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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Paul Weinstein to Gene Sperling and Reed re: Community Development Bank & Financial Institutions (CDFI) (3 pages)	7/25/94	P5
002. memo	Weinstein to Reed et al. re: Discussion Draft-Next Steps on Community Development Financial Institutions (CDFI) Legislation (3 pages)	9/24/93	P5

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FOLDER TITLE:
Community Development Banks [1]

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RESTRICTION CODES

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CD Banks

in which the EU will seek to stop proliferation of weapons of mass destruction; will press Iran to sign anti-terrorism conventions; and will refrain from retaliating against American firms. Clearly, American energy firms would love to get involved in Iran; but it seems clear that the Europeans, plus Russia and Malaysia, are getting waivers from the rigours of a sanctions law that will remain.

Besides, the administration can hardly take domestic support for granted. Congress, which has imposed sanctions no fewer than 61 times in the past few years on regimes that offend it, can hardly be expected to deal more gently with Iran. First, this is an election year. Second, Iran has been demonised (often with reason) as an exporter of terrorism, an avowed enemy of Israel and an aspirant to acquire nuclear and other weapons of mass destruction: witness, say the suspicious, the Bushehr nuclear reactor being built with Russian help on the Gulf coast.

On June 23rd, President Clinton announced that he was vetoing legislation which would impose sanctions on suppliers of missile technology to Iran. The president's argument was that the bill would "make it more difficult" to deal with Russia on a range of issues, and does not reflect the progress made by Russia "to sever links between Russian entities and Iran's ballistic missile programme". Mr Clinton may be right, but the fact is that the bill was passed in the House by 392 votes to 22 and in the Senate by 90 votes to 4. If he wants his veto to stick, he will have to produce convincing evidence that he has found a better way to a better Iran. And, as he knows only too well, drawing maps in the Middle East is far from easy.

Community development finance

Banking on the poor

NORTH PHILADELPHIA

The Clinton administration has poured millions of dollars into community financial institutions. Has it been money well spent?

ACROSS the street from a disused factory in the heart of North Philadelphia, a few blocks from some of the worst urban decay in America, is a sight to make Bill Clinton's heart beat a little faster. Sprawled contentedly on plastic mats and covered with light blankets, more than 100 children are taking their midday nap. Bright yellow partitions divide them into different age groups. The infants have cots; the preschoolers share a computer. A milk-cooler hums in the corridor; there is no television in the place.

This is the North Broad Street branch of the Allegheny Child Care Academy, a sparkling new day-care centre for 130 children, 97% of whose mothers are on welfare-to-work programmes. It is one of six new commercial child-care centres in Philadelphia, owned by an entrepreneur from Pittsburgh (where there are more such centres), and financed by venture capitalists together with the Delaware Valley Reinvestment Fund, Philadelphia's biggest community development financial institution (CDFI).

CDFIS are the latest fashion in America's efforts to fight rural and urban poverty. In 1992 candidate Clinton vowed to spend $1 billion creating 100 community lenders. In office, he decided a better approach was to finance existing as well as new CDFIS. Bipartisan legislation in 1994 created the CDFI fund, housed in the Treasury Department, with an authorisation to spend $382m over four years on CDFIS and on banks that invested in them.

The ugly acronym covers a swarm of different institutions—including community credit unions, loan funds and microfinance funds—whose goal is to provide credit and capital to poor people who lack access to conventional financial services, such as banks. These institutions are generally unregulated, and are often non-profit organisations whose origins lie with church groups. Private investors, foundations, banks—and now the federal government—lend the CDFIS money at below-market rates, or put in grant or equity finance, which is then invested. Most CDFIS have concentrated on financing low-income housing; others provide consumer credit (see box) or, increasingly, invest in businesses in poor districts.

Dollars wanted

Delaware Valley is one of the larger and more dynamic CDFIS. Run by Jeremy Nowak, an indefatigable former community organiser, with the help of several graduates from Wharton business school, it has become an important force in Philadelphia's poorer communities. Since 1985 it has invested more than $90m, leveraging a further $250m, which has financed 3,000 units of low-income housing and created (or preserved) 5,000 jobs. The investment in Allegheny Child Care comes from its new venture-capital fund.

Few CDFIS are as big as that but—after chugging along for decades—these unconventional financiers have boomed in the 1990s, thanks in large part to the publicity generated by the Clinton administration. Since they mostly escape regulation, no one knows exactly how many CDFIS there are or how much money they control. Mark Pinsky, head of the National Community Capital Association, the biggest association of CFDIS, reckons there are about 350 such organisations in the country, with between $2 billion and $3 billion in capital available for lending. His own members' capital has grown by almost 40% a year during the 1990s.

Measured against a $23 trillion financial services industry, these numbers are paltry. But in an era of bank consolidation and dramatic change in federal social assistance, CDFIS do an important job in providing finance for projects in poor areas. That, at least, is the opinion of Mr Clinton and his treasury secretary, Robert Rubin. And, in theory, federal financing for CDFIS makes a lot of sense. Instead of creating big new government programmes and projects, federal money tops up private channels. This cuts bureaucracy and waste, and can ensure (though not infallibly) that public capital is efficiently allocated among the deserving.

Unfortunately, the CFDI fund's reputation in Washington is less sparkling. A big share of its first funding round in 1996 went to organisations connected with South Shore Bank, a community lender (though also a fully regulated bank) with close ties to Hillary Clinton. Spencer Bachus, a Republican congressman who leads the congressional subcommittee that oversees the fund, smelt a political rat and quickly began to investigate.

His findings, first publicised last year and formally published this month, do not make pretty reading. Although there is no real evidence of politically motivated lending (and in the industry few quibble with the choice of institutions that received money), the CDFI fund in its early years was wasteful, politically naive and, at times, incompetent. Too much money was spent on high-powered consultants; there were inadequate records of why particular CDFIS were financed; and, most egregiously, senior CDFI people tried to cover their tracks by adding (undated) memos to their files just before congressional staffers came to look at them.

All this has now changed. The CDFI fund is under new management and is working hard to sort itself out. So far, it has invested \$77.6m in 81 CDFIS and \$30m in 92 banks that lend to them, and is currently assessing 245 applications for this year (it will hand out about \$40m). Although its reputation is tarnished, particularly among some Republicans, the fund will almost certainly get its appropriation from Congress this year, though probably not as much as the administration would like. (It has received \$225m since 1995 and is asking for \$125m this year; much meaner proposals are now being mooted in various congressional committees.)

A bit less cash might not be such a bad thing. One of the biggest dangers CDFIS face is excessively rapid growth. Delaware Valley has doubled its lending in the past two years. Many others are growing at similar rates. Mr Pinsky hopes that CDFIS can become a \$25 billion industry within a decade. For small CDFIS, in particular, such massive expansion can be dangerous. Investing in poor areas is a time-consuming, labour-intensive business, and most CDFIS are small players. Many have never been through a recession. As with all banks, too much easy money too quickly will soon spell bad investments.

Another risk is that CDFIS may become caught up in a knot of federal regulations. Some oversight is necessary, to make sure public money is not misused. But the CDFIS' strength today lies in their diversity and independence. It would be a pity if they became just another government programme for the poor.

Perhaps the biggest danger is dashed expectations. Listen to Mr Clinton enthusing about community banks, and it is easy to see them as a Great New Panacea for distressed communities. They are not. They are small, if promising, helpers. As the financial-services industry consolidates, they have the potential—if properly managed—to play a more important role. But they are not a miraculous answer to one of America's most intractable problems.

Credit in the hollows

BEREA, KENTUCKY

IN DENIM dungarees and a blue baseball cap, with well-worn work boots on his feet, Steve Neeley is as solid as the Appalachian hills among which he lives. He drives a pick-up truck, lives in a 70-foot mobile home with his 11-year-old daughter, and works for \$6.40 an hour at a woodcraft plant in Jackson County.

He is also one of the most stalwart members of the Central Appalachian People's Federal Credit Union (APFCU), a financial institution set up to serve the poor of Appalachia. Over the years Mr Neeley reckons he has borrowed \$10,000 from the credit union: his most recent loan, for \$350, was to repair his tractor and buy a side of beef for the freezer.

The APFCU, which received \$575,000 from the CDFI fund in 1997, is the only credit union specifically designed to help Appalachia's poor. It provides consumer and some mortgage lending to one of America's most distressed rural areas. Jackson County, where Mr Neeley lives, has a 38% poverty rate. Its typical family income is less than half the national average. Almost half of the credit union's members earn less than \$1,000 gross a month; 12% earn less than \$500. The average loan in 1997 was just over \$4,000 (usually to pay for a car), but many are much smaller. Jim Roland, head of the credit union's Jackson County branch, recently lent a couple \$115 to pay their electricity bill.

Making loans of this size to poor people is an expensive and risky business. The credit union writes off about 1.4% of its loans a year, a much higher rate than the industry's average (though not so much higher than the write-off on, say, credit cards). Its administrative costs and spreads are bigger than those of ordinary banks. But it reaches people whom those banks largely ignore, teaching them about managing money, encouraging them to save, and keeping them from falling for the loan sharks and finance companies that are often the only other source of credit. In Appalachia, that is no mean achievement.

The APFCU can pay her bills

Boll-weevil trouble

Jes' a-lookin' for a home

BORDELONVILLE, LOUISIANA

IN THE rain-thirsty cotton fields of central Louisiana, a series of green plastic cones, hoisted on poles, stand among this season's newly planted shoots. They are traps, marking the sites where state officials check the progress of their latest pest-control programme: a chemical massacre of the boll weevil. If all goes well, the traps will also mark the end of an era: the final defeat of the mightiest insect around.

When it comes to destruction, nothing compares to the weevil, which hopped from Mexico to Texas in 1892, and into Louisiana soon after that. With its protruding snout and stunted wings, the boll weevil looks part beetle, part aardvark, and has no natural enemies in the American South. As it worked its way slowly across the region, ravaging cotton fields and ruining cotton farmers, it radically changed the economy.

It brought a diversification of crops, helped the study of pesticides, and speeded the northward migration of black farm workers. Cotton, though hurt, survived: it is still one of Louisiana's chief agricultural products, second in value only to timber. But many farmers long ago converted their fields to safer, less lucrative crops, such as soyabeans and corn. And, thanks to the weevil, the 5,000 state farmers who still produce cotton must drench their fields with chemicals up to 20 times each year.

For decades, the federal government has studied the boll weevil, hoping to destroy it. In the late 1970s, researchers unveiled a five-year programme that actually seems to work. It has the ambitious title of Boll Weevil Eradication. Its weapon is a

HIGHLIGHTS OF CDFI PROPOSAL

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

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

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

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

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

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

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

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

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

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

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

PROBLEMS FACED BY CREDIT-DEPRIVED RURAL AND URBAN COMMUNITIES

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

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

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

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

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

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

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS and COMMUNITY REINVESTMENT ACT REFORM

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

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

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

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

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

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

HIGHLIGHTS OF COMMUNITY REINVESTMENT ACT REFORM

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

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

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

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

- **Reform CRA Enforcement by January 1, 1994** -- In consultation with the banking industry, the thrift industry, congressional leaders, and community groups across the country, work together to reform CRA enforcement system by developing new regulations and procedures that replace paperwork and uncertainty with greater performance, clarity and objectivity;

- **Train a Corps of CRA Examiners** -- Develop a well-trained corps of regulators who specialize in CRA examiniations;

- **Implement More Effective Sanctions** -- Institute more effective sanctions against banks and thrifts with consistently poor performance;

- **Develop More Objective, Performance-Based CRA Assessment Standards** -- Reform CRA standards to focus on more objective, performance-based criteria that will minimize the compliance burden on financial institutions while stimulating improved CRA performance. These new standards might appropriately focus on three types of community reinvestment activities: (1) Lending to low- and moderate-income individuals and neighborhoods, small businesses, and small firms; (2) investments in low- and moderate-income neighborhoods; (3) provision of banking services to residents of low- and moderate-income neighborhoods.

THE COMMUNITY DEVELOPMENT BANKING INDUSTRY

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

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

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

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

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

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

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

THE WHITE HOUSE

WASHINGTON

July 15, 1993

MEMORANDUM FOR: THE HONORABLE EUGENE ALLAN LUDWIG
COMPTROLLER OF THE CURRENCY

THE HONORABLE ANDREW C. HOVE
ACTING CHAIRPERSON
FEDERAL DEPOSIT INSURANCE CORPORATION

THE HONORABLE ALAN GREENSPAN
CHAIR, BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM

THE HONORABLE JONATHAN FIECHTER
ACTING DIRECTOR
OFFICE OF THRIFT SUPERVISION

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

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

We can do better. By giving our banks and thrifts clearer guidance as to how the regulatory agencies will evaluate CRA performance, we can eliminate much meaningless documentation and improve consistency in CRA enforcement. By focusing that guidance on the provision of real investment and services, we can increase support to communities that need it.

CRA evaluations cannot be totally objective. A system too inflexible to recognize the real differences among the circumstances in which our banks and thrifts operate would poorly serve both our financial system and our communities. The system we have today leaves great room for improvement -- improvement that would serve both communities and financial institutions.

Accordingly, I am writing to make four requests. First, I ask your agencies -- in close consultation with the banking industry, the thrift industry, congressional leaders, and community groups across the country -- to work together to reform the CRA enforcement system by developing new regulations and procedures that replace paperwork and uncertainty with greater performance, clarity, and objectivity. Second, I ask that you seek to complete this effort by January 1, 1994. Third, that you develop a well-trained corps of regulators who specialize in CRA examinations. Finally, I ask that, in undertaking this effort, you work to promote consistency and even-handedness, improve public CRA performance evaluations, institute more effective sanctions against banks and thrifts with consistently poor performance, and, most significantly, develop and set forth more objective, performance-based, CRA assessment standards that minimize the compliance burden on financial institutions while stimulating improved CRA performance. The new standards might appropriately focus on three types of community reinvestment activities in both urban and rural areas:

- Lending to low- and moderate-income individuals and neighborhoods, small businesses, and small farms;
- Investments in low- and moderate-income neighborhoods;
- Provision of banking services to residents of low- and moderate-income neighborhoods.

By refocusing the CRA enforcement system in this manner, I believe we can reduce confusion and uncertainty in CRA evaluations, increase access to lending and banking services and recapture the true spirit and purpose of the Community Reinvestment Act.

THE WHITE HOUSE

WASHINGTON

July 15, 1993

ANNOUNCEMENT OF
PRESIDENT CLINTON'S COMMUNITY DEVELOPMENT BANKING PROPOSAL
AND
COMMUNITY REINVESTMENT ACT REFORM INITIATIVE

I. Opening Remarks and Introduction of Tim Bazemore by Vice President Gore

II. Descriptions by Tim Bazemore, Beverly Ross, and Joseph Holland of their successes in building small community-based enterprises.

III. President's Remarks

IV. The Need for the President's Community Reinvestment Act (CRA) Reform Initiative and Community Development Financial Institution Legislation.

- Hugh McColl, Chairman, NationsBank
- Irvin Henderson, Chairman, Nat'l Community Reinvestment Coalition and President, Gateway Community Development Corp., Henderson, NC
- Ron Gryzwinski, founder, South Shore Bank, Chicago, IL

V. Concluding Remarks -- The President

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FOR IMMEDIATE RELEASE
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RIEGLE APPLAUDS PRESIDENT'S COMMUNITY DEVELOPMENT PLAN

WASHINGTON, D.C. -- Statement of Senator Donald W. Riegle, Jr. on President Clinton's Community Development Lending Initiatives:

"I applaud the President for proposing two bold initiatives to promote access to capital in order to rebuild our distressed communities.

During the past two sessions of Congress, the Senate Banking Committee held a series of hearings on the dire conditions in our cities and the need to find innovative strategies for revitalization, including increasing access to capital among low income and minority communities. These hearings made clear that our inner cities and depressed rural areas need help if they are to offer real economic opportunities to their residents.

The President today announced two promising new efforts to revitalize and increase the flow of capital to distressed communities. The first builds on the Community Reinvestment Act, which requires federally-insured banks and thrifts to help meet the credit needs of all communities in which they are chartered to do business. The second builds on the network of community development banks and other community development financial institutions that has grown up from the grass roots to meet the capital needs in areas under-served by mainstream lenders and investors.

I commend President Clinton for these significant initiatives. This nation needs innovative strategies like these to begin the process to rebuild our inner cities and depressed rural communities. Although we will need more funding to fully address the problems of these communities, these initiatives are a good start.

-more-

I have consistently advocated a strong Community Reinvestment Act, the cornerstone of Federal community lending policy. In 1989, as part of the Financial Institutions Reform, Recovery and Enforcement Act, Congress strengthened the Act by requiring public disclosure of ratings and the basis for ratings. The strengthened Community Reinvestment Act has achieved notable successes. Community groups estimate that banks and thrifts have committed more than $35 billion for investment in traditionally under-served communities as result of the Act.

Nonetheless, financial institutions and community advocates alike agree that the Act's full potential has not been realized, mostly because of problems in implementation. A report by the Banking Committee's Housing Subcommittee issued last fall confirmed problems in implementation, such as emphasis on process rather than performance, uneven exam quality, inflated ratings, and insufficient use of sanctions. I am confident that the regulatory review process that the President is announcing today will go far toward solving these problems.

Strengthening enforcement of the Community Reinvestment Act will be a powerful impetus for increased credit availability in distressed areas. But we must also explore new ways to rebuild distressed urban neighborhoods and rural areas. President Clinton's proposal to create a national network of community-oriented financial institutions offers a promising new way.

I am a long-time supporter of community development financial institutions. Last year, as part of the Housing and Community Development Act of 1992, I authored a demonstration program to seed new institutions that have a primary mission of community revitalization. The key strengths of this innovative proposal are that it builds on the existing foundation of successful community-oriented lending institutions and that it focusses on community-building and comprehensive development strategies.

I commend the President for the bold thinking and commitment to communities evidenced by the initiatives he has announced today."

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...A Microloan Success Story

Mineral Springs, Ohio

Beverly Ross, a single parent, is sole owner of Lakeview Stables in Mineral Springs, Ohio, a popular tourist area near Atwood Lake in Tuscarawas County, Ohio.

An avid horse lover, Beverly worked for Lakeview Stables to support her family, before luck and hard work made it possible for her to purchase the stables -- along with a few horses and accompanying equipment -- from the owner.

After a year of operation, Beverly realized she had undercapalized her venture and was having to turn customers away because she didn't have enough horses or equipment to serve them. Because of a divorce, she did not have a stable credit history and literally no financing options.

Beverly applied to the Microloan program available through the Athens Small Business Center. She received intensive help in completing a business plan and loan package. This involved scaling down her original loan request, which she found she could not have afforded - as well as developing creative options for alleviating some of her expenses.

Beverly received a $5,780 loan from the Microloan program that would be used to purchase equipment such as horses and saddles and to provide working capital for the operation. The loan was made in time for this year's summer trade -- and business is booming!

SUCCESS STORIES

New York City
Joseph Holland is the president and owner of Harlem's Ben & Jerry's Ice Cream franchise--the first Ben & Jerry's franchise to be located in an inner city.

As a graduate of Harvard Law School, Holland gave up a lucrative law practice in 1982 to return to Harlem to counsel it's "street people." There he founded Harlem Ark of Freedom, a non-profit community organization which operates a homeless shelter for men.

In 1992, Holland wanted to start a business in Harlem--an ice cream store-- but because big banks were wary of the risks of financing new businesses in inner cities, he could not secure the capital needed for the start up costs.

But with the help of a $100,000 construction loan from New York's Community Capital Bank of Brooklyn--a young, community development bank which provides community development loans to new ventures that create jobs and affordable housing within neighborhoods like Harlem-- Holland launched a partnership venture with Ben & Jerry's and Harlem Ark of Freedom.

The result was the first Ben & Jerry's franchise established in a distressed community--and it employs primarily Harlem homeless men.

Located on West 125th street, in the heart of Harlem's commercial and cultural corridor, today, the 10 person ice cream shop not only employs 8 residents from the HARKHome shelter for men but it donates much of its profits to the shelter where the men reside.

North Carolina

Tim Bazemore is the president of the Workers Owned Sewing Company (WOSCO), a employee-owned manufacturer of women's and children's clothes, located in Bertie County, a low income rural area in Eastern North Carolina.

When the company started, it's business came primarily from contracts with other apparel companies for their overflow work. This type of business proved sporadic, unpredictable, and highly competitive, operating on very thin margins.

In 1985, WOSCO was in trouble. The company needed to grow, and to grow they needed to by-pass the middleman and bid directly to retailers. This required credit for necessary materials and supplies. The company managed its exisiting businesss with a $10,000 line of credit from a small local bank.

The local bank, however, was purchased by a large regional bank, which cut off WOSCO's line of credit--without which the company could not continue its work, let alone expand.

So Bazemore turned to the Center for Community Self-Help and through its credit union and ventures fund, he secured a $50,000 loan and assistance in marketing, financial management and business planning.

Today, with 80 workers, WOSCO is the second largest private employer in the county. It has secured contracts with Sears and K-Mart and sales are increasing. The company has been able to distribute profits each year back to its workers, who are its owners.

SUCCESS STORIES: CD BANKS AND CDFIs MAKING A DIFFERENCE

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

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

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

Comments of Irvin Henderson
Chair, National Community Reinvestment Coalition

Mr. President, Mr. Vice-President, Congressional Leaders, Distinguished Guest. The distressed and underserved communities and neighborhoods of this country are at a critical point. The challenges and needs of the Americans that live in these American neighborhoods in some cases is as great as those of some third world populations. We all know the statistics of despair, but too few of us understand the formulae and projections for hope. Despite their challenges, the poor and underserved of this nation have great potential. They need training, they need access to capital, they need leadership and they need a chance to participate in the American Dream, a dream that is not dead, but must be revived. The membership of the National Community Reinvestment Coalition understand these needs. The Americans that have these needs are not strangers to us. They are our friends, our cousins, our brothers, our mothers, our colleagues, and ourselves. Their struggle is our struggle. The formulae for success for these Americans is still being designed. However, we know it includes having a strong banking community as a partner in investment with federal, state, and local government, the non-profit community and the rest of the private sector. As the President has stated, and as we have demonstrated for years, helping people become productive in our society helps all Americans. As the poor and underserved became a part of our great economic engine, they became taxpayers and consumers that help shoulder the burdens of modern society. Our greatest natural resource are our people and as many others have said, we cannot afford to waste anyone.

The Community Development Financial Institution Legislation is an important beginning for federal investment in those communities that have great potential and this investment will generate jobs and hope that can be sustained by a strong economy. The legislation , with it's protections, provides for the experts on community economic development, those individuals and organizations that have been doing it, the much needed catalyst support to carry this battle to the next level.

The National Community Reinvestment Coalition, with over 250 members nationwide is a diverse group of advocates and development organizations that seek to increase equal access to credit and banking services because it is essential to the economic growth and well being of our society. From the very beginning, we have stressed performance in Lending as the true measure of a financial institutions compliance with the Community Reinvestment Act. Commitments and planning become substantive only when they lead to the lending and services needed to balance the scales of opportunity for all Americans. The emphasis on performance moves the debate of an institutions commitment to it's communities into the correct arena utilizing the correct criteria. Clearly, a reduction of unnecessary or duplicative paperwork would be a benefit to lenders, however, reduction of vital information and data, measuring the true commitment of any given lender in a given area, must not be sacrificed in the name of regulatory relief. We are especially interested in additional small business lending. The new direction championed by Comptroller Ludwig and others gives us hope that the regulatory community will emphasize the importance of comprehensive reinvestment and encourage lenders to embrace the benefits of the act. As John Taylor, the Executive Director of our coalition has noted, "It is refreshing to have an Administration that views community development and development financing institutions as American assets".

We applaud President Clinton for his leadership and foresight in creating this mechanism for change.

The North Camden Land Trust (NCLT) is a non-profit housing developer that is dedicated to the revitalization of North Camden, one of Camden's poorest neighborhoods. In a neighborhood with hundreds of vacant housing units, no supermarket, 25% unemployment and no conventional banking services, NCLT is gradually re-claiming and re-building the neighborhood - building by building and family by family. It has been responsible for the re-development of forty abandoned buildings and the employment of a neighborhood construction crew of 15 residents. The Land Trust has borrowed millions of dollars from the Delaware Valley Community Reinvestment Fund and has never missed a payment. Along with other neighborhood groups and churches as well as the City of Camden and the Delaware Valley Community Reinvestment Fund, NCLT has recently authored a comprehensive renewal plan that calls for $100 million of new investment into the community. The plan addresses a wide range of housing, business, social service, and job training concerns.

The story of the Land Trust is the story of its neighborhood based staff and leaders - people like Luis Galindez and Nick Montes. Luis is the director of day to day operations and has chief responsibility for the management of properties. Luis is a Camden resident and has been with the Land Trust since its inception. Another Camden resident - Nick Montes - is now the director of the NCLT construction crew. Nick rose up through the ranks of the construction crew to become its director during the past several years. The construction crew is widely recognized within the State of New Jersey as a fine example of a neighborhood based economic development project.

COMMUNITY DEVELOPMENT BANKS AND FINANCIAL INSTITUTIONS

Economic Impact Of The Program

There are more than 350 community development financial institutions (CDFIs) in 45 states with a track record of lending and investing more than $3 billion with loan loss rates comparable to the best banks. The $500 million CDBFI Act will greatly expand the capacity of the CDFI industry and will:

- **Create approximately $5 billion in new credit for economically distressed communities.** (Treasury)

- **Every dollar loaned by a CDFI will attract $7.50 in non-Federal financing to projects in distressed communities.** The total amount of development activity generated could reach approximately $22 billion. (CDFI Coalition)

- **Provide financial and technical support for as many as 75 new insured community development banks** -- The combination of the equity investment and technical assistance grants by the CDFI Fund and the matching investment by traditional lenders yields a total investment of $346 million in insured CDFIs (Community Development Banks and Credit Unions). Assuming $4 to $5 million required to capitalize a new institution, this investment could create as many as 75 new insured CDFIs. (Source: Treasury)

- **Support as many as 916 new well-capitalized community development corporations and over 4,000 community development loan funds** -- There are two sources of investment in these institutions, from the CDFI Fund and from traditional lenders. The CDFI Fund divides its uninsured CDFI investment (with traditional lender match) among larger community supported CDCs (start-up capital needs of about $500,000); smaller CDCs (start-up capital needs of about $100,000); and CDLFs (start-up capital needs of perhaps $25,000 in seed money). Traditional lenders invest in larger bank-supported CDCs (start-up capital needs of about $2 million), smaller CDCs (start-up needs of about $750,000) and CDLFs (seed money needs of about $25,000). Applying these assumptions to the assumed investment totals suggests the investment in uninsured institutions could yield as many as 916 CDCs, with seed money for more than 4,000 loan funds. (Source: Treasury)

- **Support nearly 40,000 in new loans to individuals and small businesses** -- Under the leveraging assumptions, the investment in insured CDFIs allows them to extend additional credit of $3.08 billion. With loan sizes ranging from $25,000 to $1 million and an average loan size of about $200,000-$300,000, based on data from HUD Profiles, insured CDFIs will make nearly **10,300** new loans. The investment in uninsured institutions by the CDFI Fund and by traditional lenders allows them to extend additional credit of about $600 million. Assume, as indicated in HUD Profiles that community-supported

CDCs make loans averaging about $25,000 bank-supported CDCs make loans averaging about $150,000, and CDLFs make loans averaging about $40,00. Then the investment in uninsured institutions could yield as many as **10,700** new CDC loans and **3,700** new CDLF loans. Combined with the **15,000** new loans expected to be generated through the Flake Assessment Credit Program, Treasury estimates 39,700 new loans supported under the CDBFI Act. (Source: Treasury)

- **Result in 150,000 new full-time jobs in low-income communities** -- An increase in the credit availability is assumed to support new full-time jobs at the average rate of approximately $30,000 in salary and benefits for one year. Thus, a $5 billion increase could mean 150,000 new jobs (each lasting one year). (Source: Treasury)

- **NationsBank has pledged $25 million and Bank of America has earmarked $50 million for CDFI investments as part of the partnership with the CDFI Fund.**

Background

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

During the 1992 Presidential campaign, the President promised to create a national network of community development banks to provide access to capital, credit, and basic banking services in low and moderate income communities. Two of the models for these institutions was the South Shore Bank of Chicago and the Grameen Bank of Bangladesh. This new democrat approach to economic development uses the private sector to help communities grow from the bottom up -- with more opportunity, not more bureaucracy.

By the Summer of 1994, within two years of entering office, the legislation to create a network of community development banks and financial institutions to spur entrepreneurship, assist small and microbusinesses to low- and moderate-income communities became law and is well on its way to being implemented. Passage of the "Community Development Banking and Financial Institutions Act of 1994" (CDBFI Act) fulfills the President's campaign commitment to support the creation of a network of community development banks to steer private capital to distressed communities and to empower low-income entrepreneurs to create jobs and start new businesses. Along with reform of the Community Reinvestment Act (CRA) and the Empowerment Zone/Enterprise Community Initiative, the CDBFI Act serves as the foundation for your economic development strategy for low-income communities.

The Administration has requested $500 million and the legislation authorizes $382 million or such higher sums as necessary over four years. These funds will be used to support a network of new and existing Community Development Banks and Financial Institutions (CDBFI) across the country. These institutions will be based in low- to moderate-income communities. CDBFIs specialize in providing to underserved communities basic banking services, credit, and capital. A new agency, the CDBFI Fund will be created to provide equity capital, grants, loans, technical and training assistance to CDBFIs that qualify for funding. When fully leveraged, this new program will create over $5 billion in new investments in low and moderate income communities. The Federal government's investment will be leveraged with private resources.

The legislation passed by Congress would establish a Community Development Financial Institutions Fund ("Fund") that will invest in community development banks and other community development financial institutions (CDFI) which have a primary mission of community development, lending, equity investment, and loan counseling services in distressed, underserved communities. The Fund will promote the CDFI industry by serving as an information clearinghouse and provide assistance to CDFIs in the form of capital, grants, deposits, or technical services. Capital assistance will serve only as seed capital that must be matched with private funds. All types of new and existing CDFIs will be eligible for assistance, including community development banks and credit unions, micro-enterprise and revolving loan funds, minority–owned banks and community development corporations. Your budget requests funding of $500 million over four years for this program. Congress has appropriated $125 million for FY95.

The bill also authorizes a new deposit insurance assessment credit program, built largely on the Congressman Flake's Bank Enterprise Act, to award credit to traditional lenders and CDFIs based on increases in qualifying lending and services in economically distressed communities and equity investments in CDFIs.

Talking Points On Compromise To Pass Community Development Bank Legislation Last Congress

Last year, Democrats and Republicans came together to pass overwhelmingly the Community Development and Regulatory Improvements Act. This legislation was adopted by unanimous consent in the Senate and by a vote of 410-12 in the House. This Act does the following:

- Establish a Community Development Financial Institutions (CDFI) Fund to create a network of community development banks and financial institutions -- **meeting the President's campaign commitment.**

- Create a small business loan securitization and secondary market enhancement act -- **proposed by Senator D'Amato** -- to remove impediments (statutory and regulatory) created by Federal securities laws to the securitization of small business loans.

- Create the Bank Enterprise Act (BEA) to provide financial incentives for banks and thrifts to pursue community lending and investment activities which complement their CRA activities. **This proposal was pushed by House Republicans (especially Chairman Leach and then-Representative Ridge) and Congressman Floyd Flake of New York.**

- Regulatory Relief -- Provided a package of items that modified or repealed a number of complex, burdensome, and unnecessary statutory banking regulations. This legislation was requested by all the major banking organizations, including the American Banker's Association (ABA) and the Independent Banker's Association of America (IBAA). The relief measures included in the Act drew heavily from bills offered by **Senators Shelby and Mack, and Representative Bereuter.**

Despite passing this legislation in a bipartisan manner last year, the Republicans are now trying to renege on their commitment to support the CDFI Fund by proposing to rescind the programs FY 95 appropriation of $125 million. They are taking this action despite the widespread support for this program, including the backing of major banks such as NationsBank and Bank of America, which have pledged to invest $75 million in CDFIs as a partner with the Federal government.

The DLC Fax

SPECIAL NATIONAL SERVICE EDITION

The Democratic Leadership Council Thursday March 30, 1995

Top Five Reasons To Rescue National Service From Recision

A group of New Democrat Senators are expected to offer an amendment to the recision package to restore in full FY 1995 funding for national service, the President's cornerstone domestic policy initiative. Urge your Senators to **vote yes** for the following reasons:

1. Excessive luxuries and unneeded government services should be the focus of the FY 1995 recision package. The infant AmeriCorps program falls into neither category. Rather, it is the one recent domestic policy that embodies the notion of reciprocal responsibility. National service allows America's youth to earn a post-secondary education by serving their country.

2. National service was the target of deep cuts in the House, motivated purely by power politics, not by any careful assessment of the associated costs or benefits. As was made clear on the House floor, national service took a 72 percent cut because it was perceived as the President's favorite domestic initiative. House leaders set up a vote that required a direct choice between veterans' hospital benefits and national service—hardly a fair measure of the value of national service.

3. The increase in appropriations from FY 1994 to FY 1995 (from $376 million to $575 million) reflects fiscal prudence and close adherence to the original national service authorization in which a bipartisan Congress agreed to phase in AmeriCorps over three years. The FY 1995 appropriations level is squarely within this agreement not to mention well below the initial appropriations requested by the President.

4. National service is not a luxury or an example of uncontrolled domestic spending the public was so concerned with during the 1994 elections. It reflects the new approaches to government that voters are demanding:

* **Programs that reflect American values.** The AmeriCorps initiative is imbued with the New Democrat values of opportunity, responsibility, and community. It rejects the entitlement mentality, insisting that participants earn benefits by serving their country. It embodies the principle of citizenship as a reciprocal obligation, not a free ride. It applies the lessons learned from our nations most powerful force for the molding of character and values—the armed forces—and it replicates our most successful investment in the skills and education of our people the GI Bill.

* **Services that do not depend on bloated bureaucracies.** National service can be viewed as an experiment in non-bureaucratic methods for addressing many of our most pressing social problems. AmeriCorps members are working in education, public safety, human needs, and the environment—not through traditional government programs, but in partnership with private non-profit organizations and community based efforts."

* **Programs open to all citizens, not just preferred categories.** AmeriCorps has succeeded impressively in recruiting participants from every background. Each member does the same work, receives the same benefits, and equally benefits from exposure to those from different backgrounds just like the military.

* **Programs that achieve results.** The entire Corporation for National Service is organized around achieving tangible results: improving test scores for our children, building homes for working families, reducing the incidence of crime and drug related activities in our communities, and conserving, restoring and sustaining our natural habitats.

There is no program anywhere in the federal government with anything like AmeriCorps' obsession with measuring the outcomes of its members' efforts.

5. National service is a "triple investment" for both taxpayers and our country. We are investing in:

(i). the impact of service on the participant critically important in an era where service in the military is not available to all, and when few people from different backgrounds ever mix;

(ii). the impact of the service on the community;

(iii). the impact on both the participant and the community of the post-service education benefit an upward mobility track, especially important if college aid continues to lag behind college costs, and if alternative compensatory educational opportunities are pared back.

Support national service. Call your Senators' offices and tell them to vote "YES" for full AmeriCorps funding. Please re-fax this document to friends and colleagues.

Withdrawal/Redaction Marker
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Paul Weinstein to Gene Sperling and Reed re: Community Development Bank & Financial Institutions (CDFI) (3 pages)	7/25/94	P5

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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]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advise 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).
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Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

CD Banks

THE WHITE HOUSE

WASHINGTON

September 23, 1994

MEMORANDUM FOR FRANK NEWMAN
PAUL WEINSTEIN

FROM: PAUL DIMOND

SUBJECT: CDFI AND CAMPAIGN TO INVEST IN REBUILDING AMERICA

CC: GENE SPERLING, ELLEN SEIDMAN, SHERYLL CASHIN
BRUCE REED

Congratulations, again! But, enough back-patting, already......We need to get back to work:

- to catalyze a larger, complementary private fund (or funds) from the unregulated financial institutions

- to catalyze a national campaign to invest in local CDFIs that are safe, sound, effective and for regulated and unregulated financial institutions to use CDFIs as intermediaries and partners to find good credit and investment opportunities

- to make the CDFI Fund (and the related National Economic Partnership Act and similar HUD programs) work -- not only to expand existing and to start new CDBanks and CDCUs, but also to challenge the larger numbers of CDCs and Revolving Loan Funds to become more entrepreneurial, to establish profit-making bank holding subsidiaries or allies, and to become better bridges to the larger resources in the regulated and unregulated financial institutions

We ought to begin preliminary thinking and work now -- among ourselves and with a few key players in the CDFI, banking, and various financial services industries. I believe this is a way to build on the President's compelling private sector message today in a way that will resonate throughout the country.

If properly understood the substance and message of the new CRA proposal offers a complementary theme and platform for moving forward in this way. The timing and orchestration of this are crucial in order that we gain the high ground of engaging the private sector with good credit, character loan and investment opportunities, rather than coercing bad investments for naive social or invidious racial purposes.

Will you two take charge of moving this forward? I'll be glad to play my usual cheerleading role!

CD Banks

THE PRESIDENT
SIGNING OF COMMUNITY DEVELOPMENT BANK LEGISLATION
SOUTH LAWN
SEPTEMBER 23, 1994

Thank you Rev. Lawson and Dave Lawless for your wonderful stories.

Anyone who followed me during the campaign in 1992 heard me tell my story about the South Shore Bank of Chicago. How it steers private investment into needy neighborhoods to stimulate community renewal, rebuild housing, jump-start new businesses, and create jobs -- all while proving to be a financial success.

Long before the campaign, when I was Governor of my state, the founders of Shorebank helped us launch the Southern Development Bancorporation in south Arkansas. We took an idea that worked for an urban community in the North, and adjusted it to make it work for rural communities in the South.

In 1992, I travelled through places where I knew these successes in Chicago and Arkansas could be repeated. Today, when I put my pen to this bill, we begin to repeat these local success stories by the hundreds -- to expand opportunity, rebuild communities and make our economy grow.

I ran for President to get America's economic house in order, at a time when our economy was adrift, when our leaders sat on the sidelines~~, and our people suffered~~ as a result. I wanted government to be an engine of economic growth instead of a spectator ~~to economic decline.~~

Secretary Bentsen and I, and others, have worked hard to put that strategy into action. We've brought the deficit down, to shift our budget priorities from consumption to investment. We've expanded trade and opened markets, to sell more American products overseas. We've built a foundation for long term prosperity, and we've begun to prepare our Nation and our people to compete and win in the economy of the 21st Century.

Unfortunately, some of our people are far behind. They live in places with little economic activity, ~~little~~ private investment in their community, and too little hope.

Crime -
attack econ
investment
welfare

Our national economy can't stay strong if our local economies are not strong. And we cannot secure the future of the great American middle class if a widening gap between the rich and the poor threatens to divide more of us with every passing day. We've got to make the marketplace work for every sector in society. We don't have a person to waste.

In every community, now matter how depressed its market may be, we have people eager to work. We have lots of good people, with good ideas and a good work ethic. They could become productive instruments of community renewal if only someone stood behind them, with confidence in their talent to get them started.

Today, we're starting hundreds of new community development banks, credit unions and other private lenders. We're bringing people together from all walks of life to put capital in the hands of motivated entrepreneurs and would-be homeowners. To spread pride in property ownership and to build a sense of hope.

This is a wise new investment in the American people. That's why it has received such overwhelming support from both parties in Congress and from America's most respected banks.

Since we put this issue on the Nation's agenda last year, private sector involvement in community development financial institutions is up almost a third.

Today, I am proud to announce commitments from two of the Nation's leading banks to help us build new community development financial institutions: $25 million from NationsBank and $50 million from Bank of America over the next five years.

Let's thank their representatives here and those from all of the generous institutions that have already entered into this long-term, public sector-private sector partnership.

This bill I am about to sign is an example of government at its best. It's not about bureaucracies distributing hand outs. It's about getting good ideas off the ground. It's about encouraging market-driven investors to use market forces to give people more control over their lives. It's about getting people to share a greater stake in the future of their communities.

Adams

We have to do this, because government here in Washington can't solve all our problems. But it <u>can</u> set the right direction for moving us past our problems, and it can help build the bridges that people need to get over them.

Like so many of the innovative ideas this administration has passed so far, this idea puts people -- not bureaucrats -- in charge. It's the same approach behind the Crime Bill, our national service program, AmeriCorps, and the empowerment zones we will designate this fall. All of them seek to change America at the grass roots, from the grass roots up.

I am proud to sign this bill today and be a part of the pioneering spirit and vision of leaders here in Washington. But the ultimate success of this idea, like all of the ideas that our entrepreneurs have pursued down through the years, is up to the imagination and determination of the American people. My thanks to all of you who have helped me give them this chance.

CD Banks

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

22-Sep-1994 12:50pm

TO: Carter Wilkie

FROM: Paul R. Dimond
National Economic Council

CC: Paul J. Weinstein, Jr
CC: Gene B. Sperling
CC: Bruce N. Reed

SUBJECT: <u>CDFI SPEECH</u>

Carter,

Two suggestions:

1. elimate the sentence about the government becoming an engine of economic growth. Instead, at the end of paragraph about putting our house in order, you can talk about how how our economic plan has enbaled the private sector once again to become an engine of economic growth -- in fact x% of y million new jobs created over the last 18 months are in the private sector. This will provide you with the transition to talk about how CDFI act will help the private sector get back to work in becoming an engine of growth in those communities that are still being left behind.

2. Could you add a line or two to the investment by Nations Bank and Bank of America about how business investors, churches, and foundations are also coming together to invest in CDBanks. In fact, Reggie White, the all-time NFL defensive sack leader has decided to go on the offense: with other investors, he's leading a charge to invest in CDBanks to help build business, home ownership, and credit to help people rebuild communities in rural and urban America.

Just a couple suggestions. If they make sense, your great skill can turn my inartful prose into something that sings.

Dimond aka Paul

CD Banks

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release August 10, 1994

STATEMENT OF THE PRESIDENT

I am pleased that Congress passed the Community Development and Regulatory Improvement Act of 1994. Passage of this act fulfills another major campaign commitment by authorizing the creation of a network of community development banks and financial institutions that will unleash billions in private investment into low-income urban and rural communities. This new law will make it possible for thousands of entrepreneurs in low-income communities to start new businesses and create jobs. Along with the Empowerment Zone/Enterprise Community law adopted last year and the ongoing reform of the Community Reinvestment Act, this legislation constitutes a major foundation of my community empowerment strategy.

Since my days as Governor of Arkansas, where I helped to establish one of the nation's first community development banks, community development banking has been one of my signature economic development ideas therefore I am particularly pleased by the passage of this legislation.

This act will also provide vital regulatory relief to the banking industry that will stimulate economic growth and increase access to capital. I look forward to Congress completing action on the Interstate Banking legislation now pending before the Senate.

#

CDBanks

THE WHITE HOUSE

WASHINGTON

March 3, 1994

MEMORANDUM FOR GENE SPERLING

FROM: Paul Weinstein
Paul Dimond
Sheryll Cashin

SUBJECT: Community Development Bank and Financial Institutions Legislation

Despite our best efforts, we still have not been able to secure floor time in the Senate for consideration of the President's Community Development Bank and Financial Institutions legislation (S. 1275) -- otherwise known as the Community Development, Credit Enhancement, and Regulatory Improvement Act of 1993. As you know, this legislation passed out of the Senate Banking Committee 18 to 1 last September and was approved by voice vote in the House of Representatives last November. We had been told to expect consideration in the Senate in February, however nothing has happened yet. We almost had a vote this week, but apparently the Republicans are playing hardball on any allowing any Presidential initiatives to reach the floor, including bills with bipartisan support like the CDBFI bill (both Chairman Reigle and Ranking Minority Member D'Amato support this S. 1275).

We are close to passing this Presidential initiative, but Majority Leader Mitchell has been hesitant to bring the legislation to the floor because he is under the mistaken impression that the bill will take several days of floor time. In fact, the legislation could be passed in a few hours.

At our request, Steve Ricchetti called John Hilley of the Majority Leader's office to secure a time commitment, but was not successful. Bruce Reed believes that a call from George S., reiterating the President's strong support of this legislation and his desire that the bill be acted upon quickly, would go along way in insuring passage in the next week or so. We cannot afford to let this window of opportunity pass. With the defeat of the Balanced Budget Amendment and passage of Goals 2000, there is a short period during which the Senate could act, before the onset of the crime bill, the budget, and several other major pieces of legislation. In addition, in order to insure that the Appropriations Committees fund the program, we need the authorization language to be enacted before the summer.

By the way, if we can pass S. 1275 in the next month and a half, the President could sign the bill on the anniversary of the Los Angeles riots.

THE WHITE HOUSE

WASHINGTON

January 24, 1994

MEMORANDUM FOR CAROL RASCO
BOB RUBIN
BRUCE REED
GENE SPERLING
PAUL DIMOND

FROM: Paul Weinstein

SUBJECT: Update On Community Development Banks And Financial Institutions

It is my understanding from the majority staff at the Senate Banking Committee and from the Treasury Department's Office of Legislative Affairs that the President's Community Development Bank and Financial Institutions (CDBFI) legislation is being cued up for consideration in the full Senate sometime in February. This raises the possibility that we will have legislation on the President's desk sometime in late March, assuming that any outstanding issues such as the Flake Amendment can be resolved quickly.

Because we want to get this program off the ground running, Paul Dimond and I have asked Treasury to prepare a draft application that the Administrator of the CDBFI Fund ("Fund") could publish soon after the legislation is passed and the Fund established. This will allow communities to begin the process of developing their applications and putting together their matching private investments this year. The application would be similar to the one developed for the Empowerment Zone/Enterprise Community (EZ/EC) initiative. It will include an application guide that is easy to understand, innovative, and emphasizes the President's commitment to the program.

In order to further ensure that we can get the CDBFI program off to a quick and successful start, both Paul Dimond and I believe we should start to focus on who we want to run the Fund. I have been talking with Undersecretary of Agriculture Bob Nash and we both agree that the ideal person for the job of Administrator of the CDBFI Fund is Mahlon Martin, President of the Winthrop Rockefeller Foundation. An ideal Administrator of the CDBFI Fund would be someone who has experience in banking, community development, knowledge of the foundation world, and a background in government at the local and State level. Mahlon meets all those criteria: he served on the board of the Arkansas Federal Reserve Bank and was director of the Arkansas Department of Finance and Administration; he is a board member of the Southern Development Bancorporation, one of the three existing community development banks in the country; he heads the Winthrop Rockefeller Foundation which works closely with community organizations; and he was City Manager for Little Rock and served as chairman of then-Governor Clinton's state cabinet. On top of all that, he has the trust and respect of the President. Bob Nash advises me that Mahlon would be hesitant to take the position -- because he is happy where he is -- but that if the President asked, he would very likely accept.

cc: Sheryll Cashin

CD Banks

THE WHITE HOUSE

WASHINGTON

December 17, 1993

MEMORANDUM FOR CAROL RASCO
GENE SPERLING
BRUCE REED

FROM: Paul Weinstein

SUBJECT: Additional Budget Authority For Community Development Banks and Financial Institutions (CDBFIs)

During the campaign, the President committed to creating a network of 100 community development banks to provide capital and basic banking services to our inner cities and distressed rural communities. During the transition, we estimated that $850 million over five years would be more than adequate to meet the President's campaign commitment. However, last year's budget provided only $382 million over four years. Many of our supporters in Congress criticized this small amount of funding for what had been viewed as a major Presidential initiative. The news media stated that the President was retreating on his campaign promise. Through some creative accounting, which included counting uninsured community development financial institutions (CDFIs) -- such as revolving loan funds, micro-loan funds, and community development corporations -- as members of the network, and by adjusting the private sector match, we were able to argue that you could create 100 new Community Development Banks and Financial Institutions (CDBFIs) with the $382 million. **Unfortunately, we now have only enough funds to capitalize 45 CDBFIs -- 20 community development banks and 25 CDFIs.**

Due to 1) Representative Flake's amendment to divert one-third of the funding for the initiative ($127 million) to the Bank Enterprise Act (BEA) and 2) the inability to get the President's bill authorized and the $60 million for FY94 appropriated before the Congressional recess (Sine Die), the funding for the President's CDBFI program has now dwindled to $195 million through FY97. Since community development banks is a high profile presidential initiative, and because it is politically popular with certain Members of Congress who have been critical of the Administration's initiatives in the area of community development, I recommend that we increase the budget for the CDBFI program to $500 million through FY97 with approximately 25% going to fund the BEA.

New insured community development banks require a capitalization level of on average of $12 million if they are to effectively leverage their resources, be self-sustaining, and profitable. South Shore Bank in Chicago was only capitalized at $3.5 million when it first opened in 1973. It took ten years before the bank became self-sustaining and able to lend at any substantial level (present lending levels are approximately $40 million per year with capital of about $20 million). Elk Horn Bank and Trust, on the other hand, was capitalized at approximately $12 million, giving it the resources to have a much greater impact right away, and allowing it to reach profitability after five years. CDBFIs are capital-starved. A capital infusion of $500 million ($100 million going to Flake's BEA) would create billions of new lending in distressed communities and would make it possible to adequately capitalize 100 CDBFIs over the next four years.

Numerical Workout

$500 million authorization ($400 million to CDBFIs, $100 million to Rep. Flakes BEA)

Assume $22 million reduction for administrative expenses and a 10% reduction for technical assistance and training for institutions and borrowers. Leaves $338.5 million for capitalization.

Assume insured community development banks and credit unions need $12 million per institution for initial capitalization, $7 million of which is provided by private sector.* The Federal Government contribution is capped at $5 million per institution.

Assume uninsured CDFIs need $1 to $5 million per institution for initial capitalization (Senate bill). The Federal Government will probably provide most of the investment since these institutions have difficulty finding private sources of investment capital. Average cost to the Federal Government is estimated at $2 million per institution.

$338.5 million could provide enough investment capital for 45 insured community development banks and/or credit unions ($225.6 million) and 56 uninsured CDFIs ($112.8 million). Total CDBFIs capitalized = 101

$195 million authorization (Current Level)

Assume $22 million reduction for administrative expenses and a 10% reduction for technical assistance and training for institutions and borrowers. Leaves $153 million for capitalization.

Assume insured community development banks and credit unions need $12 million per institution for initial capitalization, $7 million of which is provided by private sector.* The Federal Government contribution is capped at $5 million per institution.

Assume uninsured CDFIs need $1 to $5 million per institution for initial capitalization (Senate bill). The Federal Government will probably provide most of the investment since these institutions have difficulty finding private sources of investment capital. Assume cost to Federal Government will average $2 million per institution.

$153 million could provide enough investment capital for 20 insured community development banks and credit unions ($102 million) and 25 uninsured CDFIs ($51 million). Total CDBFIs capitalized = 45

* Based on the experience of Elk Horn Bank & Trust

THE WHITE HOUSE

WASHINGTON

November 21, 1993

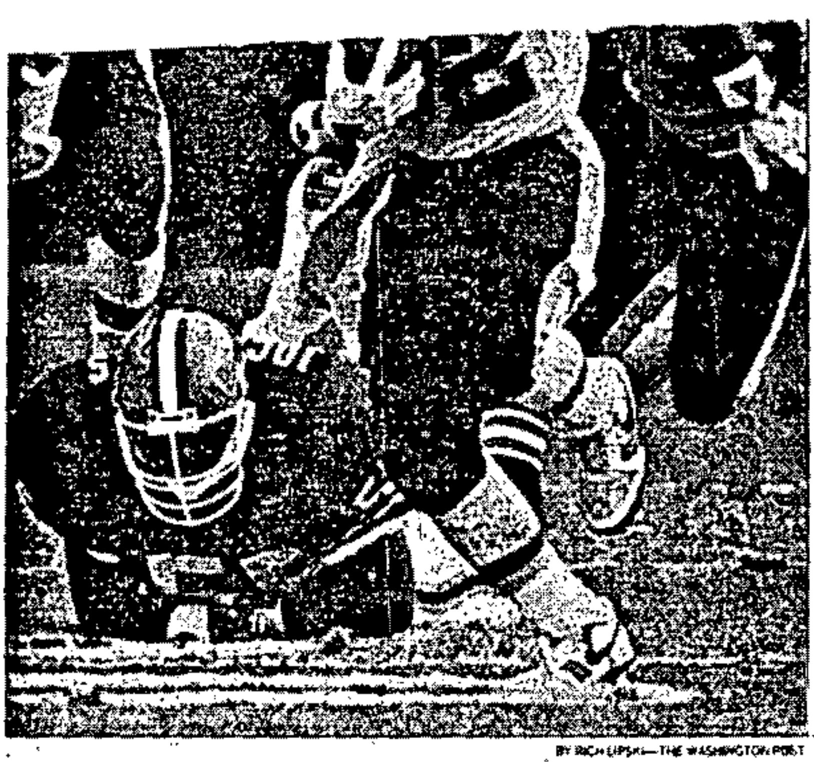
MEMORANDUM FOR THE PRESIDENT

FROM: Paul Weinstein (DPC)
Paul Dimond (NEC)
Sheryll Cashin (NEC)

SUBJECT: Community development bank and financial institutions legislation

On Sunday, November 21, the House of Representatives adopted your community development bank and financial institutions initiative (H.R. 3474) by voice vote. H.R. 3474 also includes a package of regulatory reforms designed to reduce administrative requirements for insured depository institutions. No significant changes were made in the bill since its passage out of the House Banking Committee on November 10. As you know, the Senate Banking Committee, by a vote of 18 to 1, agreed to similar legislation on September 21. We are hopeful the full Senate will take up this legislation upon its return in January.

cc: Carol Rasco
Bob Rubin



BY RICH LIPSKI—THE WASHINGTON POST

After missing three weeks of camp trying to renegotiate a new contract, Ricky Ervins finds himself behind two other tailbacks and with little to do.

Ervins Waits Patiently To Regain Spot on Team

REDSKINS, From G1

play well in the game," he said yesterday. "I kind of knew [playing time would be limited against Dallas]. It was kind of mentioned when I was holding out that it might be doubtful that I'd play in the Dallas game. But being on the special teams is cool, because I'll get a chance to help the special teams. I know that we've got some guys that have been in training camp and that are helping the team in. So I've just got to wait my turn. When they get tired, I'll be in."

He did pick a bad year to be the Redskins' only late arrival for training camp. He missed almost three weeks of camp trying to get a new contract, and while his contract demands came down from the original demand of $2.5 million a year, the stock of Brooks, the second-round pick from Notre Dame, went up.

Ervins finally reported Aug. 5, after agreeing to a one-year deal with $450,000, with incentives that could get him up to $700,000. Then, he was behind ...

get on the defensive script are really helping me out and once I get in the game, that's going to be reflected. When you give [the defense] a look, they're really going for the ball.

"So I'm trying to be the best runner I can. I had to emulate Emmitt Smith. I think I gave them a pretty good look. It was fun helping the team out. It's not about being an individual. Right now we've got a full load up there and I have to bide my time."

And since none of the Redskins' backs are of the Craig "Ironhead" Heyward build and bulk, Washington still anticipates that it will have to use all of its backs before the season is out.

"I think you've got to get them all involved," Coach Richie Petitbon said. "That's what we have to do. Sometimes it's difficult to do, especially when one or two of them are going real good. You just can't take guys that are hot out. It's like making ...

... would concentrate on selling the Patriots to local ownership in Boston while remaining a limited partner and a supporter of the group in St. Louis.

NFL sources said Orthwein's decision to take a secondary role in St. Louis would not hurt that city's chances of getting a team. The St. Louis effort will be headed by Jerry Clinton, a beer distributor who also will assume the role of majority investor and chairman. Clinton said his group still has the necessary financing to enter the NFL.

St. Louis, Baltimore and Charlotte, N.C., are considered the leading contenders to get one of two teams to be awarded next month by the league. Memphis and Jacksonville, Fla., also are among the five finalists.

MONTANA DOUBTFUL: QB Joe Montana threw with only slight discomfort in his injured wrist yesterday, but the Chiefs kept his status in doubt for Sunday's game against Houston. Montana, who hurt his right wrist during last week's victory at Tampa Bay, admitted he felt tentative after resting the wrist all week.

MAXIE OUT: Saints SS Brett Maxie is out for the season after tearing the anterior cruciate ligaments in his right knee yesterday. Maxie, who had reconstructive surgery on his left knee for the same injury in November, will also have surgery on his right knee.

WHITE INVESTING: DE Reggie White of the Packers intends to develop 20 investment banks to work with inner-city communities across the country. White, who played college football at Tennessee, expects the first of the banks to open in Knoxville, capitalized with $1 million.

NO TV IN CINCINNATI: It is a sign of the time...

But Tabaracci, 24, arr... Winnipeg in a trade last ... played well enough in s... games (3-2-0, 1.75 goal... average) that Murray cho... acci to start the playoffs a... New York Islanders. In w... longer shocking news, the... lost that series, 4-2, but go... was not the principal ca... Murray says Tabaracci hold... vantage.

"They are going in even," ... said. "I didn't sit back afte... said and done and think th... one of those didn't do their j... expected. It will be fair and ... an opportunity for those gu... ticularly Tabaracci and Bea... show good things in the scri... and exhibition games. Who... the best guy will start. And... not talking about this as if... starting quarterback. With ni... hibition games, 84 regular ... games, we're going to need... goalies performing at their p... we're going to get the good ... we want this season."

Tabaracci was acquired for Jim Hrivnak (later traded to St... is) and a second-round pick. ... summer, Murray sent a lett... Hrivnak, Olie Kolzig (the 1989 ... round pick), Byron Dafoe and ... Derksen saying that the No. ... behind Beaupre was up for g... Hrivnak kept it, but never g... Murray's confidence. This ... there was no letter offering ho... Kolzig, Dafoe and Derksen. ... Kolzig—after a poor camp—h... great season while on loan to R... ester (Buffalo's farm team) and ... Capitals gave Kolzig $250,000 a ... son to keep him from signing ... Boston. Dafoe, who was in Baltim... most of last season, also was ... signed.

"With Tabaracci and Beaup... there are two good goalies, so ... more or less, Dafoe, Derksen ... me trying to pull an upset," Ko... said. "But every year there are s... prises and shocks. Hopefully, on... us is the surprise of training cam...

While the future, however ... sure, is ahead of those thr... Beaupre is nearer the end of his ... reer. His record with Washingto... 104-80-19 with a 3.10 GAA and ... playoff mark is 13-13 with a 2... GAA. Beaupre has been a No. ... a No. 2 goalie ...

CD BANKS

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002. memo	Weinstein to Reed et al. re: Discussion Draft-Next Steps on Community Development Financial Institutions (CDFI) Legislation (3 pages)	9/24/93	P5

This marker identifies the original location of the withdrawn item listed above. For a complete list of items withdrawn from this folder, see the Withdrawal/Redaction Sheet at the front of the folder.

COLLECTION:
Clinton Presidential Records
Domestic Policy Council
Bruce Reed (Subject File)
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FOLDER TITLE:
Community Development Banks [1]

rs40

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]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advise 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.
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Freedom of Information Act - [5 U.S.C. 552(b)]

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b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
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b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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

Ellen
FYI
Smat
File:
CD Banks

Bruce

September 11, 1993

To: Leon Panetta
Alice Rivlin

From: Christopher Edley, Jr.

Re: Financial Sector Reform

Bob Rubin, on behalf of the President, invited Treasury Undersecretary Frank Newman and Comptroller of the Currency Gene Ludwig to write a memorandum concerning financial sector reform for the President, and then to have a small group discussion with the President. Newman and Ludwig are working on the memo. I want to report a few developments.

I had a very long dinner with Newman and Ludwig last night to discuss substantive strategies and the process. I believe we reached agreement on the following points:

1. **CDFI Bill.** The Community Development Financial Institutions (CD Banks, or CDFIs) bill will move forward in the Senate only if linked to some modest set of generally unobjectionable regulatory relief provisions, plus Damato's proposal to foster securitization of small business loans -- a proposal we basically support. The Damato provisions will have hellishly complicated jurisdictional problems in the House, I fear. In any case, I still haven't heard a convincing story about how we get CDFIs through the House and to conference in a timely way.

2. **Beyond CDFIs.** There is considerable rumbling on the Hill concerning (a) interstate branching and (b) agency consolidation, although only the latter has yet to be translated into draft legislation. Each will be the subject of hearings in the next few weeks. It will be embarrassing for the Administration, after nine months, to still have no position. We must get our act together.

None of the three of us (Newman, Ludwig, Edley) wants to complicate CDFI legislation with broader banking reform matters, but each of us wants significant banking reform to be part of the Clinton legacy. I assume you share our sense that a significantly healthier financial sector is important to growth and competitiveness, and that more efficient intermediation is a critical part of that. So, how to move ahead on a reform agenda while recognizing that CDFIs are the President's first priority in the area, and that the White House must force itself to have a focused legislative agenda?

3. **Packaging Interstate with Consolidation.** Although Frank's initial instinct was for the Administration to press for action on interstate branching this fall, and move other items sometime later, I persuaded him that we should attempt to move forward with both interstate branching and agency consolidation as a package. Ludwig agreed, and even believes that Greenspan will be supportive if the structure gives the Fed a couple of seats on a National Banking Commission board, plus access to bank information. Ludwig further argues that the two Banking Committee chairmen are strongly supportive of broad consolidation, and that consolidation will have more Hill support than interstate branching, which will forever be at least scary and perhaps anathema to small banks. The great risk for the Administration is that in creating a powerful, consolidated regulator, Congress will insist that there be more political separation from Treasury and even Presidential control. We believe there are some plausible strategies to minimize the risk of losing control of the legislative situation, but this is a definite problem to watch.

4. **The Form of Consolidation.** The consolidation we have in mind is sweeping: OCC, OTS, FDIC and Fed holding company oversight. (Greenspan's critical concern is the payments system and monetary policy, not examination of banks or holding companies. The good possibility of his cooperation in consolidation is a truly historic opportunity, *which we must not let slip by.*) Budgetarily, the outyear savings could be significant in FTEs. For depository institutions, regulatory burdens would be rationalized and inefficient oversight hassles eliminated. For public policy, developing coherent policy would be vastly simplified, and the regulator would be far more agile in the face of increasingly dynamic market forces. In sum, this would be a significant Clinton achievement, although appreciated in only limited circles.

5. **Still Broader Banking Reform.** On the other hand, broader reform questions related to insurance and securities powers strike us as too hot to handle legislatively. (a) Ludwig is very interested in preserving and marginally expanding the "towns of 5000" exemption for insurance powers. This should not be too mig a deal. (b) All three of us are interested in expanding the Section 20 authority for equity investments through more generous regulation -- something now in the Fed's domain, but within our reach after consolidation. In short, Newman, Ludwig and I agreed on a legislative strategy of "bold incrementalism" rather than "sweeping vision," because we'd like to actually get something enacted.

6. **Small Business.** Newman is interested in another wrinkle: giving banks some limited powers to take equity positions in small businesses, within certain guidelines. The model is Small Business Development Corporations (SBDCs). He believes that local banks, especially when sensitive to Ludwig's reformed Community Reinvestment Act regime, would provide a vast new pool of needed equity capital. We are exploring this further, and I have specifically urged Newman to talk at length with Erskine Bowles, who is fabulous. Indeed, Ludwig and Newman agreed to recruit Erskine as a supporter of a three-element recommendation to the President, covering (a) interstate branching, (b) regulatory consolidation, and (c) small business securities powers.

7. **Process.** If, after sleeping on it, Frank and Gene remain happy with our dinner conclusion, their memo to the President this coming week will provide background and seek preliminary approval of that three-part strategy. With the President's nod, they would then

attempt to get Greenspan on board, and then consult informally on the Hill. At either of these steps, it may prove politically necessary to jettison the consolidation element. The Hill may also object to the small business element because of jurisdictional complications. But, if all goes well, we would have an exciting initiative.

8. **NEC Role.** What gets quite murky is the role of the core NEC group. Bob Rubin's invitation seems somehow related to a round of golf between Ludwig and the President on Marthas Vineyard. From the description of the invitation, it sounded like a memorandum intended to flow outside the NEC core process. I pointed out to Newman and Ludwig that, while I can certainly understand the appeal of a direct relationship with the President on these matters, some discussion by the NEC core group (plus Erskine) would probably have high value-added. For example, Sperling would note the populist value of the small business piece, and George would note the Reinventing Government/Government-off-our-backs quality of the consolidation; OMB could reinforce the huge FTE savings potential, etc. (FDIC is bloated, with 22,800 FTEs.) They agreed, I think. Rubin is the key.

9. **Small and Growing Businesses.** In the interagency discussions of the Damato bill, everyone has agreed that (a) Damato's securitization initiative will probably be harmless but ineffective in stimulating lending to small businesses; and (b) the Administration should formulate something bolder. Newman's idea for a limited expansion of bank powers is one possibility, but I hope it will not derail other policy development. In particular, I continue to believe that *some* form of secondary market intervention analogous to FNMA could be a major boost to small businesses by creating new vehicles for intermediation.

10. **Conclusion.** As you know, this is a subject about which I care a great deal because I view it as a concrete opportunity to promote long term growth. My Financial Institutions Branch, led by Alan Rhinesmith, together with my Special Studies Division, led by Harry Meyers, is a well-respected source of intellectual capital on these matters. I believe OMB has made important contributions to Clinton Administration policy development in this realm, and on far more than narrowly budget-related questions. With your support, I think we can continue to contribute as this develops.

Stay tuned.

THE WALL STREET JOURNAL FRIDAY, AUGUST 27, 1993

Clinton Looks to a Bank in Bangladesh For Model to Help U.S. Poor Get Loans

By KENNETH H. BACON
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — Few Americans look to Bangladesh for models of economic development, but President Clinton wants to transplant an investment idea from that poor Asian nation to the U.S.

Congress is debating a Clinton plan to establish a $382 million government fund to expand lending in poor inner-city and rural areas, where commercial banks find it too costly or risky to lend. When the president launched his proposal at a White House ceremony, he referred to lessons he had learned from "a remarkable man named Mohammed Yunus, who told me how through the Grameen Bank he had made market-rate-interest loans to poor village women in Bangladesh, and over 95% of them had actually paid the loans back."

Indian Tribes' Development

The nation's Indian tribes are increasingly embracing small-business development to help solve some of their problems. Enterprise, page B2.

Mr. Yunus, a U.S.-trained economist, founded Grameen Bank a decade ago to make small loans to people far too poor to get credit elsewhere. The bank, based in the capital city of Dhaka, has been spectacularly successful in making development loans to the poor that get paid back. It lends about $25 million a month, more than any other bank in Bangladesh. It has lent to more than 1.4 million people in 32,000 villages. The biggest loan the bank makes is $1,200, but the average loan is just $100; many borrow much less to buy a cow or material to make fishing nets, for instance.

Mr. Yunus started with funds he personally borrowed from commercial banks, and later obtained an infusion from the Bangladeshi government. Grameen Bank is now self-sustaining. Similarly, the proposed Clinton development banks would start off with government funds but would be expected to become self-sustaining eventually.

In the U.S., about 40 funds, most supported by foundations, pattern themselves on the Grameen model, according to Beverly Smith, executive director of the Association for Enterprise Opportunity in Chicago. "They all have very low default rates of between 0% and 3%," she says, although their scope has been limited. Commercial banks don't do any better. Last year 3% of commercial bank assets were in noncurrent loans, leases and foreclosed real estate.

Grameen lends without collateral or written agreements. To get a loan, a woman must find four friends who will agree to help her pay the loan back, if necessary. Instead of collateral, the bank's security is "a group of friends working together," Mr. Yunus explained during a visit here earlier this year. If one woman defaults on principal or interest, the others in the group can't borrow until the loan is repaid.

Microloan funds find that the Grameen "borrowing circle" approach works in the U.S. The Women's Self-Employment Project in Chicago and the Lakota Fund on the Pine Ridge Indian Reservation, in South Dakota, for instance, both lend to women who have formed peer groups to help each other carry and repay the loan. Like Grameen Bank, they have found that loans to women have greater social impact than loans to men; women are more likely to funnel profits into education, health care and improved nutrition for their families.

The problem is in expanding the programs. "In the U.S. I'm not aware of any program that's loosely based on Grameen that has been able to grow beyond several hundred borrowers," says Alex Counts, an American aide to Mr. Yunus who is writing a book on the impact of Grameen Bank. By contrast, the typical Grameen Bank branch — there are about 900 — lends to between 1,500 and 2,000 people at any one time.

In the U.S. "welfare laws really act as a disincentive to get into a program like this," because benefits, including health care, can end abruptly as income rises, Mr. Counts says. (As part of its efforts to restructure welfare, the Clinton administration is studying ways to improve the transition from welfare to work.)

Even though the default rate on development loans in the U.S. is low, commercial banks aren't rushing to lend to poor women. "Banks aren't in the business of developing businesses. They're in the business of lending risk-free to established businesses," says Ms. Smith of the Association for Enterprise Opportunity. Because the funds work intensively with their borrowers, "banks couldn't afford to do what the funds do and make money," she says.

In Bangladesh, Grameen seeks out borrowers. "People shouldn't come to the bank; banks should go to the people," Mr. Yunus says, explaining that Grameen makes loans to homes and businesses in 32,000 villages in Bangladesh. "We work on their doorsteps."

Development lenders in the U.S. aren't as aggressive. "Many areas, including my own home district city of San Antonio, cannot even absorb credit because the rates of unemployment are so high and the job creations are so low," says House Banking Committee Chairman Henry Gonzalez (D., Texas).

But Mr. Yunus sees no reason why the Grameen model won't work in poor neighborhoods of the wealthiest countries. "The right to credit should be considered a human right," he says. "Traditional banks say, 'The more money you have, the more you can get.' We say, 'Even if you have nothing, you can borrow something.' The true meaning of the word credit is trust." This is one of the reasons why Grameen's default rate is no worse than the 3% bad-loan rate of U.S. commercial banks. Moreover, Grameen's performance includes one small area in which the default rate has recently soared to about 30%, the result of heavy floods and poor local management, Mr. Counts says.

Microloan funds based on the Grameen model are just one of the community development financial institutions the Clinton plan would support. Much of the money would go into banks and credit unions that concentrate on rebuilding blighted communities with housing and small-business expansion loans that conventional commercial banks won't make.

But when Mr. Clinton talks of development, he often stresses the importance of the Grameen approach of lending to the very poorest. "I think Muhammed Yunus should be given a Nobel Prize," Mr. Clinton said in an interview last year with Rolling Stone magazine. "He made enterprise work. He promoted independence, not dependence."

Four-Week Moving Average Of Jobless Benefits Falls

By a WALL STREET JOURNAL Staff Reporter

WASHINGTON — A tentative measure of the job market is making its best showing in nearly four years.

While initial claims for state unemployment benefits rose this past week, the four-week moving average of claims fell 15,750 to 331,500, its lowest level since September 1989, the Labor Department said. The average was a revised 347,250 in the previous week.

For last week alone, claims rose 8,000, to 332,000.

Even though all the figures are adjusted for seasonal changes, they tend to bounce around from week to week because of factors that are sometimes localized and short-lived. For that reason, the four-week average is considered a better indication of labor market trends.

It's far from definitive, however. For one thing, not everybody is covered by the unemployment compensation program. In the week ended Aug. 14, 2,782,000 people were receiving state unemployment benefits, while the latest unemployment report showed 8.8 million people out of work.

Of those covered by unemployment ... 2.0% were receiving benefits ...k, down from 2.7% the

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File:
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Draft 8: April 10

April 10, 1993

MEMORANDUM

FROM: **THE NEC-DPC INTERAGENCY WORKING GROUP ON COMMUNITY DEVELOPMENT AND EMPOWERMENT**

SUBJECT: **COMMUNITY LENDING PROPOSAL**

I. ACTION-FORCING EVENT

Across the country, rural and urban communities are starved for affordable credit, capital, and basic banking services. Millions of Americans in low-income neighborhoods have no bank where they can cash a check, borrow money to buy a home, or get a small loan to start a business or keep one going. Perhaps more than any other proposal, the network of community development banks you promised in the campaign -- coupled with reform of the Community Reinvestment Act (CRA) -- have the potential to transform these communities by empowering people and businesses to join the economic mainstream.

II. BACKGROUND

Over the last two months, the NEC-DPC Interagency Working Group on Community Development and Empowerment has been developing a community banking initiative that tries to fulfill the basic principles you outlined during your campaign. This memorandum reflects ideas from HUD, Treasury, Agriculture, Commerce, OMB, NEC, and DPC, as well as outreach efforts to community groups and the banking industry.

A. The Problem. As you know, low-income communities face several chronic banking problems:

- Inadequate Basic Banking Services -- Millions of poor Americans have no access to nor relationship with a bank. They live in neighborhoods with no ATM machines, no drive-through windows, no checking or savings accounts. Instead, they are forced to deal with unregulated cash-checking concerns that charge an exorbitant fee for a simple service.

- No Loans for Small Borrowers -- Most commercial lenders shun low-income communities because small loans have higher transaction costs and lower profit margins, and require more labor and attention, if not more risk.

- Lack of Expertise Among Lenders -- Lending in distressed communities, particularly for small business, is difficult. It requires specialized underwriting expertise, credit products, packaging, subsidies, secondary markets, and knowledge of the community.

- Lack of Expertise Among Borrowers -- Small businesses, particularly those in distressed areas, often lack expertise in the basics of small business management, including borrowing, managing and repaying money. When commercial lenders abandon these communities, there is often no place to turn for essential capital, credit or information.

- Discrimination -- Home Mortgage Disclosure Act (HMDA) data suggest that, deliberately or not, home mortgage lenders deny loans to middle- and upper-income minority borrowers more often than to moderate- and lower-income whites. Anecdotal evidence suggests that the situation is even worse for commercial and consumer loans.

- Shortage of Credit and Capital -- The unmet demand for credit and capital in poor communities is therefore substantial. In too many low- and moderate-income neighborhoods, loans are unavailable for even the most credit-worthy housing and business purposes. A recent study found $360 million in unmet demand for credit-worthy small business loans in the City of Oakland alone. In New York City's distressed communities, more than a $30 billion in demand for housing loans that would qualify for federal insurance went begging. Economic revitalization cannot take root in these communities where good risks and sound businesses cannot get loans.

B. Promising Responses to the Problem. Many enterprising communities have come up with their own ways to fill the void in community development and banking services. We have looked at a variety of promising alternatives under way around the country, including community development banks; community development credit unions, corporations, and loan funds; loan consortia and other community development intermediaries; and community reinvestment by mainstream commercial banks.

1. Community Development Banks (CD Banks): South Shore Bank in Chicago, Elkhorn Bank and Trust in Arkansas, and Community Capital Bank in Brooklyn offer a comprehensive range of assistance to the communities they serve. Through for-profit and non-profit affiliates, they provide basic deposit, saving, checking, and consumer and mortgage lending services; venture capital for small business; microenterprise loans; and technical assistance. They also develop rental and cooperative housing for low-income residents and commercial real estate for small businesses. Three such integrated, full-service financial community development bank holding companies have emerged over the last twenty years.

2. Community Development Financial Institutions (CDFI's): A variety of other community-based organizations have found their own financial service niche:

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

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

- Scores of specialized Community Development Loan Funds (CDLF's), both for-profit and non-profit, aggregate capital and contributions from socially conscious banks, investors, and foundations to provide equity, bridge loans, or below-market financing for affordable housing, revitalization of retail stores, or small businesses in distressed communities.

3. Community Development Intermediaries (CDI's): A number of state and local governments, community groups, and financial consortia provide specialized services that link communities, CDB's, and CDFI's to mainstream banking, credit, capital, and government insurance and subsidy programs and secondary markets. These intermediaries underwrite, guarantee, or repackage loans to credit-worthy businesses and individuals in distressed areas.

4. Community Reinvestment by Mainstream Banks: Either in response to pressure from community groups to meet their obligations under the Community Reinvestment Act or out of their own self-interest to learn how to better serve underserved markets, many mainstream commercial banks and thrifts have begun to provide essential financial services to distressed communities. Some have formed loan consortia, loan loss reserve funds, and community lending networks; others provide capital, loans, or contributions to the community development institutions described above. A few Bank Holding Companies (BHC's) have recently created and capitalized Community Development Banking subsidiaries to serve the financial needs of distressed communities.[1]

III. PROPOSALS

Given the variety and promise of these local efforts, we advise against mandating any single model for community development -- although the program would encourage CDFIs which have reached a certain size and level of sophistication to eventually become chartered depository institutions. Instead, we recommend a flexible, bottom-up community lending initiative based on the principles you outlined during your campaign.

The community empowerment strategy we have proposed includes four pieces: economic empowerment zones; community development financial institutions (CDFI); strengthened Community Reinvestment Act and Fair Lending laws; and community partnerships against crime. These four initiatives are the first in a series of proposals to address the unique needs of urban and rural America.

In this memorandum, we present detailed options to 1) strengthen CRA by demanding performance instead of paperwork, and 2) develop a national network of community financial

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[1] CRA focuses only on a limited set of financial institutions, but there is a considerable amount of basic banking, lending and other financial services done by other entities, including

- car loans extended by the credit arms of car companies
- personal and home loans by consumer finance firms
- commercial loans by commercial finance agencies
- basic deposit and checking by money market funds.

The total of such non-bank financing exceeds $1 trillion. The total assets of other financial sectors (insurance companies; investment companies, broker-dealers, mutual funds, money market funds; and pension funds) almost double the total assets of the regulated banks, thrifts, and credit unions. None of these other financial institutions is subject to CRA, and all are therefore beyond the scope of the Working Group's current review and recommendations. At a future date, it may be worth exploring how these other financial institutions might also play a constructive role in reinvesting in distressed communities.

institutions -- community development banks, credit unions, revolving loan funds, microenterprise loan funds, and more.

A. Community Reinvestment Act (CRA) Reform

1. History

The Community Reinvestment Act requires regulated financial institutions to "serve the convenience and the needs of the communities in which they are chartered to do business." Under CRA, regulators of financial institutions -- the Fed, Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Office of Thrift Supervision (OTS) -- undertake periodic examinations of each federally chartered institution. Using a twelve-factor analysis, an examiner assesses the institution's lending practices and assigns the institution a CRA rating of "outstanding," "satisfactory," "needs to improve," or "substantial noncompliance." The examiner's CRA report is available for public inspection and an institution's CRA rating is taken into account in a regulator's evaluation of the institution's application for a charter, new branch, merger, or acquisition.

During the campaign, you promised to focus CRA evaluations on "performance, not paperwork." Both banks and community groups argue that current CRA policy suffers from several shortcomings:

- Vagueness -- The current evaluation process provides insufficient guidance for both regulators and regulated institutions on precisely which practices demonstrate CRA compliance. This vagueness is one source of the highly subjective nature of CRA evaluations and the "grade inflation" perceived by community groups.

- Paperwork, not results -- In the face of this uncertainty, both regulators and regulated institutions have focused on an institution's processes and paperwork, such as meetings with community groups and minutes from board meetings, rather than on results. This has created substantial burdens for both regulated institutions and regulators, without any corresponding gain in CRA effectiveness.

- Poor performance -- Although more than 90% of all regulated institutions receive "satisfactory" or better CRA ratings, redlining persists in low- and moderate-income neighborhoods.

- Inequity -- Although some institutions reinvest heavily in their communities and others only lightly, almost all institutions receive passing CRA grades. This not only hampers the ability of regulators and community groups to monitor reinvestment practices, it also deprives responsible institutions of recognition for their performance.

2. Stronger CRA Enforcement

We recommend three measures to improve CRA enforcement, none of which requires legislative action:

1) Better examiners: Many examiners lack experience in conducting CRA examinations. Bank regulators need to develop a well-trained corps of examiners who specialize in CRA examinations.

2) Stronger sanctions: Regulators should be allowed to use supervisory letters, letters of reprimand, and civil money penalties to enforce actions against institutions with persistently poor CRA performance.

3) Performance-based standards: The most sweeping step we can take is reform the CRA examination protocols to focus more on quantifiable measures of an institution's actual performance in providing financial services to its community. Banks should be judged on the basis of the magnitude and distribution of lending and investment in low- and moderate-income neighborhoods, and the provision of basic banking services. For example, banks should receive partial CRA credit for investing in community development institutions (see below). Banks should also be subject to fair lending examinations to determine whether they engaged in a pattern or practice of discrimination.

The first two steps are relatively non-controversial. The third, more dramatic measure, performance-based standards, will draw criticism from some financial institutions who are worried about "credit allocation" and increased paperwork, along with a few community groups who think vague, undefined standards give them more public leverage over the banks.

We believe that neither concern is well-founded: The proposed regime does not prescribe lending or investment quotas, and remains sensitive to the varied needs and strengths of financial institutions. Performance-based standards will reduce uncertainty and paperwork for banks and regulators alike, by giving them measurable goals and clear guidance. A streamlined examination procedure will be developed for the examination of small and rural institutions.

Most community groups will support the new standards because of their potential to increase access to basic banking services as well as lending and investment. Community groups' real concern is that after 12 years of strained relations, they don't trust the regulatory agencies. They need to know they will have a strong voice in the examination process. In conducting CRA and fair lending examinations, regulators should actively solicit the views and comments of residents, small businesses, and citizen's groups in the institution's community (see Tab A for more detailed description of CRA options).

B. A National Network of Community Development Institutions

To date, with almost no government support, community development financial institutions (CDFIs) have proved that it is possible to mobilize and lend significant amounts of capital for development in credit-deprived communities. We propose two measures to stimulate the growth and impact of these institutions:

1. A Community Banking and Credit Fund to provide federal capital assistance that will dramatically expand the amount of capital available for CDFI startup and expansion without creating enormous financial liabilities for the federal government.

2. A national information clearinghouse and support system to help prospective CDFIs get off the ground and existing ones to run a profit.

1. The Community Banking and Credit Fund

We envision a federally-chartered, quasi-private enterprise known as the Community Banking & Credit Fund ("Fund") to oversee the development of a nationwide network of community development financial institutions. The Fund would be governed by an eleven member Board of Directors appointed by the President and confirmed by the Senate. The Board would include the cabinet secretaries or designees of the Departments of Treasury, HUD, Commerce, and Agriculture, a representative of the Small Business Administration, two representatives of the CDFI industry, two representatives from community groups, and two representatives of the mainstream banking sector. The Chairman would be appointed by the President. The Board would serve as a corporate board of directors to establish policy, and would retain a full-time President to manage operations of the Fund.

[* Is it a Trust or a Fund?]

2. Selecting Network Participants

To receive financial or technical assistance from the Fund, an institution would have to be a member of the national CDFI network, and meet several stringent standards:

- Demonstrated ability to manage a CDFI.

- A primary, explicit and highly public commitment to community development. To qualify, a CDFI's loans and investments would have to go toward community development, and serve an area that needs it.

[Insert Definition of what it takes to be a CDFI, and what kind of services they have to provide in order to qualify?]

• A realistic, specific strategy to achieve the CDFI mission, and become self-sustaining after government support expires.

• Leverage -- private capital or other support to match federal support. George Surgeon of Elk Horn recommends a one-dollar federal match for every two dollars of private money.

• Expertise in technical assistance. Many small borrowers default not because of economic conditions, rather because of a lack of knowledge about management, financial, and legal matters. Existing CDFIs have shown that with active guidance and credit counseling, low-income residents of distressed areas can be extremely credit-worthy. (Attached at Tab B is a summary of the specific criteria for eligibility).

The Fund would solicit proposals for CDFI matching funds on a competitive basis. A review board, comprised of agency, community and private sector representatives, would review and select applications.

3. Assistance Provided by the Fund

Attached at Tab B is a detailed explanation of the assistance the Fund would provide, including:

- Capitalization Assistance -- Matching equity that can be used to capitalize new CDFI's or expand existing ones.

- Technical Assistance -- Capitalization loans, grants, or technical assistance to applicants that present proposals in conjunction with new or expanding CDFIs. This could apply to subsidiaries of CDFIs as well as community groups with technical assistance expertise, such as ACORN.

- Coordinated Access to Relevant Government Programs -- The Fund would set out to give CDFIs a single point of access for relevant federal technical assistance and lending subsidy programs. Depository CDFIs could also be encouraged to provide a telecommunications network (or office space) for one-stop government loan centers (GLCs) that would make SBA, FHA, FmHA and minority business loans and other federal programs more readily available to targeted areas.

- Deposits -- Monies being held by the Fund would be deposited with eligible CDFIs.

4. How to Capitalize the National Network of CDFIs

The key question in establishing a national network of community development is how to make the most of the federal government's leverage. We present three alternatives, with no consensus recommendation.

[Insert summary paragraph laying out the three options before getting into them]

OPTION 1: DIRECT APPROPRIATION

In your budget proposal to Congress, you request $354 million for community development banks through FY97, with an additional $114 million in FY98. This appropriation could be used for direct federal support to CDFIs -- equity investments, capital grants, technical assistance, training, etc.

That alone represents a potential 50% increase in capitalization of the CDFI industry, which is currently capitalized at approximately $700 million and has extended almost $2 billion in loans nationwide. On a matching appropriated basis, the new federal funds could generate an additional $1 billion in capital -- which in turn could lead to $3-10 billion in new loans in distressed, low-income communities.

File:
CD Banks

BOBBY L. RUSH
1ST DISTRICT
ILLINOIS

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

COMMITTEES:
BANKING, FINANCE AND URBAN AFFAIRS
GOVERNMENT OPERATIONS

July 27, 1993

Chairman Floyd Flake
House Banking Subcommittee on General
Oversight, Investigations, and the
Resolution of Failed Financial Institutions
H2-139 Ford House Office Building
Washington, D.C. 20515

Dear Chairman Flake:

After consideration of your request that I become an original cosponsor of your "Bank Enterprise Act Amendments of 1993", H.R. 2707, I have determined that I cannot support this legislation.

While I recognize your intentions in offering H.R. 2707, I believe that the approach taken in this bill is much less efficient in fostering genuine community development than that contained in the Clinton Administration's recently-introduced bill, the "Community Development Banking and Financial Institutions Act of 1993", H.R. 2666. As you know, this legislation establishes an independent entity, the "Community Development Banking and Financial Institutions Fund", which will be solely dedicated to fostering a broad range of community development initiatives across the nation. The Fund will spur economic development through assisting innovative entities -- Community Development Financial Institutions (CDFI's). These are some 300 institutions which today lack the seed and expansion capital which they need to accomplish more of the extensive array of development that they now perform in our nation's most disinvested urban, suburban and rural areas. And, while I share your goal of "mainstreaming" individuals in disinvested communities, CDFI's provide the best opportunity to ensure that those in these communities have access to basic credit and financial services, which are not now available in the overwhelming majority of these areas.

CDFI's, unlike conventional entities, use focused and flexible lending approaches to meet the varied development needs of their target communities. Their entire purpose is meeting all of the community development needs of that community; whereas conventional institutions, necessarily and understandably, have other purposes and goals. By permitting all U.S. financial institutions -- depository institutions already backed by the taxpayer -- access to scarce public funds allocated to this initiative, your bill would greatly dilute the efficiency of the President's focus on building the capacity of the non-traditional but highly successful CDFI's. This result would benefit no one -- least of all the communities that so desperately need financial resources. Even under H.R. 2666, which at present is limited to only $60 million during its first year, many communities will not be reached: this problem will only be exacerbated if H.R. 2707 is adopted. The benefit of targeting non-traditional CDFI lenders is that most conventional banks cannot and will not reach communities that CDFI's operate in every day because they lack the benefit of the CDFI's community development expertise, perspective and roots, as well as their specialized community-based subsidiaries.

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Moreover, the institutions which would benefit from H.R. 2707 have been required since 1977 under the Community Reinvestment Act to focus on providing credit, capital and banking services to disinvested areas and have largely evaded their legal obligations to serve their entire communities. It is my belief, in view of the banking industry's overall poor level of performance, that it is inappropriate to offer the rewards in the form of the insurance premium credits as contained in your bill. I also believe that many of the CRA provisions contained in H.R 2707 -- particularly that which provides for a "safe harbor" -- will undermine the Clinton Administration's efforts to improve the effectiveness of CRA and may well lead to decreased community investment by our nation's publicly-supported banks and thrifts. In fact, such "safe harbor" provisions would shelter more than $1 trillion of the asset base of insured depositories from public scrutiny as provided for under the CRA. As we have seen during our review of CRA during this Congress, many of the difficulties and inconsistencies within the CRA regulatory process are attributable to the federal regulators' present emphasis on process rather than bank performance and the effect that an institution's lending has on its community's development. By awarding "safe harbors" on the basis of the present flawed CRA rating system, this misplaced emphasis would be perpetuated rather than alleviated.

One of the objectives which has been clearly identified by the Clinton Administration since the inception of their community development banking effort has been to adopt a dual-phase approach to banking reform. The Administration is seeking to adopt a comprehensive, single-issue community development banking bill while simultaneously implementing CRA regulatory reform, after which they intend to visit many of the issues that you and I and many other members of the Banking Committee feel are needed to improve the U.S. banking system. H.R. 2707, by introducing several of these issues into the community development banking debate, effectively jeopardizes the President's bill by making it vulnerable to amendment regarding a whole host of issues which would be better reserved for consideration by the Committee until after H.R. 2666 is signed into law.

I am sure that you share my belief that the resources made available under the President's CDFI legislation will not solve all of the problems that plague our nation's economically distressed communitities. More can be done and more must be done. That is why I am eager to work with the President to improve the effectiveness of CRA so that the banking industry does its fair share to bring hope to these communities that have been left out of the economic mainstream for so long, and also to foster the growth and development of our nation's exceptional and indispensable CDFI's.

I look forward to working with you on this matter and other issues of vital concern to our nation as the House Banking, Finance and Urban Affairs Committee continues its legislative business.

Sincerely,

Bobby L. Rush
Member of Congress

cc: Members of the House Banking Committee

(P)
Banks

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release July 15, 1993

REMARKS BY THE PRESIDENT
IN ANNOUNCEMENT OF
COMMUNITY LENDING INITIATIVE

South Lawn

12:12 P.M. EDT

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

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

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

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

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

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

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

MORE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

* * *

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

I got on this issue as governor when I saw so many needs that were unmet, and when the now Under Secretary of Agriculture for Community Development Bob Nash and I worked hard to use our existing authorities to help people who couldn't have access to credit. I learned about the South Shore Development Bank. And, through them, I met a remarkable man named Mohammed Yunis, who told me how he, through the Grameen Bank, had made market rate interest loans to poor village women in Bangladesh. And over 95 percent of them had actually paid the loans back.

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

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

END 12:40 P.M. EDT

CD Banks

Clinton to Unveil Pared-Back Plan for Lending in Low-Income Areas

By Guy Gugliotta and Jerry Knight
Washington Post Staff Writers

President Clinton tomorrow will unveil a plan to channel $382 million in "seed capital" to banks, credit unions and other lending institutions in low-income neighborhoods, administration sources said yesterday.

The administration has touted its "community development banks" initiative as a major effort to revitalize poor inner-city neighborhoods and rural areas.

But the program to be announced Thursday will be less than half the $1 billion in new spending that advocates of the program had hoped for.

White House officials said it will keep the president's campaign promise to provide funds for 100 lending institutions in low-income communities.

Originally, that promise was interpreted to mean creation of a network of federally chartered banks to make loans in depressed rural and urban communities where few conventional banks are willing to take the risk of lending.

Administration officials decided that with little money in the budget for a new program, they could get the project off the ground more quickly by routing funds into the struggling banks and nonprofit lending institutions that exist in many low-income neighborhoods across the country.

"It's a good start, but if it's not connected to a larger effort to leverage private capital, it will only be a pilot program," said Martin Trimble, executive director of the National Association of Community Development Loan Funds, a collection of about 40 nonprofit lenders who plan to participate in the program. Other program participants are expected to include the handful of existing community development banks—conventional banks that target low-income neighborhoods—plus about 150 specialized credit unions.

The program will be less than half the $1 billion in new spending that advocates had hoped for.

The White House plan calls for those institutions to compete for the limited amount of federal funds, based on their plans for using the money, and to come up with $1 of their own cash to match each dollar in federal grants.

The federal infusion will be limited to $5 million apiece for banks and credit unions and $2 million apiece for other kinds of lenders, one senior administration official said.

For the fiscal year beginning in October, $60 million will be available under the proposal to be unveiled tomorrow at a White House ceremony.

Only banks and credit unions specially chartered to serve low-income communities will be allowed to get funds from the new Community Development Bank Fund, freezing out conventional banks that had originally been included in the Clinton plan.

Despite objections from industry lobbyists, the regular banks and S&Ls were cut from the program because administration officials said they could not justify offering federal funds to them at a time when the banking industry was making record profits.

Trimble said the existing community development lenders make loans for both housing and small business in inner-city neighborhoods and poor rural areas. Typical borrowers, he said, include a mechanic who started a truck repair shop that now has 10 employees and an unemployed couple who were able to set up a day care center in their home.

ABA Panel Rates Ginsburg 'Well-Qualified' for Court

By David Von Drehle
Washington Post Staff Writer

Supreme Court nominee Ruth Bader Ginsburg yesterday received the highest possible rating of the American Bar Association, a unanimous judgment by a 15-member panel that she is "well-qualified" for the job.

For Ginsburg, whose confirmation hearings begin Tuesday before the Senate Judiciary Committee, the rating is one more favorable gust to a nomination that appears to be sailing through. No one who has done so well with the bar committee has ever failed to be comfortably confirmed.

Nominees to the federal courts are rated by the bar association's standing committee on the federal judiciary as "well-qualified," "qualified" or "not qualified." Uneven ratings can be a warning of trouble in the Senate confirmation process.

It signaled trouble, for example, in 1987 when Reagan nominee Robert H. Bork received a split decision from the bar. Ten panelists voted Bork well-qualified, but four dissenters cast "not qualified" votes. Bork's nomination was defeated.

In 1969, a similar split foreshadowed the defeat of Clement F. Haynsworth Jr.'s nomination. Justice Clarence Thomas was voted "not qualified" by two panelists in 1991; after a bitter fight in the Senate, he was narrowly confirmed.

Nominated last month to replace retired Justice Byron R. White, Ginsburg, 60, will join Justice Sandra Day O'Connor as the only women to sit as justices in high court history, provided she gets through the Senate. With a week to go before her hearings begin, no clear opposition has emerged to the first Democratic nominee in a quarter-century.

So far, in all the tens of thousands of pages Ginsburg has produced as a law professor, women's rights advocate and—for the past 13 years—federal appeals court judge, no bombshells have been found.

The ABA committee reviewed Ginsburg's professional background and interviewed her former law clerks, fellow judges and lawyers who have practiced before her.

A report on Ginsburg has been sent to the Senate Judiciary Committee.

"We're delighted, but not surprised" by the rating, said Ricki Seidman, White House deputy communications director.

According to ABA guidelines, "well-qualified" means a nominee "is among the best available for appointment to the Supreme Court."

CD Bank

NADO NEWS

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

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Clinton Releases Community Development Bank Initiative

President Clinton July 15 announced his Community Development (CD) Banking legislative initiative at a White House presentation, attended by NADO staff. The President used the ceremony to highlight the proposal, thank Congressional and private sector supporters of the measure, and gain momentum for the legislation as it is introduced in Congress.

Senate Banking Committee Chairman Donald Riegle (D-MI) and House Banking Committee Chairman Henry Gonzonlez (D-TX) have indicated that they will soon introduce the legislation in their respective chambers. Riegle's panel held a hearing on the proposal in the afternoon following the White House ceremony, and House hearings are schedule for July 21 and 28.

In general terms, the legislation authorizes $382 million in funding over four years to capitalize a network of community development financial institutions (CDFIs). CDFIs include new and existing community development banks, community development credit unions, revolving loan funds (RLFs), micro-loan funds, minority-owned banks, and community development corporations. CDFIs must:

> (1) [have] as its primary mission the promotion of community development through the provision of capital, credit, or development services in its investment areas or to targeted populations; and (2) encourage, through representation on its governing board or otherwise, the input of residents in the investment areas or the target population.

The fund may provide up to $5 million for "qualified insured community development financial institutions" such as development banks and credit unions and up to $2 million for "other qualified community development financial institutions" such as RLFs and micro-loan funds. Under the proposal, CDFIs are required to match all federal dollars with nonfederal funds and submit a strategic program outlining their plan "meet the economic development needs of their targeted communities."

While NADO supports the concept of the proposal, some specifics of the bill may be of concern. Although copies of the administration's proposal are not yet available, NADO obtained one of the final drafts of the proposed legislation (*see July 9, 1993 NADO News for more information*). The draft states, "The term 'community development financial institution' does not include an agency or instrumentality of the United States or an agency or instrumentality of any State or political subdivision thereof."

"It appears that the bill does not take into account the long, successful record regional development organizations have in managing a number of community and economic development financing programs. For many years, regional development organizations have helped provide small businesspeople and entrepreneurs access to capital that they were otherwise denied," according to **NADO President Bob Paciocco.** "This legislation will serve a far greater number of people in rural areas and small metropolitan communities if regional development organizations are allowed to participate."

Deputy Assistant Secretary Hawkins addresses NADO Board

Wilbur Hawkins, Acting Assistant Secretary for Economic Development and Deputy Assistant Secretary, Department of Commerce, July 12 addressed NADO's Board of Directors during their annual summer strategic planning meeting. NADO's Executive Committee, Strategic Planning Committee and Board met July 10-12 in Asheville, NC.

Hawkins told NADO's Board that he has very different expectations for Economic Development Administration (EDA) programs and staff than have been held over the past 12 years. He believes that under the Clinton administration, EDA is "coming up from the depths of obscurity so fast." While this will be both necessary and beneficial for economic and community development, Hawkins warned that the process will be difficult!

The new Deputy Assistant Secretary said that he supported at least a two-year reauthorization for EDA, because being reauthorized annually through the appropriations bill (the system under which EDA has operated for 12 years) makes implementing reform or new initiatives, much less planning, difficult or impossible. The administration is planning a number of improvements and innovative proposals to make EDA programs more responsive to "customer needs," according to Hawkins.

The Deputy Assistant Secretary gave a sweeping overview of many of the recommendations he hopes will be implemented. These include: studying the Economic Development Representative (EDR) program; improving EDA's grant application process, including shortening processing time and making the procedure more "customer friendly;" improving federal intra-agency collaboration and oversight (based on efforts such as the Kansas single loan application project); increasing flexibility and autonomy at EDA's regional level; implementing fewer mandates; and studying EDA's Overall Economic Development Program (OEDP) requirement. The Deputy Assistant Secretary also said that EDA would be studying the Revolving Loan Program to find methods to make it work better. The goal of these reforms, according to Hawkins, is to make "EDA the most recognized economic development entity in the country."

The Board also heard a presentation from James Youngquist of the University of Georgia, who discussed plans to establish a depository of regional information at the University of Georgia. The Board endorsed the proposal, and preliminary efforts to create a library are well underway (*NADO News* will provide more details as they become available).

The strategic planning committee drafted a set of proposals which the NADO Board adopted. Following is a partial list of the recommendations the NADO Board endorsed:

- Develop and present to Vice President Gore's panel on reinventing government a list of issues in conflict with the ideas of Total Quality Management and Reinventing Government.
- Survey NADO members on RLF training needs and proposed curriculum, as well as on training needs within other programs.
- Enlist support of bankers' associations to help with Community Development Banking legislation to ensure that existing RLF and small business finance programs are included.
- Study and implement methods in which regional development organizations can develop or expand partnerships with community-based organizations.
- Hold a contest for NADO to develop a marketing brochure for their regions to use as a companion piece to NADO's marketing piece.

Commerce, Justice Appropriations Bill Consideration Delayed

The House delayed further consideration of the Commerce, Justice, State and Related Agencies appropriations bill (H.R. 2519) until the week of July 26 (*See July 2, 1993 NADO News for more information*). Pending is an anti-Economic Development Administration amendment offered by Rep. Joel Hefley (R-CO) that would strike the $26.284 million "for necessary expenses of administering the economic development assistance programs."

The bill was originally schedule to be considered July 14, but was delayed as a courtesy to Commerce, Justice, State Appropriations Subcommittee Chairman Neal Smith (D-IA). Smith joined President Clinton in Iowa to inspect damage caused by flooding in Chairman Smith's district. The bill was then scheduled to reach the House floor July 15, but legislators did not have an opportunity to consider the bill as debate on the Interior appropriations bill (H.R. 2520) lasted the entire day. In order to allow lawmakers to return to their districts to work over the weekend, the House is not in session July 16-19. H.R. 2519 will likely be considered Tuesday, July 20, at which time the House will debate Hefley's anti-EDA amendment.

NADO members are urged to consult the July 2, 1993 NADO Actiongram for more information and details on action they should take. Please call Scott Whipple on the NADO staff if you have any questions.

Empowerment Zone Briefing Held

As House and Senate conferees began work on the final fiscal 1994 budget reconciliation bill, the future of the president's enterprize zone proposal remains uncertain, according to administration sources. During a July 14 briefing attended by NADO staff, senior administration officials including Robert Rubin, head of the National Economic Council, Henry Cisneros, Secretary of the Department of Housing and Urban Development (HUD) and Andrew Cuomo, HUD Assistant Secretary, explained that the plan still faces significant hurdles. The proposal's fate rests on whether supporters are able to include the costly measure in the final agreement House and Senate negotiators will hammer out in conference committee. Efforts to include the measure are made difficult by desire to reign in the federal deficit. Congressional leaders want to conclude action on the measure prior to the August recess.

Although the House passed the $4.1 billion enterprise zone plan largely intact as part of its reconciliation measure, the Senate passed only a portion of the proposal, providing $500 million in wage and tax credits for Indian reservations. (The Senate also passed a nonbinding "Sense of the Senate" resolution, sponsored by Sen. Joseph Lieberman (D-CT), which indicates the Senate's support for enterprise zone legislation.) Lawmakers now negotiating the final budget package must decide how, if at all, the plan to help distressed communities may be included in the final reconciliation bill without alienating fiscally conservative Democrats in the House and the Senate.

If included as passed by the House, the plan would create 10 "empowerment zones" and 100 "enterprise communities" in economically distressed areas nationwide (*see May 14, 1993 NADO News for more information*). Zones and communities would benefit from a combination of "traditional" enterprise zone tax incentives with increased coordination of federal dollars to help stimulate economic development. The plan proposes designating 35 enterprise communities and 3 empowerment zones for rural areas.

NADO Nomination Forms Due July 27

Nomination forms for NADO Board of Directors, officers, and individual awards for outstanding executive director (Fogle Award), governing board member (Salazar Award), and private sector or nonprofit partner (Partnership Initiative Award) must be mailed or FAXed to NADO by July 27, not July 20 as indicated on the nomination forms. Board of Directors ballots will be mailed August 9 and must be returned by August 31. *For more information contact Susan Rocke, NADO Director of Administration and Meetings, at (202) 624-7806.*

TVA Proposes Strategic Planning Assistanc for SRDCs

During a meeting July 13 before the Monday Management Group (MMG) representatives from the Tennessee Valley Authority (TVA) outlined a proposal to provide strategic planning assistance to State Rural Development Councils (SRDCs) within the Tennessee Valley (AL, GA, KY, MS, NC, TN, and VA). The assistance, which would be provided at no cost to states within the TVA region, would be based on TVA's ten year involvement with facilitating the strategic planning processes at the community and regional levels. TVA has also proposed providing assistance to states outside the Tennessee Valley, provided the SRDCs cover the costs of travel and per diem associated with travel to the workshop site. The Monday Management Group is currently considering the TVA proposal and will schedule follow up discussions in the near future. *For further information on this or other MMG/SRDC initiatives, call Scott Whipple on NADO's staff.*

Rural Development Publications Available

The Community and Rural Development Institute of Cornell University (CaRDI) was established in 1990 to provide research, education and policy analysis on community and rural development issues. CaRDI conducts a number of workshops on topics such as the County Government Institute for elected local officials and department heads, Social Trends and Outlook Conference for human service professionals, and the Community Land Use and Economics Simulation for development professionals. In addition, CaRDI publishes a number of documents that are available free of charge:

- **CaRDI Newsletter**, published quarterly, includes state and federal legislative updates, community and rural development news, and information on upcoming events and conferences.
- **Resource Directory of Community and Rural Development Programs** at Cornell highlights programs that are of interest to community leaders. Provides contact person in 65 programs in economic development, environmental management, human services and institutional support.
- **Community Development Reports** include state and federal policy analyses, research briefs on community and rural development issues, and case studies of innovative local programs.
- **Research Monographs** are published occasionally on demographic trends and other community and rural development topics.

To be placed on CaDRI's mailing list write to: CaDRI, 48 Warren Hall, Cornell University, Ithaca, NY 14853-7801, or call (607) 255-9510.

Contributors: Scott D. Whipple, Legislative Analyst and F. Oscar Hines, Research Assistant

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- Gene
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S.C. for our file

CD Banks

AMERICAN BANKER

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Clinton Unveils Plan For Community Loans

By ROBERT M. GARSSON and CLAUDIA CUMMINS

WASHINGTON — President Clinton unveiled his community development lending program Thursday with a show of political strength that suggested banks may have trouble gaining regulatory relief through the legislation.

Surrounded by Vice President Al Gore, Cabinet secretaries, a large congressional delegation, regulators, bankers, and community activists, the President called for a $382 million fund for community development lenders over the next four years.

Mr. Clinton also asked the four bank and thrift regulatory agencies to review the Community Reinvestment Act, with an eye toward reducing paperwork and increasing lending in low-income communities.

President Clinton
White House show of force

By involving the regulators in CRA, the President may have preempted industry efforts to have Congress ease CRA and other regulatory requirements

See COMMUNITY page 18

Community Loan Plan Unveiled

Continued from page 1
through amendments to community development legislation.

Congress members "have indicated to us that they are looking for a vehicle for regulatory relief, and this could be it," said Edward L. Yingling, executive vice president of the American Bankers Association.

Quick Action Indicated

However, the sheer magnitude of the ceremony on the White House's south lawn, which ran for nearly an hour, indicated the administration and congressional leaders want to move the package through quickly and without amendments.

"In all the years I've been lobbying, I've never seen so much horsepower behind a banking bill," said Jim Butera, who represents several financial institutions.

The Senate Banking Committee began work on the bill Thursday afternoon, little more than an hour after President Clinton finished speaking. Rep. Henry B. Gonzalez, D-Tex., chairman of the House Banking Committee, said he would hold hearings July 21 and 28.

Speeding the Process

The chairmen of the three House subcommittees that would have jurisdiction over the bill agreed to permit consideration by the full committee – a step that will expedite the process considerably.

The most significant challenge to the Clinton plan could come in the Senate, where Republicans have more leverage.

Alfonse M. D'Amato of New York, the Senate Banking Committee's ranking Republican, argued that unless commercial banks are given incentives to participate, the President's plan "is only a pipe dream."

Not What He Promised

The program announced Thursday is considerably different from Mr. Clinton's campaign promise to create a network of 100 community development banks.

In a brief interview after his speech, Mr. Clinton said he had learned since the election "that there is a whole, huge network of people out there interested in doing this work, and we didn't want to reinvent the wheel in every community.

"So we will be creating some new community development banks in some areas, and we may even have some big banks wanting to use some of their community reinvestment funds to provide funding," he said.

"But if you've got a bank that's operating, you got a credit union, you got some other eligible institution that you can dramatically increase the capacity of, it might be better to expand the capacity of an existing institution than create a new one."

President Clinton thus sided with community groups that had argued against giving banks financial incentives to participate in the program.

Lightening the Load

"With a year of record profits, banks don't need a bribe," said Deepak Bhargava, bank lobbyist for the Association of Community Organizations for Reform Now, or Acorn.

The Clinton program promises some relief from the paperwork burden of CRA, though neither the administration nor the regulatory agencies have said specifically how the "performance over paperwork" goal might be met.

In testimony before the Senate Banking Committee Thursday, Comptroller of the Currency Eugene Ludwig said performance-based standards would not be tied to rigid numerical targets.

Hugh McColl
Supports Clinton plan

"But between a rigid system of numerical targets and the system we have today, there is considerable room for improvement," he said.

Concern over the Tone

Although bankers attended Mr. Clinton's announcement and at least one commercial banker spoke, a number of industry representatives expressed concern over the tone of the event, particularly over criticisms of bank lending practices.

"There was a pretty good ai[r] of bank bashing," said Joe Be[l]lew, president of the Consume[r] Bankers Association.

NationsBank Corp. chairma[n] Hugh McColl delivered a stron[g] endorsement for the program. He said the CRA reform woul[d] leave "no excuses" for bank[s] failing to provide credit to low-income borrowers. A law "tha[t] sets tougher, more objective, more quantifiable standard[s] would send the clear message t[o] banks that we will be measure[d] by our results, he said.

'Remarks Criticized

Kenneth A. Guenther, executive vice president of the Independent Bankers Association of America, was sharply critical of Mr. McColl after the ceremony, saying his endorsement gave away the industry's bargaining power.

"We are just sitting down to negotiations," said Mr. Guenther, noting that many banks still hope the bill can be reshaped to include funds for commercial banks and some measure of regulatory relief. "Hugh McColl should know by now that you don't give away the banking industry's negotiating position in advance. "I don't know how he can say he speaks for the banking industry."

Mr. McColl declined to comment on the criticism.

President Clinton's legislative package would create a fund to provide assistance to community development financial institutions. Money would be available to all kinds of community development lenders but not to the vast majority of commercial banks, thrifts, and credit unions not engaged primarily in community development lending.

The money will be available if matched dollar for dollar with private sector contributions up to a maximum of $5 million for insured institutions and $2 million for other lenders.

Although the program provides only $382 million over four years, Treasury estimated that leverage will result in up to $2.5 billion in new credit for low-income communities. □

CD Banks

TO THE CONGRESS OF THE UNITED STATES:

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

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

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

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

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

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

Principles of Administration's Community Development Financial Institutions Proposal

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

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

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

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

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

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

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

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

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

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

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

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

A BILL

To facilitate the establishment of community development financial institutions.

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

SECTION 1. SHORT TITLE.

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

SEC. 2. FINDINGS AND PURPOSE.

(a) FINDINGS.—The Congress finds that—

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

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

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

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

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

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

SEC. 3. DEFINITIONS.

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

(b) COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION.—The term "community development financial institution" means any bank, savings association, depository institution holding company, credit union, micro-enterprise loan fund, community development corporation, community development revolving loan fund, minority-owned or other insured depository institution, or non-depository organization that—

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

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

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

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

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

(1) business planning services;

(2) financial and credit counseling services;

(3) marketing and management assistance; and

(4) administrative activities associated with lending or investment.

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

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

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

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

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

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

(i) QUALIFIED COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION.—The term "qualified community development financial institution" means a community development financial institution that meets the requirements of sections 5(b)(2) through (8) of this Act.

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

SEC. 4. ESTABLISHMENT OF NATIONAL FUND FOR COMMUNITY DEVELOPMENT BANKING.

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

(b) BOARD OF DIRECTORS.—

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

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

(A) The Secretary of Agriculture.

(B) The Secretary of Commerce.

(C) The Secretary of Housing and Urban Development.

(D) The Secretary of the Treasury.

(E) The Administrator of the Small Business Administration.

(F) Four private citizens, appointed by the President with the advice and consent of the Senate, that collectively—

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

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

(iii) have expertise in community development and lending;

provided that there should not be less than one member from each of the three categories described in clauses (i) through (iii) of this subparagraph.

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

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

(5) TERMS OF APPOINTED MEMBERS.—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(e) WHOLLY-OWNED GOVERNMENT CORPORATION.—

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

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

(A) by redesignating paragraphs (B) through (M) as paragraphs (C) through (N), respectively; and

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

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

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

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

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

SEC. 5. APPLICATIONS FOR ASSISTANCE.

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

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

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

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

(2) demonstrate that the applicant will serve—

(A) a targeted population; or

(B) an area which is an investment area;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SEC. 6. SELECTION OF INSTITUTIONS.

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

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

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

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

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

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

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

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

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

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

(10) the extent to which the proposed activities will expand the employment base within the investment areas or the targeted populations;

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

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

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

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

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

(A) has or will have a substantial affiliation with an entity or network of entities that are community development financial institutions; and

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

(16) other factors deemed appropriate by the Board.

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

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

SEC. 7. ASSISTANCE PROVIDED BY THE FUND.

(a) PURPOSE OF ASSISTANCE.—

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

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

Act.

(b) TYPES OF ASSISTANCE.—

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

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

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

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

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

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

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

(2) business creation and expansion efforts that—

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

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

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

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

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

(5) the provision of development services;

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

(7) rental housing that is principally affordable to low-income households; and

(8) other activities deemed appropriate by the Fund.

(d) AMOUNT OF ASSISTANCE.—The Fund may provide up to $5,000,000 of assistance per application to any one qualified insured community development financial institution and up to $2,000,000 per application to any other qualified community development financial institution. The Fund shall have the authority to set minimum amounts of assistance per institution.

(e) MATCHING REQUIREMENTS.—

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

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

(f) TERMS AND CONDITIONS.—

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

(A) all assistance granted is used by the qualified community development financial institution in a manner consistent with the purposes of this Act;

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

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

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

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

(3) ASSISTANCE AGREEMENT.—

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

(B) Such agreement or contract shall require institutions assisted under this Act to comply with performance goals. The performance goals shall be negotiated between the Board and each qualified community development financial institution receiving assistance based upon the strategic plan submitted pursuant to section 5(b)(5) of this Act. The performance goals may be renegotiated jointly as necessary or appropriate, subject to subparagraph (C) of this section. Activity levels for insured community development financial institutions should be determined by the Board in consultation with the appropriate Federal banking agency or, in the case of an insured credit union, with the National Credit Union Administration.

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

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

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

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

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

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

SEC. 8. ENCOURAGEMENT OF PRIVATE ENTITIES.

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

SEC. 9. CLEARINGHOUSE FUNCTION.

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

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

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

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

SEC. 10. RECORDKEEPING, REPORTS, AND AUDITS.

(a) RECORDKEEPING.—

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

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

(b) REPORTS.—

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

(2) INSTITUTIONAL VOICE FOR COMMUNITY DEVELOPMENT.—

(A) ONGOING STUDY.—The Fund shall conduct, or cause to be conducted, an ongoing study to identify and evaluate the most effective and financially sound policies and practices for encouraging investment in distressed communities, including small business and commercial lending, business formation and expansion, community and economic development, commercial real estate and multi-family housing, and home mortgages. In addition, the Fund may study, or cause to be studied, related matters, such as identification of sources of and access to capital and loans for community investment; development of secondary markets for economic and community development, small business and commercial loans, and home mortgage loans and investments; and methods to involve all segments of the financial services industry in community development.

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

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

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

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

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

SEC. 11. INVESTMENT OF RECEIPTS AND PROCEEDS.

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

SEC. 12. AUTHORIZATION OF APPROPRIATIONS.

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

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

SEC. 13. CONFORMING AMENDMENT.

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

COMMUNITY DEVELOPMENT BANKING AND FINANCIAL INSTITUTIONS ACT OF 1993

SECTION-BY-SECTION ANALYSIS

Section 1. Short Title

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

Section 2. Findings and Purpose

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

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

Section 3. Definitions

The Act contains definitions of terms, including a definition of "community development financial institution." A community development financial institution includes any bank, savings association, depository institution holding company, credit union, micro-enterprise loan fund, community development corporation, community development revolving loan fund and any minority-owned or other depository institution that (i) has as its primary mission the provision of capital, credit or development services in investment areas or to populations that are low-income or disadvantaged and underserved by existing financial institutions, and (ii) encourages, through representation on its governing board or otherwise, the input of residents in the investment area or the targeted population. The term "investment area" means an identifiable community that meets criteria of distress as determined by the Fund, or is designated as an empowerment zone or enterprise community under section 1391 of the Internal Revenue Code of 1986.

Section 4. Establishment of National Fund for Community Development Banking

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

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

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

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

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

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

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

Section 5. Applications for Assistance

This section requires the Board to publish regulations regarding procedures and forms for applications for assistance from the Fund not later than 210 days after enactment of the Act. In order to be eligible as a threshold matter to apply for assistance from the Fund, an applicant must: (i) demonstrate to the satisfaction of the Board that the applicant is, or will be, a community development financial institution; (ii) demonstrate that the applicant will serve what is defined in the Act as a targeted population or an investment area; (iii) demonstrate, if the applicant previously has received assistance from the Fund, that the applicant has been successful in carrying out the purposes of the Act, that the applicant is, or is about to become, an entity that is not dependent upon assistance from the Fund for continued viability, and that the applicant will expand its services; (iv) demonstrate, if the applicant is a community development financial institution with existing operations, a record of success in serving investment areas or targeted populations; (v) include with its application a comprehensive strategic plan which contains required elements that will demonstrate the applicant's commitment to serving community development needs and to becoming a community development financial institution that will not be dependent upon assistance from the Fund for continued viability; (vi) include with its application a statement of the applicant's likely source of private funds to meet any matching requirement under section 7(d) of the Act; and (vii) include with its application any other information required by the Board.

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

Section 6. Selection of Institutions

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

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

Section 7. Assistance Provided by the Fund

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

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

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

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

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

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

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

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

Section 8. Encouragement of Private Entities

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

Section 9. Clearinghouse Function

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

Section 10. Recordkeeping, Reports, and Audits

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

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

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

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

Section 11. Investment of Receipts and Proceeds

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

Section 12. Authorization of Appropriations

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

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

Section 13. Conforming Amendments

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

Bruce

CD Banks

DRAFT

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

OMB QUESTIONS AND ANSWERS

Budget/Funding Issues

1) Level of Funding

Q: The proposed level of funding ($60 million in FY94 and about $100 million each year after) is relatively small. Why is the funding level so low if this program is supposed to represent such a big commitment by the Administration?

A: There are several reasons. First, this is only one part of our comprehensive initiative for distressed communities -- empowerment zones and community policing are also key. Second, community development financial institutions are relatively new organizations and there is still a lot of experimenting going on. Providing information, as well as technical assistance and training, can be as critical in promoting the creation of institutions as new funds. Finally, the impact of funds provided to institutions will be multiplied as they are lent to businesses and individuals.

2) Creation of a New Agency

Q: Given the limited funds, does it make sense to establish a new government agency? Isn't the $10 million set aside for administrative costs a lot, especially in the first year when only $60 million total will be available? That's over 16% of the funds for administrative costs.

A: Although there are some start-up costs associated with having an independent agency, it is imperative that this program not be overshadowed or buried in the existing programs and missions at HUD, Treasury, Commerce, Ag, and SBA. Although the expertise of these agencies is essential, we felt it was critical that this new program work from a clean slate. As an independent entity, the program can be run in the business-like fashion that is imperative for implementing public-private ventures. The $10 million set aside for administrative costs is a ceiling and we believe the fund will be able to do with less.

3) Effect of the Program

Q: Is the $382 million you have budgeted enough to fulfill your goal of creating 100 new community development banks?

A: The $382 million should be enough to provide substantial assistance to at least 100 financial institutions. As you know, this program will fund a range of institutions types requesting funding. However, organizations currently active in community lending have repeatedly emphasized that the program must be flexible to accommodate the very diverse needs and circumstances of communities. How will you keep the program from becoming rigid and bureaucratic?

A: The minimum requirements and selection criteria are really quite minimal -- they ensure that the applicant is committed to development lending and has the skills and business plan to do it. The program is still very flexible. The whole range of community development financial institutions -- new or existing, loan funds, banks, or credit unions -- will be able to apply for whatever type of funding best suits their needs, be it grants, equity investments, loans, or technical assistance.

7) Authority to Create Private Entities

Q: What exactly do you envision under the clause which gives the Fund the authority to create private entities?

A: We believe that many financial institutions, foundations, and other organizations are interested in contributing expertise and funding to America's distressed communities. Loan consortia and other investment groups are examples of ways that these parties can get together and have an impact on a community. We believe leadership and inspiration from the Fund may be just the extra spark needed to get more of these types of groups formed.

8) Preference for Depository Institutions

Q: Why do you give a preference to depository institutions?

A: The objective of this program is to get credit and financial services flowing in distressed areas. While non-depository institutions such as revolving loan funds and CDCs are essential for economic growth, depository institutions can have a much greater impact on the community. Depository institutions take in deposits and lend out their funds at a rate of about 8 times their capital base. That means for every dollar we put in a depository institution, the impact on the community can be up to 8 times as great as a dollar of funding for a non-depository institution. Again, we strongly support the many community development organizations working hard in distressed communities. However, given the limited funding we have available, we felt it was crucial to emphasize the institutions that could have the greatest impact.

including banks, credit unions, revolving loan funds, and other community development lenders. While we recognize the importance of community development banks, they may not meet every community's needs. The program is designed to be flexible so that we can help communities meet their unique needs.

(Depository institutions are eligible for up to $5 million and non-depositories can get up to $2 million. We could fund up to 68 depositories or 171 non-depositories, or any combination there-of.)

Q: How long will it take to create 100 new institutions?

A: That depends on the nature of the institutions funded. We will provide the funds over four years. Experience shows it takes a long time to create successful community development organizations, particularly depository institutions, but I believe there is a strong demand out there. My word to Congress in transmitting this is, the sooner we start, the better!

4) Funding Prospects

Q: The $60 million requested for FY94 was not included in the House appropriations bill. Do you expect the Senate to appropriate the funds? Will this program get off the ground in 1994?

A: [Need info]

<u>Specific Program Issues</u>

5) Types of Institutions Receiving Funding

Q: Will Citibank or Bank of America be eligible to receive funding? What about a subsidiary? Could they receive technical assistance?

A: Bank holding companies and their subsidiaries will only be eligible if the entire holding company meets the criteria of a community development financial institution. If Citibank or Bank of America change their charters and become dedicated development institutions like South Shore Bank in Chicago, then certainly they would be eligible. But as they are now, no, they would not be eligible for funding. [I don't think they could receive technical assistance either]

6) Flexibility

Q: The proposal includes extensive "minimum requirements" and "selection criteria" which must be met by institutions

General Policy Issues

9) Equity Positions by the Federal Government

Q: Your proposal will have the Federal Government holding equity positions in institutions that are also federally insured. Doesn't this present a conflict of interest problem?

A: First, the Fund will hold only non-voting shares. The Fund's main concern will be ensuring that the institution meets the community development lending criteria established in the Act. The Federal regulators, of course, will do their job to ensure safety and soundness. If we have a situation where an institution has financial difficulties, the regulators will do their job, and safety and soundness will take precedence.

10) Creating New Entities

Q: Thousands of banks and thrifts have been either closed or merged over the last few years, often at the expense of the taxpayer. Why is the Federal Government now proposing a plan that will create new banks at the taxpayers' expense?

A: This program is designed to be demand driven. Creating "new" institutions may mean converting existing banks into focused community development banks, like in the case of South Shore Bank of Chicago. If a distressed community currently isn't being served by a financial institution, however, we would support a new institution. We want to do what it takes to get financial services to those areas that are currently without them.

11) CRA Issues

Q: What is the time frame for and substantive content of the CRA regulatory changes you have mentioned recently?

A: [need more information]

Q: Aren't these community development banks just doing what every bank ought to be doing to meet its CRA requirements anyway?

A: Institutions which receive funding will be doing much more than just meeting their CRA obligation. The primary purpose of these institutions will be community development lending. We want recipients to become leaders of the industry with innovative tools and expertise in community development. For example, we envision that most recipients will have both a lending operation, such as a bank or a loan fund, and affiliates that provide a variety of important services to the community. The additional services provided by affiliates, such as affordable housing development, business incubators and job training programs, are the key components that separate "development lending" from regular lending.

Q: Will existing depository institutions get CRA credit or safeharbor-status for participating in this program or contributing to one of the newly created institutions?

A: This is not a substitute for the obligation that banks and thrifts have under CRA. [I think they might get some partial credit...need more info.]

12) Bank Enterprise Act Issues

Q: Why doesn't your proposal utilize the Bank Enterprise Act (BEA)? The BEA would provide an incentive (reduced deposit insurance premiums) for all institutions to do business in distressed neighborhoods.

A:

13) Federal Home Loan Bank System

Q: Why isn't the Federal Home Loan Bank System included in your proposal? The System seems like a natural fit for community development lending.

A: As you may know, there are a number of congressionally-mandated studies about to be completed which evaluate the Federal Home Loan Bank System. We are looking forward to reviewing the studies and assessing where to go from here. But we felt it would be premature to begin changing the responsibilities of the System before the studies are completed. I am very open to considering including the System in this initiative, but not until we have had a chance to consider the System as it currently stands.

TREASURY

Question: **Why do you believe it is necessary to establish an independent agency to administer the community development banking program?**

Answer: The economic revitalization of distressed communities is sufficiently important to deserve a separate, dedicated effort at the federal level. The new methods and institutions required for community development will be best supported by an independent, innovative agency that itself has the direct input of individuals familiar with the needs of distressed communities. The Community Development Banking and Financial Institutions Fund (Fund) will have a significant proportion of its Board drawn directly from those intimately knowledgeable about the problems to be addressed; and as an independent entity the Fund will be much more able to serve as an institutional voice and focal point for the concerns of distressed communities.

OMB's is better

Question: **How long a time will be required before the Community Development Banking and Financial Institutions Fund (Fund) can be up and operating?**

Answer: For a number of reasons, we believe the Fund will be up and operating well inside of six months. For one thing, the government members of the Board are available and able to undertake start-up operations right from the date of enactment, so that any delays in naming private Board members need not delay the initiation of Fund activities. Also, the Fund is authorized to utilize the services of the personnel of any federal agency and it can be expected that a number of such skilled individuals immediately will be made available to assist the Fund in its start-up stage, even as the Fund is building its own staff. Finally, the legislation calls for the promulgation of procedures and standards for applications for assistance within 210 days of enactment, which effectively requires the Fund to be a fully operating entity in short order.

Question: **How much of the Fund's appropriation do you expect to be consumed in administrative costs and expenses?**

Answer: The legislation permits the Fund to set aside up to $10 million per year for administrative costs and expenses. As a result, the administrative burden will not exceed approximately 10 percent of the total funding to be appropriated through F 1997.

The lean staffing contemplated for the Fund will be crucial to efforts to ensure that the maximum amount possible of the appropriated funds is used for programmatic assistance. Also, it is entirely possible that the Fund could be housed in one of the existing federal agencies, which would tend to reduce certain administrative costs from what might otherwise be projected.

The Fund's ability to utilize the resources of the Secretaries of departments with seats on the Board will also prove vital to efforts to reduce costs and increase efficiency.

Question: **Won't your CDB program merely set up a two-tier banking system, leaving the greatest risks with federally-supported CDFIs while permitting mainstream lenders to continue to avoid serving distressed communities?**

Answer: This Act does not have the intention or the practical effect of creating a two-tier banking system. Rather, the primary purpose, and the practical effect, of the CDB program will be to move us in the opposite direction, that is, to narrow or close the current financial services "gap" by facilitating the access to credit and capital so desperately needed in economically distressed areas and by economically distressed populations. Moreover, a major goal of the program is to strengthen CDFIs to the extent that they become self-sustaining institutions, that is, they develop the long-term private sources of capital and funding that will effectively move them into the "mainstream."

In addition, the Administration is undertaking a performance-based CRA initiative that is intended to ensure that traditional lenders are fully meeting their community lending obligations. This initiative ought to result in the provision of more financial services from existing mainstream institutions to distressed communities.

Question: **What safeguards are contained in the bill to ensure that assistance to CDFIs that are not federally regulated is awarded to sound organizations and is used for the purposes of the Act?**

Answer: The bill contains many safeguards to ensure that CDFIs that are not otherwise federally regulated are sound and will use assistance consistent with the purposes of the Act. First, a non-regulated CDFI will have to meet the minimum application criteria which are designed specifically to weed out organizations that do not have legitimate plans and a demonstrated ability to carry on activities consistent with the purposes of the Act. Second, the Act contains a specific list of the purposes for which an assisted institution may use financial assistance received from the Fund. In addition, the Fund is directed to award assistance on terms and conditions that will assure that a non-regulated CDFI is financially and managerially sound. These terms and conditions must be spelled out in an assistance agreement between the Fund and the institution. The Fund is not permitted to disburse financial assistance unless an institution has secured legally enforceable commitments for the entire required match, which further ensures that only legitimate organizations will receive money from the Fund. The Fund also will conduct yearly reviews of institutions receiving assistance from the Fund, which will enable the Fund to monitor the activities of assisted institutions. Finally, the bill requires the Fund to specify sanctions for non-compliance with the Act in the assistance agreement. These sanctions could include requiring the assisted institution to repay assistance to the Fund.

USDA questions and answers for CDFI and CRA

1. With the emphasis in the legislation for insured community development financial institutions, doesn't the bill discriminate against rural areas? For instance, there are examples of existing urban insured development institutions, such as the South Shore Bank in Chicago and the Community Capital Bank of Brooklyn, New York. However, there are few examples of insured development institutions in rural areas.

This legislation was drafted, in part, to encourage the creation of insured financial institutions across the country. Recognizing the difficulty in creating insured institutions, the legislation provides grants and technical assistance to facilitate their creation.

It is true that the majority of insured CDFIs in existence are located in urban areas, however, there are examples of such institutions in rural areas, such as in my home state of Arkansas with the Southern Development Bank Corporation located in Arkadelphia.

One point that I would like to emphasize is that this proposal is not intended solely for the creation of insured CDFIs. It is the intent of this legislation to foster the creation and support of Community Development Corporations, Micro-Enterprise Loan Funds and other development entities. We must recognize that community development requires the flexibility to create entities that will work efficiently in differing environment.

2. The model for CDFIs being touted is the South Shore Bank in Chicago which is based on urban neighborhood revitalization. In rural areas, a neighbor could be as much as 5 miles away. How does this legislation take into account the vastly differing needs of rural and urban communities?

This legislation is sensitive to both the concerns facing distressed rural communities and those facing urban communities and allows for flexible performance standards and ~~capital~~ creation requirements that take into consideration the differing development strategies.

In both rural and urban areas, distressed communities are suffering from the flight of people and dollars. The solutions to this flight vary with the different circumstances.

The differing effect of housing on economic revitalization illustrates the need to adjust for the distinctive features of rural and urban areas. In distressed urban communities, high quality, affordable housing is often a central component in spurring revitalizing urban neighborhoods. We've seen the effect of improved housing across the country and right here on Pennsylvania Avenue.

In rural communities, however, improving the existing housing stock is less effective for economic revitalization. Without increasing job opportunities, with good wages, distressed rural areas will not retain their skilled residents and will continue in their economic decline.

3. Will the availability of capital through CDFIs be sufficient to entice businesses to develop or locate in rural areas?

The first point is that we acknowledge the important role that existing small town bankers play in funding business development. Small town and rural community bankers have a proud history of playing an active role in the development of their communities. We must also acknowledge, however, that there is an understandable reluctance on the part of many in the banking industry to make loans available in rural areas and that many bankers lack the technical knowledge to provide loans to start-up companies. This legislation will provide both the unmet need for capital and the technical know-how to make loans to new companies.

4. Development of urban areas has the advantage of benefiting from existing service infrastructure, such as banking, education, health care facilities, and public transportation. How does the proposal resolve the lack of these resources in rural areas?

The CDFI legislation is one part of a larger economic strategy of empowering individuals and communities to use available resources for their economic revitalization. A central component of the Fund is its role as a clearinghouse of technical know-how and funding resources as well as existing Federal programs that may combine to create similar benefits as exist in urban areas. One example is the medical link and distance learning program at the Department of Agriculture. Such types of Federal programs will be promoted through the clearinghouse function of the Fund.

OCC

DRAFT

[July 7, 1993; 4:30pm]

Questions and Answers on CRA Reform

1. *What are you really proposing here? I don't see a concrete CRA reform proposal, I see a directive to develop a proposal. Where's the beef?*

The letter I have sent to the bank regulators directs them to develop and implement a CRA reform that, by increasing the level of objectivity in CRA enforcement, accomplishes two specific goals: more performance, less paperwork. Achieving these goals will directly benefit thousands of urban and rural communities through the creation of new and more affordable housing, new and expanded businesses, and new jobs. And it will benefit thousands of banks by reducing regulatory compliance costs, making CRA ratings and evaluations more consistent and more objective, and reducing the enormous amount of frustration that bankers now harbor toward the Community Reinvestment Act and its implementation by the bank regulatory agencies.

2. *Can the problems with CRA be solved through regulatory actions? Won't legislation be required to tackle these problems seriously?*

Anybody who thinks we need legislation to reform the CRA ought to take a look at the statute itself. It is extremely broad. It gives the regulatory agencies vast discretion over how they enforce the Act, what types of activities banks receive CRA credit for, what types of documentation banks have to maintain, and so on.

3. *Many bankers believe that banks receiving "Outstanding" CRA ratings should enjoy a safe harbor from CRA protests for a period of time. Do you agree? Will the Administration create a CRA safe harbor through its reform initiative?*

When you think about it, the fact that an outstanding rating confers little protection on the banks that receive it reflects poorly on the entire rating system. Right now, an Outstanding rating might reflect actual performance, or it might not. Nobody can take it for granted that the rating really corresponds to actual activities. The rating has very little credibility. We want to make CRA ratings more credible. When we have done that -- when an Outstanding rating really means outstanding performance, and everybody has confidence in that fact -- the need for a safe harbor may no longer exist.

4. *What does the Administration estimate will be the effect of its CRA reform initiative? What are we looking at, dollar-wise, in terms of new lending, new jobs, new services, and so on?*

There is no way to pinpoint the impact of the CRA reform effort. But if you want to get a sense of how important this area is, take a look at how much activity the CRA already promotes. In recent years, banks and community groups across America have reached community reinvestment agreements calling for tens of billions of dollars in new lending to low- and moderate-income neighborhoods and families, small businesses, and small farms. Even taking into account the fact that some of these agreements have been more successful than others, the fact remains that the Community Reinvestment Act may already be the single most significant housing and urban development program now operating in this country. I believe our reform effort will make the CRA an even more important force in the housing and urban development area, while simultaneously making it clearer to banks what they must do to comply with the Act.

5. *Will banks be able to satisfy their CRA obligations by investing in community development banks?*

Certainly, but only up to a point. Even under the current CRA enforcement system, banks can get CRA credit for investing in community development organizations of various kinds. I see no reason why the reform effort should change that. On the other hand, if the question is whether a bank could just write a check to a community development financial institution and thereby meet its CRA obligation completely, the answer is no. The CRA requires banks to be involved with their communities. In virtually all cases, a bank that conducted its community reinvestment activity exclusively through the intermediary of a CDFI would probably not be operating within the spirit of the CRA. Moreover, the goal of the CDFI initiative is to increase community development activity, not just change the form of existing CRA activity. So while there's clearly a role for CRA in the CDFI scheme, it's a limited role.

6. *Why didn't you get these CRA changes underway sooner? Three months ago, there were press reports suggesting you had an extensive reform plan already prepared. Have you shelved that plan -- or are you simply holding off on its release until you can get the community groups and the banks to buy into it?*

During my campaign, I pledged to substitute performance for paperwork in the enforcement of the Community Reinvestment Act. At the outset of my Administration, we formed a White House task force, jointly led by the National Economic Council and the Domestic Policy Council, to look hard at ways to increase investment in low- and moderate-income communities. A subgroup of that task force looked briefly at the question of CRA reform. They met, they talked, they generated some ideas, but mostly what they did was plan a process for carrying out my campaign pledge. That process begins with today's announcement.

7. *Currently, something like 80% of all banks get CRA ratings of satisfactory or better. Doesn't this make a sham out of the Act? Will this reform effort change that?*

Our goal is not to increase or decrease the number of banks getting any particular rating, but simply to make sure that CRA ratings accurately track actual reinvestment activities, not just paperwork. As for whether the current ratings make a sham out of the Act, it's hard to tell. The ratings don't mean very much. I'm sure many of the banks getting good ratings deserve them. I'm sure some banks that get bad ratings deserve better ratings. And I'm sure that some banks should be rated less well than they are. I hope that after we have reformed the CRA enforcement system, and our reforms have had a chance to work for a while, that *all* our banks will get outstanding CRA ratings -- not because the enforcement system is a sham, but because the industry does a great job of meeting the needs of America's communities.

8. *How can you trust the regulators to come up with a CRA enforcement system that's any good when regulators came up with the system we have now?*

Since the enactment of the CRA in 1977, we have all -- regulators, financial institutions, and community groups alike -- learned a lot about community reinvestment, what works and what doesn't. I think we can count on our regulators to do a better job this time around because they know more about the subject, and they know firsthand the shortcomings of the current approach to CRA enforcement. Moreover, I'm not asking the regulators to take on this project in a vacuum. I am asking them to work closely with the many community groups and banks that have both extensive experience in community reinvestment and a strong interest in seeing the reform job done right.

9. *Is it fair to impose CRA requirements on banks and thrifts alone? Why don't other financial services providers -- like insurance companies, finance companies, and mutual funds -- have to comply with the CRA? Will your Administration support extending the CRA to non-bank financial services providers?*

Plainly, the current system is inequitable in some respects. Banks and thrifts do face heavier burdens in this area than do other financial services providers. But, on the other hand, banks and thrifts enjoy certain privileges -- notably, federal deposit insurance and access to the Federal Reserve discount window -- that other financial services providers do not. So in some respects, it may not be so unfair to impose heavier burdens on banks in return for the privileges they enjoy. My Administration is looking at what's fair in this area, but at this point I am not prepared either to support or oppose extending the CRA to other types of financial services.

10. *You say you want to make the CRA rating system more objective. How are you going to do that? Are you going to use some sort of point system? Are you planning to set specific investment targets?*

Making CRA ratings more objective is a principle goal of this effort, and I am determined to achieve that goal. The way to do it is to identify with some specificity the types of activities that will receive CRA credit -- just as examples, these might be activities like lending for multi-family low- and moderate-income housing, lending to small and minority businesses in distressed areas, or providing credit counseling services to prospective low-income borrowers -- and to focus the enforcement process on the extent to which banks and thrifts engage in those activities. As to how much CRA credit banks and thrifts might receive for specific amounts of these activities, that is an issue for the regulators, in consultation with the community groups and the banks, to decide over the next several months. I do think it is important to note, however, that a completely objective CRA rating system would probably be too inflexible to take into account the very real differences between different financial institutions and different communities. So while I think we can make CRA evaluations much more objective than they are today, I am not sure a totally objective system would be appropriate or desirable.

File:
CD Banks

THE WHITE HOUSE

WASHINGTON

July 1, 1993

Hon. Eugene Ludwig
Comptroller of the Currency

Hon. Alan Greenspan
Chairman
Federal Reserve Board

Hon. Andrew Hove
Acting Chairman
Federal Deposit
Insurance Corporation

Hon. Jonathan Fiechter
Acting Director
Office of Thrift Supervision

Gentlemen:

The Community Reinvestment Act ("CRA"), enacted in 1977, requires banks and thrifts to help meet the credit needs of the communities in which they do business. In recent years, the statute has come to play an increasingly important role in making credit opportunities available to underserved communities, both urban and rural, across America. America's banks, thrifts, community groups, and bank and thrift regulatory agencies can take pride in the businesses and housing they have created through the CRA.

Despite its successes, I believe the CRA's full potential remains unrealized. Its implementation depends too much on documentation, not enough on actual performance. Under the guise of community reinvestment, we have actually encouraged the greatest investments in paperwork. These paperwork requirements aid neither our financial institutions nor our communities. Banks rightly complain about excessive paperwork and inconsistent implementation of the law. Community groups rightly complain that their communities remain unserved, and the CRA evaluations often fail to reflect actual community reinvestment activities.

We can do better. By giving our banks and thrifts clearer guidance as to how the regulatory agencies will evaluate CRA performance, we can eliminate much meaningless documentation and improve consistency in CRA enforcement. By focusing that guidance on the provision of real investments and services, we can increase support to communities that need it.

CRA evaluations cannot be totally objective. A system too inflexible to recognize the real differences among the circumstances in which our banks and thrifts operate would poorly serve both our financial system and our communities. The system we have today leaves great room for improvement -- improvement that would serve both communities and financial institutions.

Accordingly, I am writing to make three requests. First, I ask your agencies -- in close consultation with the banking industry, the thrift industry, congressional leaders, and community groups across the country -- to work together to reform the CRA enforcement system by developing new regulations and procedures that replace paperwork and uncertainty with performance and objectivity. Second, I ask that you seek to complete this effort by January 1, 1994. Finally, I ask that, in undertaking this effort, you work to promote consistency and even-handedness, improve public CRA performance evaluations, institute more effective sanctions against banks and thrifts with consistently poor performance, and, most significantly, develop and set forth more objective, performance-based, CRA assessment standards that reduce the compliance burden on financial institutions while stimulating improved CRA performance. The new standards might appropriately focus on three types of community reinvestment activities:

- Lending to low- and moderate-income individuals and neighborhoods, small businesses, and small farms;
- Investments in low- and moderate-income neighborhoods;
- Provision of banking services to residents of low- and moderate-income neighborhoods.

By refocusing the CRA enforcement system in this manner, I believe we can reduce confusion and uncertainty in CRA evaluations, increase access to lending and banking services, and recapture the true spirit and purpose of the Community Reinvestment Act.

Sincerely,

William J. Clinton

File:
CD Banks

THE WHITE HOUSE

WASHINGTON

June 24, 1993

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

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

SUBJECT: Presidential Announcement of the CDFI and CRA Initiatives

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

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

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

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

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

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

BACKGROUND:

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

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

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

(4) Presidential Announcement: A public, "Rose Garden" variety event covering both the CDFI and CRA initiatives would be very helpful, if not imperative, both to our legislative strategy for the CDFI initiative and regulatory reform of CRA. We have been working closely with chief patrons of the CDFI concept in the House and Senate, and we feel that having an event in which we can give them prominent public positioning will be an important vehicle for solidifying key support for the bill. This strategy is particularly needed to reward Maxine Waters (a long-time proponent of CRA reform and a CDFI initiative) and to solidify the commitment of Bobby Rush and of his 62 co-sponsors to work with us on gaining passage of a major CDFI bill this year.

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

cc: Carol Rasco
Bob Rubin
Bowman Cutter

Bruce Reed
CD Banks

MEMORANDUM

TO: CD Bank Team

FROM: Paul Carey x6782 PC

RE: Hill Notification Calls

DATE: June 30, 1993

The following calls should be made about a transmittal of CD Bank legislation and possible (though remote) chance of an announcement. We should expect that people will want paper, and have something to send out by COB today. I would like to send talking points to all concerned and want to stress that we MUST keep the Hill ahead of the press on the curve. Nothing hurts us more than members learning details of our plans from reporters for the first time. Let's figure out today how to divide the work.

HOUSE
Leadership
House Banking
Key Members
Repubs who may support
(See attached list)

SENATE
Leadership
Senate Banking
Key Members
Repubs who may support
(See attached list)

BANKING, FINANCE & URBAN AFFAIRS

2129 RHOB 225-4247

<u>Democrats</u>

Henry Gonzalez, 20th-TX
Chairman
Stephen Neal, 5th-NC
John LaFalce, 29th-NY
Bruce Vento, 4th-MN
Charles Schumer, 9th-NY
Barney Frank, 4th-MA
Paul Kanjorski, 11th-PA
Joseph Kennedy, 8th-MA
Floyd Flake, 6th-NY
Kweisi Mfume, 7th-MD
Maxine Waters, 35th-CA
Larry LaRocco, 1st-ID
Bill Orton, 3rd-UT
Jim Bacchus, 15th-FL
Herbert Klein, 8th-NJ
Carolyn Maloney, 14th-NY
Peter Deutsch, 20th-FL
Luis Gutierrez, 4th-IL
Bobby Rush, 1st-IL
Lucille Roybal-Allard, 33rd-CA
Thomas Barrett, 5th-WI
Elizabeth Furse, 1st-OR
Nydia Velazquez, 12th-NY
Albert Wynn, 4th-MD
Cleo Fields, 4th-LA
Melvin Watt, 12th-NC
Maurice Hinchey, 26th-NY
Calvin Dooley, 20th-CA
Ron Klink, 4th-PA
Eric Fingerhut, 19th-OH

<u>Republicans</u>

Jim Leach, 1st-IA,
Ranking Minority
Bill McCollum, 8th-FL
Marge Roukema, 5th-NJ
Doug Bereuter, 1st-NE
Thomas Ridge, 21st-PA
Toby Roth, 8th-WI
Alfred McCandless, 44th-CA
Richard Baker, 6th-LA
Jim Nussle, 2nd-IA
Craig Thomas, At Large-WY
Sam Johnson, 3rd-TX
Deborah Pryce, 15th-OH
John Linder, 4th-GA
Joe Knollenberg, 11th-MI
Rick Lazio, 2nd-NY
Rod Grams, 6th-MN
Spencer Bachus, 6th-AL
Mike Huffington, 22nd-CA
Michael Castle, At Large-DE
Peter King, 3rd-NY

<u>Independent</u>

Bernard Sanders (At Large-VT)

Staff Director: (Mr.) Kelsey Meek
Minority Staff Director: Tony Cole

Subcommittees

Consumer Credit & Insurance 604 OHOB/225-8872

<u>Dem</u>: Kennedy, *Chair*; Gonzalez; LaRocco; Gutierrez; Rush; Roybal-Allard; Barrett; Furse; Velazquez; Wynn; Fields; Watt; *Hinchey*; Kanjorski; Flake; *Waters*; Maloney; Deutsch
<u>Rep</u>: McCandless; Castle; King; Pryce; Linder; Knollenberg; Bereuter; Thomas; Lazio; Grams; Bachus; Baker
<u>Ind</u>: Bernard Sanders

continued

Economic Growth & Credit Formation 109 FHOB/226-7315
Dem: Kanjorski, *Chair*; Neal; LaFalce; Orton; Klein; Velazquez; Dooley; Klink; Fingerhut
Rep: Ridge; McCollum; Roth; Nussle; Roukema; King

Financial Institutions Supervision, Regulation & Deposit Insurance 212 OHOB/226-3280
Dem: Neal, *Chair*; LaFalce; Vento; Schumer; Frank; Kanjorski; Kennedy; Flake; Mfume; LaRocco; Orton; Bacchus; Waters; Klein; Maloney; Deutsch; Barrett; Hinchey
Rep: McCollum; Leach; Baker; Nussle; Thomas; Johnson; Pryce; Linder; Lazio; Grams; Bachus; Huffington

General Oversight, Investigations & the Resolution of Failed Financial Institutions 139 FHOB/225-2828
Dem: Flake, *Chair*; Neal; Velazquez; Hinchey
Rep: Roth; Ridge

Housing & Community Development B-303 RHOB/225-7054
Dem: Gonzalez, *Chair*; Vento; Schumer; Mfume; LaFalce; Waters; Klein; Maloney; Deutsch; Gutierrez; Rush; Roybal-Allard; Barrett; Furse; Velazquez; Wynn; Fields; Watt
Rep: Roukema; Bereuter; Ridge; Baker; Thomas; Johnson; Knollenberg; Lazio; Grams; Bachus; Castle; Pryce
Ind: Sanders

International Development, Finance, Trade & Monetary Policy B-304 RHOB/226-7515
Dem: Frank, *Chair*; Neal; LaFalce; Kennedy; Waters; LaRocco; Orton; Bacchus; Gonzalez; Kanjorski; Rush; Furse; Fields; Watt; Fingerhut
Rep: Bereuter; McCandless; McCollum; Roukema; Johnson; Huffington; King; Baker; Nussle; Castle
Ind: Sanders

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Patty Murray, WA	*Pete V. Domenici,* NM

File:
CD Banks

THE WHITE HOUSE

WASHINGTON

June 22, 1993

MEMORANDUM FOR GENE SPERLING
BRUCE REED

FROM: PAUL DIMOND
PAUL WEINSTEIN
SHERYLL CASHIN

SUBJECT: Presidential Announcement of the CDFI and CRA Initiatives

For the following reasons, it is imperative that we be given clearance by next week to move forward with both the CDFI and the CRA Reform initiatives. In both cases, we need a Presidential announcement.

(1) With Howard Paster's concurrence, we agreed to allow Steve Harris, the Senate Banking Committee Staff Director, to schedule a hearing on our CDFI bill for July 13. The Senate recesses for the July 4 holiday at the end of next week. It is our understanding that the President will leave for the G-7 Summit trip during the July 4 Senate recess and that he will return on July 14. Therefore, next week is the last window of opportunity we will have to send the bill up with a Presidential announcement prior to Harris' July 13 hearing.

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

(3) A public, "Rose Garden" variety event covering both the CDFI and CRA initiatives would be very helpful, if not imperative, to our legislative strategy for the CDFI initiative. We have been working closely with chief patrons of the CDFI concept and we feel that having an event in which we can give them prominent public positioning will be an important vehicle for solidifying key support for the bill. This strategy is particularly needed to bring on Maxine Waters and solidify Bobby Rush's commitment to be a foot soldier for the bill.

Such a public event would also present a great opportunity to catalyze supporters of both initiatives. The OCC, Treasury, the DPC and the NEC have consulted with community groups, banks and representatives of the CDFI industry on both issues. They have been waiting for months for an Administration announcement that it is moving forward with these efforts.

CD Banks

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

ROUTE SLIP

TO: NEC (Dimond)	Take necessary action ☐
DPC (Weinstein)	Approval signature ☐
	Comment ☐
	Prepare reply ☐
	Discuss with me ☐
	For your information ☐
	See remarks below ☐
FROM: Doug Steiger (x3386) DJS	DATE: 6/15/93

REMARKS

CDFI - Proposed Final Draft of the Bill

Treasury's proposed final of the CDFI bill. We are double-checking the language and intend to clear the bill at the end of the day.

CC: Alan Rhinesmith
Jenni Main
Ken Kelly
Roz Rettman
Ed Chase
Barry Anderson
Jim Jukes

Draft

The Honorable Thomas S. Foley
Speaker of the House
of Representatives
Washington, D.C.

Dear Mr. Speaker:

On behalf of the Administration, I am pleased to submit to Congress the "Community Development Financial Institutions Act of 1993," the Administration's legislative initiative for creating a network of community development financial institutions that will enable individuals and communities to provide for greater economic opportunity.

This legislation would establish a Community Banking and Credit Fund that would support a program of investment in a national network of community development financial institutions. The Community Banking and Credit Fund would provide financial and technical assistance to community development financial institutions and serve as a national information clearinghouse for community development financial institutions.

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

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

The Administration requests that this bill be referred to the appropriate committee and urges its early enactment. The Office of Management and Budget advises that enactment of this bill is in accord with the President's program.

Sincerely,

Lloyd Bentsen

The Honorable Thomas S. Foley
Speaker of the House
of Representatives
Washington, D.C.

Dear Mr. Speaker:

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The Administration requests that this bill be referred to the appropriate committee and urges its early enactment. The Office of Management and Budget advises that enactment of this bill is in accord with the President's program.

Sincerely,

Lloyd Bentsen

A BILL

To facilitate the establishment of community development financial institutions.

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

SECTION 1. SHORT TITLE.

This Act may be cited as the "Community Development Financial Institutions Act of 1993".

SEC. 2. FINDINGS AND PURPOSE.

(a) FINDINGS.—The Congress finds that—

(1) many of the Nation's urban and rural communities and Indian Reservations face critical social and economic problems arising in part from the lack of economic growth, growing numbers of low-income people and people living in poverty, lack of employment and other opportunities;

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

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

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

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

(b) PURPOSE.—The purpose of this Act is to create a Community Banking and Credit Fund that will support a program of investment in and assistance to a national network of community development financial institutions that will provide for greater economic opportunity. The Community Banking and Credit Fund will provide financial and technical assistance, including training, to community development financial institutions, serve as a national information clearinghouse, and be an institutional voice for community development. The network of community development financial institutions that the Community Banking and Credit Fund supports will provide capital, credit and development services to targeted investment areas or populations, and will promote economic revitalization and community development.

SEC. 3. DEFINITIONS.

(a) COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION.—The term "community development financial institution" means any bank, savings association, credit union, micro-enterprise loan fund, community development corporation, community development revolving loan fund, or other depository institution (as defined in section 3 of the Federal Deposit Insurance Act) or non-depository organization that—

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

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

A holding company and its subsidiaries may qualify as a community development financial institution if the holding company and its subsidiaries collectively satisfy the requirements of paragraphs (1) and (2). The term "community development financial institution" does not include an agency or instrumentality of the United States or an agency or instrumentality of any State or political subdivision thereof.

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

(1) business planning services;

(2) financial and credit counseling services;

(3) marketing and management assistance; and

(4) administrative activities associated with lending or investment.

(c) INSURED COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION.—The term "insured community development financial institution" means any community development financial institution the deposits of which are insured by the Federal Deposit Insurance Corporation. The term also includes a credit union which has been designated as low-income by the National Credit Union Administration and the deposits of which are insured by the National Credit Union Share Insurance Fund.

(d) INVESTMENT AREA.—The term "investment area" means an identifiable community that meets criteria of distress, including the number of low-income families, the extent of poverty, the extent of unemployment, the extent of unmet credit needs, the degree of availability of basic financial services, the degree of limited access to capital and credit provided by existing financial institutions, and other factors that the Fund determines to be appropriate.

(e) QUALIFIED COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION.—The term "qualified community development financial institution" means a community development financial institution that meets the requirements of subsections (5)(b)(2) through (8) of this Act.

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

SEC. 4. ESTABLISHMENT OF NATIONAL FUND FOR COMMUNITY DEVELOPMENT BANKING.

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

(b) BOARD OF DIRECTORS.—

(1) IN GENERAL.—The powers and management of the Fund shall be

vested in a Board of Directors (referred to in this Act as the "Board"), which shall have nine members.

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

(A) The Secretary of Agriculture.

(B) The Secretary of Commerce.

(C) The Secretary of Housing and Urban Development.

(D) The Secretary of the Treasury.

(E) The Administrator of the Small Business Administration.

(F) Four private citizens, appointed by the President with the advice and consent of the Senate, that collectively—

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

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

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

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

(4) VICE-CHAIRPERSON.—The President shall appoint from among the members specified in paragraph 2 a vice-chairperson who will serve as chairperson in the absence, disability or recusal of the chairperson. The vice-

chairperson shall serve at the pleasure of the President for a term of two years.

(5) TERMS OF APPOINTED MEMBERS.—

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

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

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

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

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

(8) COMPENSATION.—Members of the Board who are otherwise officers or employees of the United States shall serve without additional compensation for their duties as members, but shall be reimbursed by the Fund for travel,

per diem, and other necessary expenses incurred in the performance of their duties, in accordance with sections 5702 and 5703 of title 5, United States Code. The appointed members of the Board shall be entitled to receive compensation at the daily equivalent of the rate for a position under Level IV of the Executive Schedule under section 5315 of title 5, United States Code, and shall be reimbursed by the Fund for travel, per diem, and other necessary expenses incurred in the performance of their duties, in accordance with sections 5702 and 5703 of title 5, United States Code.

(9) MEETINGS.—The Board shall hold meetings at least quarterly. Special meetings of the Board may be called by the Chairperson or on the written request of three members of the Board. A majority of the members of the Board in office shall constitute a quorum.

(c) OFFICERS AND EMPLOYEES.—The Board shall appoint a Chief Executive Officer who will be responsible for the management of the Fund and such other duties deemed appropriate by the Board. The Board shall appoint a Chief Financial Officer who shall oversee all of the financial management activities of the Fund. The Board shall also appoint an Inspector General. The Board may appoint such other officers and employees of the Fund as the Board determines to be necessary or appropriate. The Chief Executive Officer, Chief Financial Officer, and up to 3 other officers of the Fund (but not including the Inspector General) may be appointed and compensated without regard to the provisions of title 5 of the United States Code governing appointments in the competitive service and chapters 51 and 53 of title 5 of the United States Code, except that the rate of pay for the Chief Executive Officer, including bonuses, benefits, and all other forms of compensation shall not exceed the rate for a position under Level I of the Executive Schedule under section

5312 of title 5 of the United States Code and the rate of pay for the remaining four officers, including bonuses, benefits and all other forms of compensation shall not exceed the rate for a position under Level IV of the Executive Schedule under section 5315 of title 5 of the United States Code.

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

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

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

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

(4) may adopt, amend, and repeal bylaws, rules, and regulations governing the manner in which its business may be conducted and shall have power to make such rules and regulations as may be necessary or appropriate to implement the provisions of this Act;

(5) may enter into and perform such agreements, contracts, and transactions as may be deemed necessary or appropriate to the conduct of activities authorized under this Act, including those relating to administrative expenses of the Fund;

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

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

(8) may execute all instruments necessary or appropriate in the exercise

of any of its functions under this Act and may delegate to members of the Board, to the Chief Executive Officer or the officers of the Fund such of its powers and responsibilities as it deems necessary or appropriate for the administration of the Fund.

(e) WHOLLY-OWNED GOVERNMENT CORPORATION.—

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

(2) Section 9101(3) of title 31, United States Code (the Government Corporation Control Act) is amended by inserting "(B) the Community Banking and ~~Development~~ Credit Fund." after "(A) the Commodity Credit Corporation." and redesignating paragraphs (B) through (M) as paragraphs (C) through (N), respectively.

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

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

SEC. 5. APPLICATIONS FOR ASSISTANCE.

(a) FORM AND PROCEDURES.—An application for assistance under this Act shall be submitted by an applicant in such form and in accordance with such procedures as the Board shall establish. The Board shall publish regulations with respect to application requirements and procedures not later than 180 days after enactment of this Act.

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

(1) demonstrate to the satisfaction of the Board that the applicant—

(A) is, or upon the receipt of a charter will be, a community development financial institution as defined in section 3(a) of this Act; or

(B) is a depository institution holding company (as defined in section 3 of the Federal Deposit Insurance Act) that includes, or will include, one or more community development financial institutions as defined in section 3(a) of this Act;

(2) demonstrate that the applicant will serve—

(A) a targeted population; or

(B) an area which is—

(i) an investment area; or

(ii) located in an empowerment zone or an enterprise community designated under the Economic Empowerment Act of 1993.;

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

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

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

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

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

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

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

(B) a statement that the applicant has, or will have, in its charter or other governing documents a primary commitment to community development;

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

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

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

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

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

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

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

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

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

SEC. 6. SELECTION OF INSTITUTIONS.

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

(1) the need of the applicant for assistance from the Fund and the ability of the holding company or other affiliates of the applicant to provide funds in lieu of assistance from the Fund;

(2) the likelihood of success of the applicant in forming and operating a community development financial institution that is, or will become, an entity that will not be dependent upon assistance from the Fund for continued viability;

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

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

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

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

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

(8) the experience and background of the proposed management team;

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

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

(11) the extent to which the proposed activities will expand the employment base within the investment areas or the targeted populations;

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

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

(14) whether the applicant is, or will be located, in an empowerment zone or an enterprise community designated under the Economic Empowerment Act of 1993;

(15) in the case of an uninsured, nondepository institution applicant, the extent to which the institution has or will have the ability to leverage its resources through affiliation with a secondary market, depository institution or other financial intermediary in order to multiply the amount of capital or credit available for community development;

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

(A) has or will have a substantial affiliation with an entity or network of entities that are community development financial institutions; and

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

(17) other factors deemed appropriate by the Board.

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

(c) PUBLICATION REQUIREMENT.—The Board shall publish regulations with respect to its selection criteria not later than 180 days after the date of enactment of this Act.

SEC. 7. ASSISTANCE PROVIDED BY THE FUND.

(a) PURPOSE OF ASSISTANCE.—

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

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

(b) TYPES OF ASSISTANCE.—

(1) IN GENERAL.—The Fund may provide financial assistance to qualified community development financial institutions through equity

investments, loans, loan guarantees, deposits, and grants. The Fund may also provide technical assistance, including training, to qualified community development financial institutions. The allocation of awards of assistance between insured and uninsured community development financial institutions shall be in the discretion of the Board, provided that due consideration shall be given to the allocation of funds to insured community development financial institutions.

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

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

(4) LIMITATIONS ON OBLIGATIONS AND COMMITMENTS.—Direct loan obligations may be incurred and loan guarantee commitments may be made only to the extent that appropriations of budget authority to cover their costs, as defined in section 502 of the Congressional Budget Act of 1974, are made in advance.

(c) AMOUNT OF ASSISTANCE.—The Fund may provide up to $5,000,000 of assistance per year to any one qualified insured community development financial institution and up to $2,000,000 per year to any other qualified community development financial institution. The Fund shall have the authority to set minimum amounts of assistance per institution. The Fund may not provide assistance to a depository institution holding company (as defined in section 3(q) of the Federal Deposit Insurance Act) unless the holding company and its subsidiaries collectively meet the definition of a community development financial institution as defined in section 3(a) of this Act.

(d) MATCHING REQUIREMENTS.—

(1) Assistance provided to qualified insured community development financial institutions, other than technical assistance or grants for technical assistance, shall be matched by no less than one dollar of private equity or private deposits for each dollar provided by the Fund. The Board shall require a match for all other assistance, the amount and form of which shall be in the discretion of the Board; provided that, the Board shall in no event require assistance provided in the form of technical assistance or grants for technical assistance to be matched. The Fund shall provide no assistance except technical assistance or grants for technical assistance until a qualified community development financial institution has secured legally enforceable commitments for the entire match required. Assistance may be provided in one lump sum, or over a period of time, as determined by the Board.

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

(e) TERMS AND CONDITIONS.—

(1) IN GENERAL.—The Fund shall provide assistance authorized under

this Act in such form and subject to such restrictions as are necessary to ensure that to the maximum extent practicable—

(A) all assistance granted is used by the qualified community development financial institution in a manner consistent with the purposes of this Act;

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

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

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

(2) CONSULTATION WITH BANKING REGULATORS.—Prior to providing assistance to a qualified insured community development financial institution, the Board should consult with the appropriate Federal banking agency (as defined in 12 U.S.C. 1813(q)) or, in the case of an insured credit union, the National Credit Union Administration.

(3) PERFORMANCE GOALS.—The Board shall impose restrictions on the use of assistance through a stock purchase agreement, share purchase agreement, or through a contract entered into in consideration for the provision of assistance. Such agreement or contract shall require institutions assisted

under this Act to comply with performance goals. The performance goals shall be negotiated between the Board and each qualified community development financial institution receiving assistance based upon the strategic plan submitted pursuant to section 5(b)(5). The performance goals may be renegotiated jointly as necessary or appropriate, subject to subparagraph (f) of this section. Activity levels for insured community development financial institutions should be determined by the Board in consultation with the appropriate Federal banking agency (as defined in 12 U.S.C. 1813(q)) or with the National Credit Union Administration.

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

(5) REPORTING.—The Board shall require each qualified community development financial institution receiving assistance to submit an annual report to the Fund on its activities, its financial condition, its success in meeting performance goals, and its compliance with other requirements of this Act.

(f) SANCTIONS.—On the basis of the review conducted pursuant to subsection (e)(4) and the report required by subparagraph (e)(5), the Board may take appropriate action, including revocation of approval of the application, terminating or reducing future assistance, and requiring changes to the performance goals imposed pursuant to subsection (e)(3) or to the strategic plan submitted pursuant to section 5(b)(5) of this Act. In the case of an insured community development financial institution, the Board shall consult with the appropriate Federal banking agency or, in the case of an insured credit union, the National Credit Union Administration, before imposing sanctions pursuant to this paragraph.

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

(h) NO AUTHORITY TO LIMIT SUPERVISION AND REGULATION.—Nothing in this Act shall affect any authority of the appropriate Federal banking agency (as defined in 12 U.S.C. 1813(q)) or, in the case of a credit union, the National Credit Union Administration, to supervise and regulate an insured community development financial institution.

SEC. 8. ENCOURAGEMENT OF PRIVATE ENTITIES.

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

SEC. 9. CLEARINGHOUSE FUNCTION.

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

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

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

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

SEC. 10. RECORDKEEPING, REPORTS, AND AUDITS.

(a) RECORDKEEPING.—

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

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

(b) REPORTS.—

(1) ANNUAL REPORT.—The Fund shall conduct an annual evaluation of the activities carried out pursuant to this Act and shall submit a report of its findings to the President within 120 days of the end of each fiscal year of the Fund. The report shall include financial statements audited in accordance with section 10(c) of this Act.

(2) INSTITUTIONAL VOICE FOR COMMUNITY DEVELOPMENT.—

(A) The Board shall conduct, or cause to be conducted, an ongoing study to identify and evaluate the most effective and financially sound policies and practices for assuring investment in distressed communities, including small business and commercial lending, business formation and expansion, community and economic development, commercial real estate and multi-family housing, and home mortgages. In addition, the Board may study, or cause to be studied, related matters, such as identification of sources of and access to capital and loans for community investment; development of secondary markets for economic and community development, small business and commercial loans, and home mortgage loans and investments; methods to involve all segments of the financial services industry in community development; and the role of community investment in any financial services reform.

(B) CONSULTATION.—In the conduct of the study, the Board shall consult, or cause consultation with, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, the Federal Housing Finance Board, the Farm Credit Administration, the Office of Thrift Supervision and the National Credit Union Administration and such representatives of agencies or other persons as the Board may determine.

(C) REPORTS.—Within nine months after the date of enactment of this Act, the Board shall report to the President its initial findings and recommendations regarding the matters set forth in subparagraph (A). Thereafter, the Board shall report its findings and recommendations to the President with the annual report required by paragraph (b)(1).

(3) INVESTMENT, GOVERNANCE AND ROLE OF FUND.—Six years following the date of enactment of this Act, the Board, in accordance with the procedures described in paragraphs (2)(A) and (B), shall conduct a study

evaluating the structure, governance, and performance of the Fund. The study shall be submitted to the President. Such study shall include an evaluation of the overall performance of the Fund in meeting the purposes of this Act and any recommendations of the Board for restructuring the Board, altering procedures under which the Fund is governed, the future role of the Fund in addressing community development, and the ability of the Fund to become a private, self-sustaining entity capable of fulfilling the purposes of this Act.

SEC. 11. INVESTMENT OF RECEIPTS AND PROCEEDS.

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

(c) EXAMINATION AND AUDIT.—The General Accounting Office shall examine and audit the Fund annually. A report regarding the examination and audit shall be promptly forwarded by the General Accounting Office to the President and the Congress.

SEC. 12. AUTHORIZATION OF APPROPRIATIONS.

There are authorized to be appropriated to the Fund, to remain available until expended, \$60,000,000 for fiscal year 1994, \$104,000,000 for fiscal year 1995, \$107,000,000 for fiscal year 1996, and \$111,000,000 for fiscal year 1997 to carry out the purposes of the Act.

SEC. 13. TECHNICAL AND CONFORMING AMENDMENTS FOR SAVINGS ASSOCIATION COMMUNITY DEVELOPMENT INVESTMENT AUTHORITY.

(a) Section 5(c) of the Home Owners' Loan Act (12 U.S.C. § 1464(c)) is amended by adding at the end of paragraph (4) the following new subparagraph:

"(E) Community Development Investments. Investments designed primarily to promote the public welfare, subject to the same limitations imposed on national banks and state member banks under section 6 of the Depository Institutions Disaster Relief Act of 1992. The Office shall adopt regulations implementing the subparagraph that are no less stringent than the regulations adopted by the Office of Comptroller of the Currency pursuant to section 6(a) of the Depository Institutions Disaster Relief Act of 1992.".

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

DRAFT

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS ACT OF 1993

SECTION-BY-SECTION ANALYSIS

Section 1. Short Title

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

Section 2. Findings and Purpose

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

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

Section 3. Definitions

The Act contains definitions of terms, including a definition of "community development financial institution." A community development financial institution includes any bank, savings association, credit union, micro-enterprise loan fund, community development corporation, community development revolving loan fund and any other organization that (i) has as its primary mission the provision of capital, credit or development services in investment areas or to populations that are low-income or disadvantaged and underserved by existing financial institutions, and (ii) encourages, through representation on its governing board or otherwise, the input of residents in the investment area or the targeted population. The term "investment area" means an identifiable community that meets criteria of distress as determined by the Fund.

Section 4. Establishment of National Fund for Community Development Banking

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

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

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

The Board must appoint a Chief Executive Officer, a Chief Financial Officer and an Inspector General. The Chief Executive Officer will be responsible for the management of the Fund and such other duties as the Board deems appropriate. The Board may fix the compensation of the Chief Executive Officer, the Chief Financial Officer, and up to three other officers of the Fund without regard to the statutory government pay schedule, except that the compensation for the Chief Executive Officer may not exceed the rate of pay for a position under Level I of the

Executive Schedule and the rate of pay for the four remaining officers may not exceed the rate for a position under Level IV of the Executive Schedule. All other employees of the Fund will be compensated as employees of the United States.

Section 4 enumerates the general powers of the Fund, which include the power to sue and be sued in its corporate name and to enter into and perform agreements, including those related to administrative expenses of the Fund. The Fund is also authorized to utilize the services of personnel of any other agency on a reimbursable or non-reimbursable basis with that agency's consent.

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

Section 5. Applications for Assistance

This section requires the Board to publish regulations regarding procedures and forms for applications for assistance from the Fund not later than 180 days after enactment of the Act. In order to be eligible as a threshold matter to apply for assistance from the Fund, an applicant must: (i) demonstrate to the satisfaction of the Board that the applicant is, or will be, a community development financial institution or is a depository institution holding company that includes or will include a community development financial institution; (ii) demonstrate that the applicant will serve what is defined in the Act as a targeted population or an investment area, or that the area to be served is located in an empowerment zone or an enterprise community designated under the Economic Empowerment Act of 1993; (iii) demonstrate, if the applicant previously has received assistance from the Fund, that the applicant has been successful in carrying out the purposes of the Act, that the applicant is, or is about to become, an entity that is not dependent upon assistance from the Fund for continued viability, and that the applicant will expand its services; (iv) demonstrate, if the applicant is a community development financial institution with existing operations, a record of success in serving investment areas or targeted populations; (v) include with its application a comprehensive strategic plan which contains required elements that will demonstrate the applicant's commitment to serving community development needs and to becoming a community development financial institution that will not be dependent upon assistance from the Fund for continued viability; (vi) include with its application a statement of the applicant's likely source of private funds to meet any matching requirement under section 7(d) of the Act; and (vii) include with its application any other information required by the Board.

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

Section 6. Selection of Institutions

This section requires the Board, in its discretion, to select applications submitted under section 5 and to award assistance from the Fund. In making its selections, the Board is required to evaluate applications based on 16 selection criteria. The 16 selection criteria are designed to ensure that applicants with the most promise for fulfilling the purposes of the Act are awarded assistance. The criteria require the Board to consider, among other things, the need of the applicant for assistance from the Fund and the ability of the holding company or affiliates of the applicant to provide funds in lieu of assistance from the Fund. In addition to the selection criteria, the Board is permitted to consider any other factors it deems appropriate when evaluating applications.

The Board is required to publish regulations regarding the selection criteria not later than 180 days after enactment of the Act.

Section 7. Assistance Provided by the Fund

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

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

The Fund may provide up to $5 million of assistance per year to any one qualified insured community development financial institution and up to $2 million per year to any other qualified community development financial institution. This section also prohibits the Board from providing assistance to a depository institution holding company unless the holding company and its affiliates collectively meet the definition of a community development financial institution as defined in section 3 of the Act.

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

The Fund is required to provide assistance in such forms and subject to such restrictions that will assure, among other things, that assistance from the Fund is used in a manner consistent with the purposes of the Act and that institutions not federally regulated are financially and managerially stable. Before providing assistance to an insured community development financial institution, the Board is directed to consult with the appropriate Federal regulator. The Board is required to impose negotiated performance goals on qualified community development financial institutions receiving assistance based on the strategic plan submitted in the institution's application. Institutions receiving assistance are required to submit an annual report to the Fund and the Fund is required to review the performance of the institutions. Based on the review, the Board may apply appropriate sanctions against an institution receiving assistance, including revocation of approval of the application, termination or reduction of future assistance or changing performance goals or elements of the institution's strategic plan.

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

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

Section 8. Encouragement of Private Entities

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

Section 9. Clearinghouse Function

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

10. Recordkeeping, Reports, and Audits

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

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

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

The Fund will be audited annually by the General Accounting Office. The results of the audit will be forwarded to the President and to Congress.

Section 11. Investment of Receipts and Proceeds

This section provides that dividends on equity investments, interest on deposits, and proceeds from the disposition of investments pursuant to section 7 will be deposited in an account established to carry out the authorized purposes of the Act. Upon request of the Chief Executive Officer of the Fund, the funds in the account will be invested in public debt securities that bear interest at a rate determined by the Secretary of the Treasury. The account will be available for use by the Fund in carrying out the purposes of the Act until the Funds are expended.

Section 12. Authorization of Appropriations

This section authorizes appropriations to the Fund of $60 million in fiscal year 1994, $104 million for fiscal year 1995, $107 million for fiscal year 1996, and $111 million for fiscal year 1997.

Section 13. Technical and Conforming Amendments For Savings Association Community Development Investment Authority

This section amends the Home Owners' Loan Act to conform the community development investment authority of savings associations to that of national banks and state banks under section 6 of the Depository Institutions Disaster Relief Act of 1992. The amendment would authorize savings associations to invest in any of the private corporations formed in conjunction with the Fund and in other community development projects to the same extent as permissible for national banks and state banks.