the CDFI Fund to provide valuable support to micro-enterprise organizations and micro-entrepreneurs. I am pleased to be here with Ellen Lazar, the Director of the CDFI Fund and Maurice Jones, the Deputy Director for CDFI Fund Policy and Programs.

I want to thank Representatives Vento and Roukema for introducing the CDFI Fund Amendments Act, Representative Rush and Chairman Leach for introducing the PRIME Act and the members of this committee who have co-sponsored the Act. Both bills have received significant bipartisan support, and the Administration strongly supports their enactment. I also want to acknowledge the important role of this committee in bringing our attention to the areas in which the program could be improved.

OVERVIEW OF THE CDFI FUND

The CDFI Fund helps to promote private sector growth in economically distressed areas. In so doing, it helps to bring low income Americans into the economic mainstream. CDFIs are specialized financial institutions that meet the needs of underserved communities. They include credit unions, microenterprise funds, development banks, and equity or loan funds. Their mission is to provide financial services to those who are typically overlooked by traditional financial providers. CDFIs make financially sound loans, based on local market

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and customer knowledge, to homeowners, small businesses, and non-profit organizations. In so doing, CDFIs expand the reach of the private sector marketplace to the underserved communities. In addition, they demonstrate to traditional lenders that these are viable markets.

The role of the CDFI Fund is to strengthen and grow these institutions. The Fund pursues this strategy through a series of programs. The CDFI program provides equity, loans, grants and technical assistance to CDFIs. The Bank Enterprise Awards (BEA) program funds financial institutions that increase their lending and other financial services in distressed communities. The non-monetary Presidential Awards for Excellence in Microenterprise Development stimulates interest in micro enterprises and highlights best practices in the field. The Fund's training program will develop curriculum and deliver training to CDFIs to help them increase their capacity.

These programs are complementary and mutually reinforcing. By working to build the strength of local financial institutions, these programs respond to the needs of small businesses in individual communities, and establish local sources of development finance.

CDFI program
·200 awards
·$135 M
$60M more
-Match
$-4-$

So far, the CDFI program has made over 200 awards in excess of $135 million to CDFIs around the country. The Fund expects to award over $60 million more to CDFIs this summer. The leveraging of the Fund's investment is powerful. We require these CDFIs to match our dollars at least one-to-one. CDFIs, in turn, further leverage the Fund's investment by attracting additional sources of capital, attracting additional deposits, partnering with other lenders, or co-investing with other equity investors. A survey of the Fund's first year of awards in 1996 showed that $34 million in federal dollars helped to stimulate $565 million in community development loans and investments.

*34mil stimulated 565 M in comm. dev. loans + investments

Under the Bank Enterprise Awards, banks and thrifts are increasing investments in CDFIs. The Fund's $58 million in BEA awards have already leveraged $983 million in bank investments and support, 17 times the Fund's awards.

With important insight and advice gained from the Subcommittee on Government Oversight of this Committee, Ellen Lazar and her team have undertaken the necessary improvements to the Fund's financial and program management, reporting systems, internal controls, operating procedures, and awards monitoring. This year, the Fund received a positive audit from KPMG Peat Marwick, LLP, and the audit verified that the Fund had successfully corrected all material weaknesses identified in last year's audit. In sum, the CDFI Fund has a strong management team in place, with a sound infrastructure. It is well-positioned to serve low income communities in the years ahead.

THE CDFI FUND'S SUPPORT FOR MICRO-ENTERPRISE

CDFIs are part of the Administration's broader effort to help bring greater capital and investment into America's economically distressed areas. The President's FY2000 budget provides $125 million for CDFI programs, including $15 million for implementing the PRIME Act. It also increases funding for the SBA micro loan program and other similar programs that stimulate micro entrepreneurial activities in communities throughout the nation.

The Fund currently supports micro-enterprise in many ways.

1 First, as part of the CDFI program, the Fund provides grants, loans and technical assistance to strengthen the capacity of CDFIs, including micro-enterprise organizations whose primary mission is to provide financial assistance to low income borrowers or in low income communities.

2 Second, the Fund plays a leadership role in the micro-enterprise field through the Presidential Awards for Excellence in Microenterprise Development. The Awards reflect an on-going commitment by the Administration to advance the role that microenterprise development plays in enhancing economic opportunities of all Americans, especially those that lack access to traditional sources of credit such as women, low income people, and minorities.

For example, in 1998, the Northeast Entrepreneur Fund, Inc. of Minnesota received the Presidential Award for Excellence in Microenterprise Development for providing training and technical assistance to 2,700 people. They also made $1.2 million in loans to 123 businesses, of which 84% were owned and operated by low income entrepreneurs from seven rural counties in Northeastern Minnesota. In fact, over 60% of businesses they financed were start-ups, and 85% of these businesses survived over two years.

3 Third, the President, by Executive Memorandum, has charged the Fund with the coordination of micro-enterprise programs across the federal government. The Fund has been leading that effort along with the Small Business Administration (SBA). We believe these efforts will help the micro-enterprise field in the years ahead.

THE PRIME ACT

The Microenterprise field in the United States has grown significantly over the past ten years. However, we believe that there is more that can be done. PRIME is an essential component of the Administration's broad micro enterprise strategy. Its unique features are that it funds training for low income entrepreneurs and that it provides targeted assistance to the most vulnerable and lowest income entrepreneurs. It also complements other microenterprise efforts like the SBA micro loan program, which we believe Congress should fully fund in FY2000.

The PRIME Act would authorize the CDFI Fund to support micro-enterprise development organizations that provide training and technical assistance to micro-entrepreneurs, complementing the Fund's existing authority to support micro-enterprise organizations whose primary focus is financial assistance. We believe that the PRIME Act will help maintain and strengthen the capacity of local microenterprise development institutions to serve impoverished areas. The CDFI Fund has demonstrated strength in building strong local institutions to develop economically distressed communities.

While capital is critical for a small business to grow, it is not enough. Often, the difference between success and failure for any business is the availability of sound business advice, and that is particularly true for low-income micro-entrepreneurs. But such assistance is hard to find. The PRIME Act will help micro-businesses develop the expertise that they need to succeed. And these successful small businesses can help low income families increase their income while improving the local business climate.

CONCLUSION

Mr. Chairman, the Fund's vision is practical and thoughtfully developed. The Fund's investments are making a difference. Enactment of the CDFI Fund reauthorization would ensure that the Fund can continue to be a stable and reliable source for local CDFIs to help grow small businesses, build affordable homes, and strengthen communities in the years ahead. Furthermore, the enactment of the PRIME Act would bring critical technical assistance to micro-enterprises and help strengthen the capacity of the field.

Thank you again for your support and we look forward to working with you in enacting the CDFI Fund's reauthorization, and the PRIME Act.

-30-

May 28, 1999

MEMORANDUM TO LISA GREEN

FROM: Charlie Miles

SUBJECT: Summary of the House Banking Committee Hearing on the CDFI Fund & Prime Act

Below is the summary of the hearing to renew the CDFI Fund and to introduce the proposal for the PRIME Act.

Overview

- Fund's *mission*: Promote access to capital & local economic growth by directly investing in and supporting CDFIs and expanding banks' & thrifts' lending, investment, and services within underserved markets.
- 5 initiatives: 1) CDFI Program, includes Core, Technical Assistance, & Intermediary Components;
  2) Bank Enterprise Award (BEA) Program;
  3) Presidential Awards for Excellence in Microenterprise Development;
  4) Native American Lending Study & Action Plan
  5) Policy & Research Programs

- CDFI Program
  - President's FY2000 budget provides $125 M for CDFI programs (including $15 M for PRIME)
  - CDFs include community development banks, community development credit unions, non-profit loan funds, micro-enterprise loan funds, & community development venture capital funds
  - Loans are made to: 1) homeowners, 2) small businesses, & 3) NPOs
  - Institutions in 43 states (+ Puerto Rico & D.C.) have received CDFI Program awards.
  - To encourage applications, the Fund conducted 19 workshops (5 in newly reached states)
  - 3 funding **components**: Core, Intermediary, & Technical Assistance (TA)
  - *Core*: builds the financial capacity of CDFIs; provides TA grants in conjunction w/ loans & investments; 1-to-1 match requirement
  - *Intermediary*: allows Fund to invest in additional CDFIs indirectly, through intermediary organizations that support CDFIs; 1-to-1 federal match requirement
    - Core & Intermediary Components have granted 135 awards totaling $132 M
  - *Technical Assistance (TA)*: Fund's newest program (98); builds the capacity of startup & small institutions; allows Fund to direct small amounts of funds to CDFIs whose institutional capacity needs to be strengthened before they can fully realize their potential
    - TA Component granted $3 M to 70 institutions in 1998
  - Made over 200 awards totaling $135 M to CDFIs (expects $60 M more in summer)
  - **$34 M stimulated $565 M** in community development loans & investments
  - STATISTICS:
    1998: Fund awarded a total $54 M to 54 institutions through its CDFI Program; The Core & TA Components announced the availability of $45 M. Requests totaled $176 M.
    1999: $95 M appropriated for FY 99; anticipate $62 M in awards to 130 institutions under the CDFI Program; $50 M for Core; $7.5 M for Intermediary; received 153 Core applicants requesting $192 M (anticipate 55); 8 Intermediary requests for $16 M (anticipate 5); 160 TA applicants requesting $8.3 M (anticipate 75)

- Bank Enterprise Award Program
  - Fund's *primary tool* for expanding banks' & thrifts' community development lending & investment activity
  - Encourages banks & thrifts incentive by providing loans, investments & services 1) *directly* to the communities in need; 2) *indirectly*, by investing in local CDFIs or other community

development programs
  - **$58 M have leveraged $983 M** in bank investments & support (17 times Fund's awards)
  - STATISTICS:

    Total: 124 banks & thrifts in 30 states have received $58 M in BEA funding
    Translates to $983 M (17 times amount of investment)

    1996: 38 awards totaling $13.1 M

    1997: 54 awards totaling $16.5 M

    1998: 79 awards totaling $28 M

    est '99: 80 awards totaling $25 M

- Presidential Awards for Excellence in Microenterprise Development
  - Non-monetary program administered by the Fund that recognizes & seeks to bring attention to organizations that have demonstrated excellence in promoting micro-entrepreneurship.

- Native American Lending Study and Action Plan
  - Intended to stimulate private investment on Indian Reserves & other land held in trust by the U.S.
  - Holding workshops in 13 cities to examine lending & investment practices on Native American lands, ID lending & investment barriers, and make recommendations for removing them.
  - The completion of a study is anticipated for FY 2000

- Policy & Research
  - Has access to hundreds of CDFIs nationwide
  - Goals include: 1) measuring & reporting on performance of the Fund & its awardees; & 2) seeking to advance the CDFI industry as a whole through involvement in industry-wide research & development efforts

Performance & Impact

- Auditor's report: ***unqualified***
- Sample of 30 1st round awards include:
  - 6 credit unions
  - 14 loan funds
  - 3 community development banks
  - 3 venture capital funds
  - 2 microenterprise programs
  - 2 multifaceted CDFIs
- Awardees have made $565 million in community development loans & investments (past 3 years)
  - Has created or expanded 1,895 microenterprises & 1,148 businesses;
  - Created or retained 12,412 jobs
  - Developed 8,617 units of affordable housing, 98 childcare centers, & 17 health care facilities
- Based on sample, 70% of clients of the average 1996 awardees are low-income individuals
- Total assets have increased by 122%, growing from $475 M ('96) to $1.05 B ('98)

H.R. 629: Reauthorization (through FY 2003)

- Proposes to extend the appropriations authorization for the CDFI Fund
- Enables the Fund to more efficiently and effectively promote economic revitalization, community development, and CDFIs
- Currently, Fund has authority to operate a training program for CDFIs & other members
  - Reauthorization legislation will allow the Fund to administer this training through a competitive grant program
- BEA: Proposal addresses the problem of the eligibility criteria appearing disadvantageous to insured depository institutions serving rural communities by authorizing the Fund to promulgate alternative eligibility criteria

- Small Business Capital Enhancement (SBCE): Purpose is to promote economic opportunity & growth by encouraging financial institutions to expand their lending to small businesses
  - Proposal repeals the requirement of a $50 M, no-year appropriation

H.R. 413: The Program for Investment in Microentrepreneurs (PRIME) Act

- Introduced in the House on Jan 19, 1999 by Congressman Bobby Rush
- President requests $15 M to administer a program under the PRIME Act; budget includes a 159% increase in support for domestic microenterprise programs
- *Purpose*: Build the institutional strength of microenterprise development organizations, programs, & other qualified entities & assist these organizations to effectively meet the training & technical assistance needs of low-income and disadvantaged entrepreneurs
- Primary beneficiaries will be women
- SBAs program raised 53% of awardees from poverty
- Reduced awardees necessity for government support by 61%
- Competitive grant program:
  1) provides training & TA to low-income entrepreneurs to start/expand their business
  2) engages in capacity building activities to enhance ability to serve low-income entrepreneurs
  3) engages in research & development activities aimed at identifying & promoting entrpreneurial training & TA programs that effectively serve low-income entrpreneurs
- Other Fed programs supporting microenterprise:
  - Small Business Administration (SBA)
  - Department of Agriculture
  - Department of Health & Human Services
  - Department of Housing & Urban Development
- Most Federal support for microenterprise-related programs is in the form of *loan capital*
- PRIME's **GOAL**: aims to effectively meet the training & TA needs of low-income entrpreneurs
- At least *50%* of grants made under PRIME program must be used to benefit very low-income individuals (w/ incomes < 150% of poverty line)
- To qualify, an organization must be able to **match** any federal PRIME $ w/ $0.50 for every dollar
- Capital is critical, but **it is not enough**. Often, the difference between success and failure is the availability of ***sound business advice***, particularly true for low-income micro-entrpreneurs.

Edward Kennedy & Bobby Rush

- PRIME will help those left out to be part of the process and progress
- Boston has had significant economic success, but it has incredible pockets.
- In 4 years, $105 M has been awarded to small entrepreneurs
- Micro-entrepreneurs = entrepreneurs employing 5 workers or less
- CDFI: tracks additional sources of capital
- PRIME: complements other micro-enterprise programs; helps micro-businesses to develop required expertise through TA
- 413 (PRIME): creates a competitive *grant* program

Chairman Leach

Question: Should the Treasury oversee the CDFI Fund?

Response: There is risk involved in changing department. The SBA must be recognized for its success. It is very important the fund managers work closely with the SBA.

Ms. Rocoma
Question: Is there checks and balances? How is accountability? Are there internal controls? What are the general weaknesses?
Response: Accountability is extremely precise and thorough. An objective scoring system has been implemented. People from relative fields are brought in to examine operations. Contracts are not used. The IRS checks internal controls.

Mr. Vento
Question: What is the size of the applicant pool? What is the difference between the SBA and the CDFI?
Response: 153 applicants requested $193 M ($50 M to give). The amount will likely increase from $50 M to $56 M in the next fiscal year. Micro-entrepreneur program is within the CDFI program. The CDFI is for *businesses*; whereas, the SBA is designed to provide *individuals* with opportunity.

Ms. Lee
Question: Why not use 8A contractors?
Response: If eligible, 8As *can* receive funding.

Mr. Terry
Question: The program is designed to plant the seeds to revitalize communities *not* throwing a live leaf on a dead tree. The program matches $-for-$ and invested $34 M for a $560 M return. How is back-end success measured? Smaller communities—How do they compete?
Response: Specific numbers must be met to avoid default. CDFI funding has been provided to small communities in Iowa, Nebraska, and South Dakota. Informational workshops are scheduled and smaller, rural community development is a focus of the awareness campaign. Chairman Leach added that rural poverty is very prevalent.

Mr. Riley
The program needs to penetrate Alabama more. He wants to work to increase the awareness and involvement of his constituents.

Mrs. Jones
Question: NE Ohio—How do we get involved? What are the funding cycles of CDFIs? How do you assess viability?
Response: After funded, the managers monitor on quarter and annual bases.

Mr. Goode
Question: What was the budget for 98? What was the composition of the expenses?
Response: The FY98 budget appropriated $80 M. Grants composed more than 2/3 of the total expenses. Operational expenses (rent, salaries, and the database) are capped at $5.5 M. All of the operations are based in D.C. with the exception of one worker in California.

Mr. Mascara
He shared a success story. Then, he talked about the potential for success in training and mentoring future low-income entrepreneurs in financial and personnel management.