Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Memorandum for the President & the Vice President (4 pages)	04/07/1999	P5 4268
002. memo	Memorandum to the President (3 pages)	02/22/1999	P5 4269
003. memo	Memorandum to the President (3 pages)	02/22/1999	P5 dup 002

COLLECTION:

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

FOLDER TITLE:

[Community Reinvestment Act Legislative Strategy] [1] [loose]

Rich Sheridan
2012-0043-S
ms435

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 advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
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DRAFT **DRAFT** **DRAFT** **DRAFT** **DRAFT**

April 7, 1999

MEMORANDUM FOR THE PRESIDENT & THE VICE PRESIDENT

FROM: ROBERT RUBIN, LARRY STEIN, CHUCK RUFF, GENE SPERLING, BRUCE REED

SUBJECT: **Community Reinvestment Act (CRA) Strategy Memo**

ACTION-FORCING EVENT

The House and Senate Banking Committees have approved major financial services legislation. On March 12, the House Banking Committee approved its bill -- developed by Chairman Leach and Ranking Democrat LaFalce -- on a broad, bipartisan vote (51-8). The bill includes a provision we strongly support requiring banks to have and maintain an adequate CRA record in order to engage in newly authorized financial activities. But the Senate bill, developed by Chairman Gramm, and reported out on strict party lines (11-9) on March 4, would: significantly weaken CRA; erode the national bank charter and the Administration's role in financial services policy making; provide inadequate consumer protections; and provide increased leeway for affiliations between banks and nonfinancial firms. You issued a veto threat on the Gramm bill on March 2, citing these concerns.

In addition to the context of financial modernization legislation, CRA will be the focus of hearings likely to be held this spring by Chairman Gramm and House Financial Institutions Subcommittee Chair Roukema. Senator Gramm and other Republicans may also introduce CRA proposals as stand-alone bills or in "regulatory burden relief"legislation. <u>The purpose of this memorandum is to present you with a strategy to prevent any rollback of CRA and preserve CRA's relevance in the financial services industry of the 21st century.</u>

BACKGROUND

Current law. CRA requires a bank to serve the convenience and needs of all communities in which it operates. Although banks are examined periodically (every 24-36 months) for CRA compliance, and these CRA ratings and evaluations are made public, enforcement comes only when a bank files an application to merge with another bank or opens a new branch. The regulator must then consider the bank's CRA record in evaluating the bank's application. The public has an opportunity to comment on the application. A bank's CRA record is not *currently* scrutinized in connection with applications to affiliate with non-banking companies. In 1993, at your request, the banking regulators revised the CRA regulations to focus on performance, not paperwork. They now base CRA ratings on a three-pronged test: lending, services, and investments. In addition, regulators revised and streamlined the examination process, particularly for smaller institutions.

Effectiveness of CRA. Evidence suggests that public disclosure of CRA ratings, together with the changes made by the regulators under your leadership, have significantly contributed to improved performance by financial institutions in meeting the needs of low and moderate income communities and minorities. Since 1993, the number of home mortgage loans to African Americans increased by 58 percent, to Hispanics by 62 percent, and to low and moderate income borrowers by 38 percent, well above the overall market increase. Since 1992, nonprofit community organizations estimate that the private sector has pledged over $1 trillion in loans and investment under CRA. In 1997, banks and thrifts subject to CRA's reporting requirement made 2.6 million small business loans for a total of $159 billion, two-thirds of all small business loans made that year. More than one-fifth of those loans were made to small businesses in low and moderate income communities.

Changing Nature of the Financial Services Industry. Commercial banks have seen their share of assets decline from about 60 percent at the end of World War II, to roughly 25 percent. As the lines between banking and non-banking products become increasingly blurred and as financial firms become larger and financial power in the industry more concentrated, some have become concerned that financial modernization -- both as it is already occurring in the marketplace, and in the form of new legislation -- will reduce the assets subject to CRA. Communities groups are likely to oppose any financial modernization legislation unless CRA were extended to securities and insurance providers which stands no chance of success in the current or foreseeable political environment and which presents practical and theoretical difficulties.

Status of Legislation

House. The Leach-LaFalce bill contains no weakening of CRA, and requires that banks must "have and maintain" a satisfactory CRA rating in order to undertake newly authorized non-banking activities. Secretary Rubin sent a letter to Leach and LaFalce on March 3 indicating our strong support for their legislation.

Democratic amendments to expand CRA to securities and insurance firms, in various ways, were defeated by significant margins, as was a Waters amendment, which we supported, to require the provision of low-cost "life-line" banking accounts as a precondition for expanded nonbanking activity (31-27).

Senate. Chairman Gramm's financial modernization bill would seriously weaken CRA, and you have issued a statement that you would veto the bill in its current form. The bill has three main problems with respect to CRA: (1) it does not require banks to have and maintain an adequate CRA record as a condition for engaging in newly authorized financial activities; (2) it gives banks with satisfactory CRA records a safe harbor from CRA reviews during applications; and (3) it exempts small banks outside metropolitan areas from CRA. In addition, Gramm may yet offer an "anti-extortion" amendment that would chill legitimate relationships between financial institutions and communities.

Senator Sarbanes, the Ranking Democrat, worked with the Treasury to unite Banking Committee Democrats behind an alternative bill that had much in common with the Leach-LaFalce bill. The Democratic alternative lost on an 11 - 9 party line vote.

Failure to condition authority to conduct new non-banking activities on banks having a satisfactory CRA record. The Leach-LaFalce bill allows a financial services company to engage in new non-banking activities only if the company's subsidiary banks have and maintain a satisfactory CRA record. Although such a requirement was not contained in the Administration's 1997 bill, Treasury and Rep. LaFalce successfully argued that such an argument had to be included this time. The Leach-LaFalce bill has now been referred to the House Commerce Committee, and we understand that Commerce will leave this provision intact.

Basically, the "have and maintain" requirement, while not expanding the scope of CRA beyond insured depository institutions, broadens the enforcement mechanism for CRA to include the potential for denial of applications for non-banking activities as well as banking activities, and for further consequences if the bank's CRA record becomes unsatisfactory *after* the application is approved. (Under the Leach-LaFalce, this later action explicitly includes a requirement that a compliance plan be submitted and the possibility of forced divestitures of the newly approved activities. It could be read to include civil money penalties -- a sanction that the Justice Department found in 1994 does not apply under CRA as it is currently written.) In arguing for this provision in the Senate and the House testimony, Secretary Rubin noted that the financial services system of the future may include fewer bank merger applications and more non-banking activities. Thus, absent this additional enforcement mechanism, there could be fewer opportunities to take action against a bank with an unsatisfactory CRA record. A bill that is silent on CRA (and thus supposedly neutral) would, in our view, tend to weaken the effect of CRA, and we would oppose such a bill.

RECOMMENDATION

Our near-term goal is to continue to assist Leach and LaFalce in moving their bill forward, while doing everything possible to block the Gramm bill. By taking a strong stand on CRA, we should be able to help unite Democrats against the Gramm bill and for the Leach-LaFalce bill. We also need to find opportunities for you, Secretary Rubin, and others to highlight the vital importance of CRA for building homes, creating jobs, and restoring hope in economically distressed communities throughout the United States.

The Administration's long-term strategy should be to 1) continue to strongly oppose legislation that would weaken CRA, and insist on provisions that would, for the first time, require banks to have and maintain an adequate record on CRA to engage in newly authorized non-banking activities. <u>All of your advisers support this position at a minimum.</u> 2) In addition, the DPC and (?) believe we should actively encourage amendments that would enhance enforcement of CRA, such as the LaFalce amendment requiring financial institutions to report on their progress in meeting publicly announced "commitments" under CRA -- an amendment LaFalce has not offered this year in recognition of Republican restraint in not offering amendments to weaken CRA. DPC believes supporting something along these lines could strengthen our hand in negotiations later on; moreover, as we provide the industry with new opportunities, they argue, we should insist on some new responsibilities. However, a majority of your other advisers, including Treasury and the NEC, believe these amendments would present an uncomfortable vote for moderate Democrats, have slim prospects for passage, and could possibly jeopardize the CRA provisions already in the House bill.

_____Agree on Long-Term Strategy (1)
_____Agree on Modified Long-Term Strategy (2)
_____Discuss Further

February 22, 1999 -- THIRD DRAFT

MEMORANDUM TO THE PRESIDENT

CC: THE VICE PRESIDENT

FROM: GENE SPERLING
BRUCE REED
LARRY STEIN

SUBJECT: **The Community Reinvestment Act**

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

Background: How CRA Works

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

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

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

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

CRA "Neutrality"

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

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

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

CRA "Extortion" or "Bribery"

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

In response, Senator Gramm proposes two amendments. The first would make it a crime to provide a contribution of any kind or to establish any "quota or set aside" for employment, purchases, sales, or other activity (other than loans), with the intent to influence the person to refrain from providing information or to influence the content of the information, in connection with a review of the bank's CRA compliance. As written, the language could make criminal much of the activities that institutions undertake to strengthen their relationship with their communities. The possibility of

criminal penalties will likely deter legitimate efforts to invest in community-based organizations or make voluntary hiring, contracting or supplier commitments. The second amendment would provide a "safe harbor" for any institution with a satisfactory CRA rating during its most recent exam. Banks in the "safe harbor" would be deemed to be in compliance for all purposes, precluding any analysis of the institution's CRA record during a merger application. Although community groups can comment on an institution's performance at any time, in reality they focus their attention on institutions that have applied for merger or branch approval. As each of ____ thousand institutions **[Treasury -- how many institutions are subject to CRA?]** are examined for CRA compliance ever 24 to 36 months, groups simply do not have the resources to evaluate CRA performance of each institution on an ongoing basis.

Next Steps

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

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

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

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

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	From Alice Veenstra To Lisa Green (2 pages)	08/03/1999	P5

COLLECTION:
Clinton Presidential Records
Policy Development
Lisa Green
OA/Box Number: 20586

FOLDER TITLE:
Arkansas/August Delta Trip [1]

Rich Sheridan
2012-0043-S
ms430

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]
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PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

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Alice Veenstra
08/03/99 04:17:50 PM

Record Type: Non-Record

To: Lisa Green/OPD/EOP@EOP

cc:

Subject: This is what the phone call was about - Revision to CDFI discussion in background document for the Arkansas trip

---------------------- Forwarded by Alice Veenstra/OMB/EOP on 08/03/99 04:22 PM ---------------------------

Edward A. Brigham 08/03/99 02:57:46 PM

Record Type: Record

To: Adrienne C. Erbach/OMB/EOP@EOP

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

Subject: Revision to CDFI discussion in background document for the Arkansas trip

This note is a follow up to our phone conversation earlier today.

In doing a fact check on the draft background document for the President's trip to Arkansas forwarded to OMB by WH Cabinet Affairs, the staff of the CDFI Fund at Treasury added information about the Southern Development Bancorporation (SDB). SDB is the largest recipient of CDFI assistance ($4.5 million) in the delta area of Arkansas. WH Cabinet Affairs staff believe that the president/CEO of SDB will be traveling with the President to the Arkansas event.

Discussion of assistance to SDB is awkward because this institution, with which the First Lady has been affiliated, was specifically mentioned by Cong. Spencer Bacchus in his strong criticism of the CDFI and its grantmaking process last year. The previous leadership of the CDFI was replaced, in part, because of the issues raised by Rep. Bacchus. The Administration has explicitly avoided discussion of SDB in other contexts (e.g., NEC will not discuss SDB in the background material for the New Markets trip to Arkansas later this year).

We discussed this issue further with Michael Barr at Treasury. **He indicates that Treasury believes that assistance to SDB should not be discussed in the background document for the trip, despite the attendance of the president/CEO, and asks that it be removed.** Treasury is communicating this to WH Cabinet Affairs. FIB concurs and recommends that the reference to SDB be removed from the draft document. The revised CDFI description should be:

- The **Community Development Financial Institutions (CDFI) Fund** currently operates three programs – the CDFI Program, the Bank Enterprise (BEA) Program, and the Microenterprise Program – which expand access to ~~credit~~ **capital** and financial services in poor urban, rural and Native American communities. **~~The Southern Development~~**

~~**Bancorporation (SDB) received two awards totaling $4.5 million. SDB is a community development bank holding company that is carrying out a comprehensive community development strategy.**~~ A $50,000 CDFI ~~Fund~~ **Program** ~~***tech assistant***~~ ***technical assistance*** grant **to the College Station Federal Credit Union** is working to provide affordable banking services and access to credit a predominantly African-American community just outside of Little Rock, and other low-income neighborhoods in south Pulaski County, Arkansas. The BEA Program provides awards to insured depository institutions that increase their financial support of CDFIs and their lending and services in distressed neighborhoods ~~**-- approximately $1.3 million**~~ **$60,000** was awarded to **five** depository institutions serving the ~~Mississippi~~ **Arkansas** Delta.

Message Copied To:

Michael Deich/OMB/EOP@EOP
Alan B. Rhinesmith/OMB/EOP@EOP
Francis S. Redburn/OMB/EOP@EOP
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Kenneth L. Schwartz/OMB/EOP@EOP

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	From Jonathan A Kaplan To Melissa G Green [page 1 withdrawn in whole] (1 page)	04/26/1999	P5
002. email	From Cheryl M Carter To Jonathan A Kaplan [partial] (1 page)	04/29/1999	P5

COLLECTION:

Clinton Presidential Records
Policy Development
Lisa Green
OA/Box Number: 20588

FOLDER TITLE:

CEO Roundtable

Rich Sheridan
2012-0043-S
ms431

RESTRICTION CODES

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

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JONATHAN A. KAPLAN
04/26/99 06:11:48 PM

Record Type: Record

To: Melissa G. Green/OPD/EOP@EOP
cc: sarah rosen/opd/eop@eop, lisa green/opd/eop@eop
bcc:
Subject: Re: NMI from Morley & Dixon

Sarah/Lisa:

Please DEMAND that Alvin Brown and the CEB folks close the loop with the VP's office on these two events. He is at all the meetings, no? I do not want Monica Dixon to think that we are not thinking about the VP on all of this.

Kaplan
Melissa G. Green

Melissa G. Green
04/26/99 06:05:09 PM

Record Type: Record

To: Sarah Rosen/OPD/EOP@EOP, Lisa Green/OPD/EOP@EOP, Jonathan A. Kaplan/OPD/EOP@EOP
cc:
Subject: NMI from Morley & Dixon

what is going on???? who is calling Morely to find out where he is heraing this, before I go to Gene. pls let me know

---------------------- Forwarded by Melissa G. Green/OPD/EOP on 04/26/99 06:03 PM ---------------------------

Peter A. Weissman

04/26/99 06:01:59 PM

Record Type: Record

To: Melissa G. Green/OPD/EOP
cc:
Subject: NMI from Morley & Dixon

---------------------- Forwarded by Peter A. Weissman/OPD/EOP on 04/26/99 06:01 PM ---------------------------

Morley A. Winograd@OVP
04/26/99 05:26:44 PM

Cheryl M. Carter 04/29/99 11:50:18 AM

Record Type: Record

To: Jonathan A. Kaplan/OPD/EOP@EOP

cc: Jackson T. Dunn/WHO/EOP@EOP, Melissa G. Green/OPD/EOP@EOP, Sarah Rosen/OPD/EOP@EOP, Lisa Green/OPD/EOP@EOP

Subject: Re: CEOs and New Markets

He can make CEO calls now...and it would help for him to do it today and tomorrow. The sooner he makes the calls the more help he can be in trying to get the CEO's to change their schedule. The only absolute no's we have are Procter & Gamble and Cigna CEO's...they have events they cannot change...they were not on the original list of calls Gene wanted to make anyway.

He should not call Bankers Trust and Boeing...we are waiting on clearance on those two. There are vetting issues on those. **He also had Bob Johnson, BET on his list**...Bob has his Shareholder meeting on May 11th and wants to send his President, Debra Lee. So he can't attend.

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. fax	Technical DOJ Proposal (3 pages)	n.d.	P5
002. draft	DOJ Draft on JJ Bill [partial] [pages 2-3 withdrawn in whole] (3 pages)	n.d.	P5
003. paper	Detailed Comments (3 pages)	n.d.	P5

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

FOLDER TITLE:
Charitable Choices [2]

Rich Sheridan
2012-0043-S
ms432

RESTRICTION CODES

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

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Technical DOJ ~~d~~ proposal for TANF (not adopted)

deleted, we would recommend deletion of item (3), as in the following proposed amendment.

Proposed amendment:

( ) ELIMINATION OF THIRD MAINTENANCE OF EFFORT REQUIREMENT FOR TERRITORIES.--Section 1108(e) is repealed.

P. 8

Sec. 104: services provided by charitable, religious, or private organizations:

1. CLARIFICATIONS CONCERNING RELIGIOUSLY AFFILIATED PROVIDERS.

Problem: The Supreme Court has held that the Constitution does not preclude most organizations with religious affiliations from participating equally with other private organizations in public welfare programs, as long as such organizations do not engage in religious activities in using public funds. However, the Court has held that the government may not enlist pervasively sectarian organizations in administering welfare programs paid for with public funds.

Sec. 104(c) explicitly provides that TANF programs provided through religious organizations must be implemented in a manner consistent with the Establishment Clause of the Constitution. However, other provisions of sec. 104 and its legislative history could be read to be inconsistent with the constitutional limits. We recommend amending sec. 104 to clarify that it does not compel or allow States to provide TANF benefits through pervasively sectarian organizations, either directly or through vouchers redeemable with these organizations. In addition, we suggest an amendment to clarify that State funds received by an organization for the purposes of providing TANF services and benefits may not be used for sectarian purposes.

Proposed amendments:

( ) CLARIFICATIONS CONCERNING RELIGIOUSLY AFFILIATED PROVIDERS.--Section 104 of PRWORA is amended--

(1) in the heading, by striking "RELIGIOUS" and inserting "RELIGIOUSLY AFFILIATED";

(2) in subsection (a)(1)(A), by striking "religious" and inserting "religiously affiliated";

(3) in subsection (b)--

(A) by striking "to contract with religious organizations, or to allow religious organizations to accept" and inserting "to contract with religious organizations that are not pervasively sectarian, or to allow such religious organizations to accept; and

(B) by striking "religious character" and inserting "religious affiliation";

(4) in subsection (c)--

(A) by striking "religious organizations are eligible" and inserting "religious organizations that are not pervasively sectarian are eligible"; and

(B) by striking "religious character" and inserting "religious affiliation";

(5) in subsection (d)(1)--

(A) by striking "A religious organization" and inserting "A non-pervasively sectarian religious organization"; and

(B) by striking "the definition, development, practice, and expression of its religious beliefs" and inserting "its religious affiliation";

(6) in subsection (d)(2)--

(A) in the matter preceding subparagraph (A)--

(i) by striking "Neither" and inserting "To the extent such organization is not pervasively sectarian and complies with the limitation described in subsection (j), neither"; and

(ii) by striking "a religious organization" and inserting "such organization"; and

(B) in subparagraph (B), by inserting "all" before "religious";

(7) in subsection (e)(1), by striking "religious character" and inserting "religious affiliation";

(8) in subsection (f), by striking "its participation in, or receipt of funds from" and inserting "the participation of a non-pervasively sectarian affiliate in, or the receipt by such affiliate of funds from";

(9) in subsection (g), by striking "a religious organization" and inserting "an institution or organization";

(10) in subsection (h)(1), by inserting "described in subsection (b)" after "religious organization"; and

(11) in subsection (j), by striking "shall be expended for sectarian worship" and inserting "shall be used or expended for any sectarian activity, including sectarian worship".

qualifications for faculty or students), with School Dist. of Grand Rapids v. Ball, 473 U.S. 373, 384 n.6 (1985) (preference in attending private school afforded to children belonging to organizational denomination) and Committee for Pub. Educ. v. Nyquist, 413 U.S. 756, 767-68 (1973) (religious restrictions on admissions and faculty appointments).

As explained above, § 104(j) of the PRWORA provides that "[n]o funds provided directly to institutions or organizations to provide services and administer programs . . . shall be expended for sectarian worship, instruction, or proselytization." However, other portions of § 104 contain provisions that strongly imply some congressional intent that pervasively sectarian religious organizations would be eligible to receive direct governmental funding. Pub. L. No. 104-193 (42 U.S.C. § 604a(d)(1)) § 104(d)(1) (1996) provides that a recipient organization "shall retain its independence from Federal, State, and local governments, including such organization's control over the definition, development, practice, and expression of its religious beliefs"; and Pub. L. No. 104-193 (42 U.S.C. § 604a(d)(2)(A)) § 104(d)(2)(A) (1996) provides that "[n]either the Federal Government nor a State shall require a [recipient] religious organization to alter its form of internal governance in order to be eligible to contract to provide assistance, or to accept certificates, vouchers, or other forms of disbursement, funded under a [covered] program."

These provisions imply some intent that pervasively sectarian religious organizations would be eligible to receive direct governmental funding. In order to ensure that § 302 of S.254 and § 114 of the H.R.1501 are not construed to permit funding of pervasively sectarian organizations, and that direct governmental funding therefore is not used to support religious activities, we recommend that the Conference Committee add a proviso to that effect. For example, the following proviso could be added to the end of S.254's proposed new § 292(a):

Provided, that such a State or local government may not provide grants directly to pervasively sectarian organizations.

In offering this recommendation, we do not mean to suggest that a government should, for example, be able to "control . . . the definition, development, practice, and expression of . . . beliefs" of a nonpervasively sectarian religious organization that receives JJDPA grants but does not use government funds for sectarian worship, instruction, or proselytization. Nor should we be understood as suggesting that a government may "require" such an organization "to alter its form of internal governance." We merely wish to ensure that the federal, state and local governments involved in disbursing JJDPA grants may take into account the structure and operations of a religious organization in determining whether such an organization is or is not pervasively sectarian. Where such an organization is pervasively sectarian, i.e., where the secular and religious functions of the organization are so "inextricably intertwined," Kendrick, 487 U.S. at 610, that it would be impossible (at least without impermissible entanglement) to ensure that the organization does not use government funds to advance religion, the organization may not receive and use JJDPA grants.

2) Section 1674 of S. 254

Section 1674 of S.254 would require the Attorney General to award a grant to "Public-Private Ventures, Inc.," to enable that organization "to award grants to eligible partnerships to pay for the Federal share of the cost of carrying out collaborative intervention programs for high-risk youth" in twelve specified cities. Section 1675(a)(3)(A), in turn, would provide that, in order to be eligible for a grant under § 1674, a partnership "shall be a collaborative entity that includes representatives of local government, juvenile detention service providers, local law enforcement, probation officers, youth street workers, and local educational agencies, and religious institutions that have resident-to-membership percentages of at least 40 percent."

The Department strongly opposes this section. While its purposes are laudable, we believe the structure of the program is ill-advised and unworkable. As a general rule, grant laws do not specify recipient private nonprofit agencies for grant funds, leaving this matter to agency discretion. This section authorizes the award to grassroots organizations and subsidiaries of Public-Private Ventures in specific cities – an unwarranted limitation on competition – and a violation of the long-established principle that the award or (sub-award) of federal grant funds is inherently a governmental function. Further, while Public-Private Ventures may be a highly regarded organization, it has no experience in or capacity to award, administer, monitor, and evaluate sub-grant awards or to provide the quality and level of technical assistance and training, comprehensive support services, and evaluation that would be required by such a program.

Importantly, we believe this section, if enacted, would establish a dangerous precedent by vesting a private sector organization with governmental authority and responsibility and giving it programmatic functions for which it does not have the experience or expertise, and for which it is not accountable to the Department of Justice, the Congress, or the taxpayers.

If this section advances, we would recommend, at a minimum, the following additions to try to provide some safeguards for quality. Insert after § 1675 (a)(3)(B) a new subsection to require sub-grant recipients in each city "to create and convene (at least once prior to the start of programming and every six months thereafter) an advisory group consisting of persons engaged in research related to youth crime prevention, to assist the sub-grantee in planning and executing grant activities."

Furthermore, in addition to our policy objections, the Department notes that part of this section may be unconstitutional. It is not entirely clear whether this subsection would require, or simply would permit (or encourage), the participation of religious institutions in eligible partnerships. Insofar as it would be construed merely to permit such participation, and thus reflect "Congress' considered judgment that religious organizations can help solve the problems" to which the proposed statute is addressed, Bowen v. Kendrick, 487 U.S. 589, 606-07 (1988), it would not raise any significant constitutional problems. Kendrick and other cases establish that the fact that an institution has religious affiliations does not mean that it may not participate equally with nonreligious entities in a neutral government financial aid program. See id. at 608-11 (Adolescent Family Life Act grants, available to fairly "wide spectrum of public and private organizations" regardless of religious nature, may be awarded to religious institutions); see also, e.g., Roemer v. Board of Public Works, 426 U.S. 736 (1976) (plurality opinion) (upholding grant program for colleges and universities as applied to schools with religious affiliations).

However, insofar as the provision were construed to require that an eligible partnership include a religious organization among its members — thereby establishing a preference for religious organizations over comparable nonreligious organizations that perform similar functions — such a departure from neutrality would create a significant Establishment Clause concern. See, e.g., Kendrick, 487 U.S. at 604-09 (emphasizing the importance of neutrality). It is a "principle at the heart of the Establishment Clause" that the government "should not prefer . . . religion to irreligion." Board of Educ. of Kiryas Joel Village School Dist. v. Grumet, 512 U.S. 687, 703 (1994); see also id. at 702-05; id. at 714-16 (O'Connor, J., concurring in part and concurring in the judgment); Texas Monthly, Inc. v. Bullock, 489 U.S. 1 (1989).

Though we strongly encourage the elimination of this entire provision on policy grounds, at a bare minimum, the conferees should cure the constitutional defect. This can be done with a clarification that an eligible partnership may, but is not required to, include a religious organization among its members. Alternatively, that clause could be amended to be consistent with a similar clause found in section 321(a) of S.254. That section would create a new grant program in which a local governmental grant recipient would have to certify that it has or will establish a coordinated enforcement plan for reducing juvenile crime within the jurisdiction, to be developed by a "juvenile crime enforcement coalition" consisting of individuals representing various specified government entities and private organizations, including "religious affiliated, fraternal, nonprofit, or social service organizations involved in crime prevention."

Most recent
commentary from
DOJ on
Juvenile Justice bill
→ what was sent to Hill

Detailed Comments

H.R. 1501 AND S. 254

106th Congress, 1st Session

and technical assistance programs. This amount is insufficient to support the office's national program demonstration and support activities, and we suspect it would result in deep cuts to ongoing programs, including ones to prevent child abuse and neglect.)

Mentoring Program

S. 254 § 302, amending Pub. L. No. 93-415 (42 U.S.C. § 5611) §§ 271-80 (1974) (pages 205-15), establishes four grant programs to support the use of mentors for at-risk youth: (1) Local Educational Grants for local education agencies and nonprofit organizations (S. 254 § 302, amending Pub. L. No. 93-415 (18 U.S.C. §5611) § 273(a) (1974) (page 206); (2) Family-to-Family Mentoring Grants that match volunteer families with at-risk families, allowing parents to directly work with parents and children to work directly with children S. 254 § 302, amending Pub. L. No. 93-415 (18 U.S.C. §5611) §273(b) (1974) (page 207)); (3) Family Mentoring Program grants that match college age or young adult mentors directly with at-risk youth and use retirement-age couples to work with the parents and siblings of at-risk youth (S. 254 § 302, amending Pub. L. No. 93-415 (18 U.S.C. §5611) § 279 (1974) (page 212-114)); and (4) Capacity Building funding to a national organization for the purpose of expanding and replicating capacity building programs to reduce the incidence of juvenile crime and delinquency among at-risk youth (S. 254 § 302, amending Pub. L. No. 93-415 (18 U.S.C. §5611) § 280 (1974) (pages 214-15)). A total of $20 million dollars is authorized each year to carry out these programs (S. 254 § 302, amending Pub. L. No. 93-415 (18 U.S.C. §5611) § 291 (1974) (pages 215-17)). The House bill does not establish any dedicated mentoring programs. Rather, mentoring activities are incorporated into the authorized purpose areas of the Formula Grants and Prevention Block Grant Programs. We laud the Senate's inclusion of a dedicated mentoring program and recommend that it be included in the conference bill.

Religiously Affiliated Organizations

Both the House and Senate bills include provisions specifying that religiously affiliated organizations should be allowed to participate, generally on the same basis as other private organizations, in programs in which nongovernmental organizations use government funds to provide certain services or benefits to individual beneficiaries of the law. Section 302 of the Senate bill would significantly amend Title II of the Juvenile Justice and Delinquency Prevention Act of 1974 ("JJDPA"), 42 U.S.C. § 5611, et seq., to create several different programs in which federal grants are provided, through states and localities, to private organizations to perform various social services. A new § 292(a) of the JJDPA would provide that "[t]he provisions of section 104 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Pub. L. No. 104-193 (42 U.S.C. § 604a) §104 (1996), shall apply to a State or local government exercising its authority to distribute grants to applicants under this title." S. 254 § 302, amending Pub. L. No. 93-415 (42 U.S.C. § 5611 et seq.) § 292 (1974) (beginning page 217). Section 114 of the House bill similarly would add a new § 299J to the JJDPA, which also would expressly incorporate subsections (b) through (k) of §104 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 ("PRWORA"), 42 U.S.C. § 604a(b)-(k), for grant programs under Title II of the JJDPA. Incorporation of these provisions of § 104 of the PRWORA would permit religious organizations to receive funds for the purpose of assisting needy families.

Incorporation of PRWORA § 104 into Title II of the JJDPA apparently would reflect "Congress' considered judgment that religious organizations can help solve the problems" to which the proposed statute is addressed. Bowen v. Kendrick, 487 U.S. 589, 606-07 (1988). The Administration believes that religious institutions can play an important and constructive role in providing social services. But of course this provision of public funds must be consistent with the requirements of the establishment clause. As the Supreme Court observed in Kendrick institutions with religious affiliations generally may participate equally in a neutral government financial aid program that benefits both religious and nonreligious entities, as long as government funds are not provided directly to "pervasively sectarian institutions." See id. at 608-11. We believe that § 302 of S. 254 and § 114 of H.R.1501 can and should be applied in a manner consistent with this requirement.

RUNAWAY AND HOMELESS YOUTH

The Administration strongly supports provisions in both bills to reauthorize the Runaway and homeless Youth Act. For over 25 years, the emergency shelter, street outreach, transitional living and related services provided by this Act have ensured the safety of tens of thousands of vulnerable young people and have helped to guide them on a path toward productive, self-sufficient adulthood. We urge the conferees to reauthorize these programs for 5 years, as included in S. 254.

We are concerned that sufficient resources and adequate time be provided should conferees include the new study requirements included in H.R. 1501.

SUBTITLE B: ACCOUNTABILITY FOR JUVENILE OFFENDERS AND PUBLIC PROTECTION INCENTIVE GRANTS

BLOCK GRANT PROGRAM

Both S. 254 and H.R. 1501 authorize a version of the Juvenile Accountability Incentive Block Grants (JAIBG) program, a program that has been appropriated, but not authorized, for the last two years.

Each bill amends the current program slightly differently, both renaming it the Juvenile Accountability Block Grants (JABG) program. Overall, the Department strongly supports the

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Memorandum For the President [partial] [pages 2-3 withdrawn in whole] (3 pages)	05/04/1999	P5

COLLECTION:
Clinton Presidential Records
Policy Development
Lisa Green
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FOLDER TITLE:
CRA [Community Reinvestment Act] [Folder 2]

Rich Sheridan
2012-0043-S
ms433

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]
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Freedom of Information Act - [5 U.S.C. 552(b)]

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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]

3. It fails to include a requirement that banking organizations both *have* a satisfactory CRA rating as a precondition to engage in newly authorized financial activities and *maintain* their CRA rating in order to continue engaging in these activities. Chairman Gramm considers this requirement an expansion of CRA. We, on the other hand, believe that failure to include this provision would seriously erode CRA's relevance over time, as banking organizations increasingly focus on these new activities. (See appendix.)

In the House, the Banking Committee reported out a bipartisan bill (51-8), that we endorsed, that does not contain any anti-CRA provisions. The House Banking bill includes the "have and maintain" requirement. If a bank fails to maintain its rating it must develop and implement a compliance plan or risk penalties -- including the possibility of forced divestitures of the newly approved activities and, according to some interpretations of the bill, civil money penalties.

When the Senate bill comes to the floor, Democrats currently plan to introduce both a Democratic substitute bill, and a comprehensive CRA amendment striking the anti-CRA provisions and adding the "have and maintain" requirement. Democrats will likely vote for the amendment -- although support for individual pieces may vary -- and against final passage if the amendment fails. Republicans may offer anti-CRA amendments. In addition, there may be amendments offered by members of either or both parties with respect to permitting banking organizations to conduct new activities through operating subsidiaries, and limiting the unitary thrift provisions. We support such amendments as consistent with your veto letter, although there is some question about our likelihood of success on the floor. Our strong support for the "have and maintain" requirement for CRA is likely to further bolster our support from Democrats for these other amendments. If the Democratic CRA amendment fails, Democrats are likely to be unified in opposing the bill on final passage, and we may have more leverage to fix other issues in conference, such as banking and commerce or the operating subsidiary. If the CRA amendments succeed, we may be in a weaker position to make other changes to the legislation in conference.

Community groups strongly support our opposition to the Gramm bill, but believe that the House-passed version, with its "have and maintain" requirement, is at best minimally acceptable. They are likely to oppose any financial modernization legislation that does not significantly expand CRA.

Recommendation

Part 1: CRA Veto Threat, including "Have and Maintain"

In both your letters to the Senate and Treasury statements, we have provided a number of reasons why you would veto the current Gramm bill. This week, as some Senators seek to find a compromise, Secretary Rubin inevitably will be asked whether you would veto the bill over specific provisions – in particular over the absence of the "have and maintain" requirement. As a policy matter, your advisors believe that you should veto financial modernization legislation that fails to include a requirement that banking organizations both have and maintain a satisfactory CRA record in order to engage in newly authorized activities.

Nonetheless, your advisors also believe that it is premature for you to be asked to speak to a hypothetical situation, as no bill currently would address all our other concerns except the "have and maintain" requirement. Moreover, we do not have a clear sense of how many Democrats would support you, if that were the only CRA problem raised by the bill. Thus, for now, your advisors recommend that we continue publicly to reiterate your veto threat on CRA generally. When asked, Secretary Rubin would clarify that the veto threat includes the small bank exemption, the safe harbor, and the lack of a "have and maintain" requirement. If pressed further on "have and maintain," Secretary Rubin would explain that the requirement is embedded in the veto threat. We would leave flexibility as to the enforcement mechanism for this requirement.

Analysis: In the future, the relative importance of banking merger applications -- and, thus, occasions for reviewing a bank's CRA record, may decline and the establishment of non-bank financial activities will become increasingly important. In that context, the requirement that banking organizations have and maintain an adequate CRA record in order to engage in newly authorized financial activities will be essential to maintaining the relevance of CRA. This requirement strengthens CRA enforcement -- by conditioning applications for non-banking activities on CRA compliance and by subjecting the bank to further consequences if its CRA record becomes unsatisfactory after the applications is approved -- without expanding the scope of CRA beyond insured depository institutions.

In addition, insisting on the "have and maintain" requirement is consistent with your strong stance on CRA over the last six years, and is a position that consumer, community, and civil rights groups expect you to take. Moreover, there are tactical advantages to taking a tough negotiating stance on CRA. It increases our leverage in conference, as Congressional Democrats have thus far been relatively united in supporting a "have and maintain" requirement this year. Democrats are not as united on our other concerns. Thus, CRA will be a key rationale should a veto be necessary.

In the end, however, it is unlikely that we will get a bill out of Congress containing the "have and maintain" requirement. Chairman Gramm has said that he will bring down any bill that is not at least "CRA neutral." Chairman Gramm argues that "have and maintain" is an expansion of CRA. Moreover, in the unlikely event that you are forced to veto a bill *solely* over the "have and maintain" requirement, that veto could be difficult to sustain. For example, many Democrats at the end of the day may not oppose a bill that addressed their other concerns with the Gramm bill, but dropped the "maintain" requirement. (Prospects of sustaining the veto are somewhat better in the House than in the Senate.) Last Congress, moreover, the Administration sent up a bill requiring that banks have a satisfactory CRA rating but not that banks maintain their CRA rating, and the Senate Banking Committee reported a bill last year with this more limited requirement, 16-2.

Part 2: Support Democratic CRA Floor Strategy

Your advisors believe that we should support the Senate Democratic Leadership's floor strategy, be careful not to push votes that will divide Democrats on CRA issues, and be especially careful not to drive moderates to cut a deal with Gramm. Although the situation is fluid, that strategy currently exists of offering a full Democratic substitute for the bill, offering a single CRA amendment to strike offending provisions and add the "have and maintain" requirement, and opposing anti-CRA amendments.

Analysis: On the one hand, community groups have been urging us to be more aggressive, arguing that we should expand CRA as we modernize the financial system. On the other, some Democrats would prefer to get financial modernization enacted, even if it meant a weakening of CRA. Thus, some are tempted to compromise on the small bank exemption or "have and maintain." As a result, Democratic unity behind a comprehensive CRA amendment would be a significant achievement.

If Republicans offer an "anti-extortion" amendment, we would oppose it on the grounds that it would chill legitimate relationships between financial institutions and communities, and that extortion is already illegal, but the debate will be difficult for Democrats. Republicans also might propose an amendment requiring disclosure of bank-community group CRA settlements, and it would be difficult to press Democrats to oppose this. In fact, we could support such an amendment. If it is offered, we should encourage Democrats to offer a "second-degree" amendment requiring financial institutions to report on their progress in meeting their CRA commitments, which would garner support from Democrats and community groups, but the amendment is unlikely to pass.

DECISION _____**Agree** _____**Discuss Further**

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Memorandum for the President and Vice President (5 pages)	ca. 05/1999	P5
002. memo	Memorandum for the President and Vice President (5 pages)	ca. 05/1999	P5

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FOLDER TITLE:

CRA [Community Reinvestment Act] [Folder 3]

Rich Sheridan
2012-0043-S
ms434

RESTRICTION CODES

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May x, 1999

MEMORANDUM FOR THE PRESIDENT & THE VICE PRESIDENT

FROM: ROBERT RUBIN, LARRY STEIN, CHUCK RUFF, GENE SPERLING, BRUCE REED

SUBJECT: **Community Reinvestment Act (CRA) Strategy**

ACTION-FORCING EVENT today

CRA will be a central issue in the Senate floor debate on financial modernization legislation scheduled to begin as early as Monday. The Gramm bill, voted out of committee on a straight party-line vote, would significantly weaken CRA. We expect that CRA amendments will be offered by both sides on the floor. Democrats have made procedural demands in exchange for their cooperation in bringing the bill to the floor. We expect to be asked to clarify the items you cited in your letter threatening to veto the Gramm bill. Specifically, we will be asked whether, if all other problems with the financial modernization bill were resolved, you would veto a bill that fails to require that banking organizations "have and maintain" an adequate CRA record as a condition for engaging in newly authorized financial activities.

We will work to focus the message on CRA and a unified Democratic position. You could further reinforce our position by personally re-issuing a veto threat early in the week and Secretary Rubin could do so from the White House press briefing room. Secretary Rubin will most likely go to the Democratic Caucus on Tuesday, where he will be asked to re-commit to your veto pledge on CRA, and he will also testify on financial modernization legislation in the House Commerce Committee on Wednesday.

? ? Why Not explain what adv

RECOMMENDATION

1. We clarify now that you would veto a bill that failed to include the "have and maintain" requirement. We would leave flexible our position on mechanisms to enforce this requirement.

limit flexibility later??

2. We support the Senate Democratic leadership's floor strategy. Although the situation is fluid, that strategy currently exists of offering a full Democratic substitute for the bill, offering a single CRA amendment to strike offending provisions and add the "have and maintain" requirement, and opposing anti-CRA amendments.

what tactical advantage gained?

(Endorsed by all your advisors.)

3. The DPC believes that we should engage in an aggressive CRA floor strategy in which we

encourage Democrats to offer additional pro-CRA amendments and to oppose or offer "second-degree" amendments to all Republican CRA amendments.

(Endorsed by the DPC.)

BACKGROUND

The Gramm bill seriously weakens CRA in three ways: (1) Its "safe harbor" provision exempts any bank that received a satisfactory CRA rating in a previous banking examination from regulators' review -- and community groups' input -- at the time of an application to merge or expand. (2) Its "small bank exemption" provision removes some 4,000 banks and thrifts with under $100 million in assets, located outside metropolitan areas (38% of all banks and thrifts) from CRA. (3) The bill fails to include a requirement that banks "have and maintain" a satisfactory record on CRA as a precondition for engaging in newly authorized financial activities; failure to include this provision would seriously erode CRA's relevance over time, as banking organizations increasingly focus on these new activities. (See below.) — where??

You sent a letter (attached) saying that you would veto the bill for four reasons, the most prominent of which was its attack on CRA. The bill was reported out of the Senate Banking Committee on party lines.
In the House, the Banking Committee reported out on a bipartisan basis (51-8) a compromise bill, which we endorsed, that does not contain any anti-CRA provisions and does include a new requirement that banking organizations both *have* a satisfactory CRA rating as a precondition to engage in newly authorized financial activities and *maintain* their CRA rating in order to continue engaging in these activities. Under this "have and maintain" requirement, if a bank fails to maintain its rating, it must develop and implement a compliance plan or risk penalties -- including the possibility of forced divestitures of the newly approved activities and, according to some interpretations of the bill, civil money penalties. Secretary Rubin has cited the "have and maintain" requirement as necessary to continue CRA's relevance. (Last Congress, however, the Administration sent up a bill requiring that banks have a satisfactory CRA rating but not that banks maintain their CRA rating, and the Senate Banking Committee reported a bill with this more limited requirement 16-2.)

When the Senate bill comes to the floor, Democrats currently plan to introduce both a Democratic substitute bill, and a comprehensive CRA amendment striking the anti-CRA provisions and adding the "have and maintain" requirement. Democrats will likely vote for the amendment -- although support for individual pieces varies -- and against final passage if the amendment fails. Republicans may offer anti-CRA amendments. In addition, there may be amendments offered by members of either or both parties with respect to permitting banking organizations to conduct new activities through operating subsidiaries, and limiting the unitary thrift provisions. We support such amendments as consistent with your veto letter, although there is some question about our likelihood of success on the floor. Our strong support for the "have and maintain" requirement for CRA is likely to further bolster our support from Democrats for these other amendments. If the Democratic CRA amendment fails, Democrats should be unified in opposing the Gramm bill on final passage, and we may have more leverage to fix other why?

i.e., we want a bad bill w/ unified Dems, not compromise

issues in conference, such as banking and commerce or the operating subsidiary. If the CRA amendments succeed, we may be in a weaker position to make other changes to the legislation in conference.

Community groups strongly support our opposition to the Gramm bill, but believe that the House-passed version, with its "have and maintain" requirement, is at best minimally acceptable. They are unlikely to support any financial modernization legislation.

DISCUSSION

Recommendation One: Veto threat on "have and maintain"

Pros: The requirement that banks have and maintain an adequate CRA record in order for their affiliates to engage in newly authorized financial activities is important to maintaining the relevance of CRA in a future in which the number of banking merger applications -- and, thus, occasions for reviewing a bank's CRA record -- diminish in the wake of significant industry consolidation, and in which banking organizations increasingly focus on expanding newly authorized activities. This requirement strengthens CRA enforcement -- by conditioning applications for non-banking activities on CRA compliance and by subjecting the bank to further consequences if its CRA record becomes unsatisfactory after the applications is approved -- without expanding the scope of CRA beyond insured depository institutions.

In addition, insisting on the "have and maintain" requirement is consistent with your strong stance on CRA over the last six years, and is a position that consumer, community, and civil rights groups expect you to take. Moreover, there are tactical advantages to taking a tough negotiating stance on CRA. It increases our leverage in conference, as Congressional Democrats have been relatively united in supporting a "have and maintain" requirement this year. Democrats are not as united on our other concerns. Thus, CRA will be a key rationale should a veto be necessary.

??? not Schumer Edwards etc.?

— not negotiating establishing bottom line

Cons: In the end, it is highly unlikely that we will get a bill out of Congress containing the "have and maintain" requirement. Chairman Gramm has said that he will bring down any bill that is not at least "CRA neutral." Moreover, in the unlikely event that you are forced to veto a bill *solely* over the "have and maintain" requirement, that veto would be highly difficult to sustain, as many Democrats would not oppose a "CRA neutral" bill that addressed their other concerns with the Gramm bill.

so by issuing veto threat, we are assuming no fin mod bill, w/ Dems responsible, no??

Recommendation Two: Support Democratic CRA Floor Strategy

A majority of your advisors believe that we should support Minority Leader Daschle and Ranking Member Sarbanes, be careful not to push votes that will divide Democrats on CRA issues, and be especially careful not to drive moderates to cut a deal with Gramm. concur

we'd lose if tested so why set POTUS up to loose.

Democratic unity behind a comprehensive CRA amendment would be a significant achievement because many Democrats want modernization legislation and are tempted to compromise on the not mentioned before - what is this? POTUS won't know

small bank exemption or "have and maintain." If Republicans offer an "anti-extortion" amendment, we would oppose it on the grounds that it would chill legitimate relationships between financial institutions and communities, and that extortion is already illegal, but the debate will be difficult for Democrats. Republican amendments requiring disclosure of bank-community group CRA settlements would be more difficult. In fact, we would support such an amendment. We might wish to encourage Democrats to offer a "second-degree" amendment requiring financial institutions to report on their progress in meeting their CRA commitments, which would garner support from Democrats and community groups. But we would support a disclosure amendment even if the second degree amendment failed.

This isn't a rec but telling POTUS what might happen.

Recommendation Three: DPC Supports More Aggressive Strategy

DPC believes that we will get the most for CRA if we go on the offensive and set the bar high. We should encourage Democrats to offer pro-CRA amendments and fight hard against any anti-CRA amendments -- no matter how seemingly innocuous. We should oppose a disclosure amendment for community groups unless a second order amendment passes to require greater disclosure for banks, or negotiate such an outcome with Gramm beforehand. Otherwise, we will seem to validate Gramm's arguments and allow him to define the issue.

Paul to clarify what he wants here.

APPENDIX: BACKGROUND ON CRA

Current law. CRA requires a bank to serve the convenience and needs of all communities in which it operates. The Fed, OCC and OTS examine the banks they each regulate periodically (every 24-36 months) for CRA compliance, and make these CRA evaluations public. However, enforcement comes only when a bank files an application to merge with another bank or opens a new branch. (A bank's CRA record is not currently scrutinized in connection with applications to affiliate with non-banking companies.) In considering an application, the regulator must take into account the bank's CRA and the public has an opportunity to comment. Regulators issued regulations in 1995 in response to your request that CRA focus on performance not paperwork. CRA ratings are now based on a three-pronged test: lending, services, and investments. In addition, regulators revised and streamlined the examination process, particularly for smaller institutions.

Effectiveness of CRA. Evidence suggests that public disclosure of CRA ratings, together with the changes made by the regulators under your leadership, have significantly contributed to improved performance by financial institutions in meeting the needs of low and moderate income communities and minorities. Since 1993, the number of home mortgage loans to African Americans increased by 58 percent, to Hispanics by 62 percent, and to low and moderate income borrowers by 38 percent, well above the overall market increase. Since 1992, nonprofit community organizations estimate that the private sector has pledged over $1 trillion in loans and investment under CRA. In 1997, banks and thrifts subject to CRA's reporting requirement made 2.6 million small business loans for a total of $159 billion, two-thirds of all small business loans made that year. More than one-fifth of those loans were made to small businesses in low and moderate income communities.

Changing Nature of the Financial Services Industry. Commercial banks have seen their share of total financial intermediary assets decline from about 60 percent at the end of World War II, to roughly 25 percent today. As the lines between banking and non-banking products become increasingly blurred and as financial firms become larger and financial power in the industry more concentrated, some have become concerned that financial modernization -- both as it is already occurring in the marketplace, and in the form of new legislation -- will reduce the assets subject to CRA. Communities groups are likely to oppose any financial modernization legislation unless CRA were extended to securities and insurance providers, which Treasury has not supported in the past, which stands no chance of success in the current or foreseeable political environment, and which presents practical and theoretical difficulties.

DRAFT ***DRAFT*** ***DRAFT*** ***DRAFT*** ***DRAFT***

May x, 1999

MEMORANDUM FOR THE PRESIDENT & THE VICE PRESIDENT

FROM: ROBERT RUBIN, GENE SPERLING, LARRY STEIN, BRUCE REED, CHUCK RUFF

SUBJECT: **Community Reinvestment Act (CRA) Strategy**

ACTION-FORCING EVENT

CRA will be a central issue in the Senate floor debate on financial modernization legislation scheduled to begin **early this week**. The Gramm bill, voted out of committee on a straight party-line vote, would significantly weaken CRA. We expect that CRA amendments will be offered by both sides on the floor. Democrats have made procedural demands in exchange for their cooperation in bringing the bill to the floor. We expect to be asked to clarify the items you cited in your letter threatening to veto the Gramm bill. Specifically, we will be asked whether, if all other problems with the financial modernization bill were resolved, you would veto a bill that fails to require that banking organizations "have and maintain" an adequate CRA record as a condition for engaging in newly authorized financial activities.

We will work to focus the message on a unified Democratic position on CRA. Secretary Rubin will most likely go to the Democratic Caucus on Tuesday, where he would reiterate your veto pledge on CRA, and he will also testify on financial modernization in the House Commerce Committee on Wednesday.

RECOMMENDATION

I NEED TO GET GUIDANCE FROM GENE AND LARRY – NOT SURE 1 IS ENDORSED BY ALL ADVISORS.

1. We clarify now that you would veto a bill that failed to include the "have and maintain" requirement. We would leave flexible our position on mechanisms to enforce this requirement.

2. We support the Senate Democratic leadership's floor strategy. Although the situation is fluid, that strategy currently consists of offering a Democratic substitute, offering a CRA amendment to strike offending provisions and add the "have and maintain" requirement, and opposing anti-CRA amendments.

(Endorsed by all your advisors.)

BACKGROUND

The Gramm bill seriously weakens CRA in three **ways:**. (1) Its "safe harbor" provision exempts any bank that received a satisfactory CRA rating in a previous banking examination from regulators' review -- and community groups' input -- at the time of an application to merge or expand. (2) Its "small bank exemption" provision removes some 4,000 banks and thrifts with under $100 million in assets, located outside metropolitan areas (38% of all banks and thrifts) from CRA. (3) The bill fails to include a requirement that banks "have and maintain" a satisfactory record on CRA to engage in newly authorized financial activities. Failure to include this provision would seriously erode CRA's relevance over time, as banking organizations increasingly focus on these new activities. (See below **WHERE???**.)

You sent a letter on March 2, 1999 (attached) saying that you would veto the bill for four reasons, including the bill's weakening of CRA.

In the House, the Banking Committee reported out a bipartisan bill (51-8), which we endorsed, that does not contain any anti-CRA provisions and does include a new requirement that banking organizations both *have* a satisfactory CRA rating as a precondition to engage in newly authorized financial activities and *maintain* their CRA rating in order to continue engaging in these activities. Under this "have and maintain" requirement, if a bank fails to maintain its rating it must develop and implement a compliance plan or risk penalties -- including the possibility of forced divestitures of the newly approved activities and, according to some interpretations of the bill, civil money penalties. Secretary Rubin has cited the "have and maintain" requirement as necessary to continue CRA's relevance.

When the Senate bill comes to the floor, Democrats currently plan to introduce both a Democratic substitute bill, and a comprehensive CRA amendment striking the anti-CRA provisions and adding the "have and maintain" requirement. Democrats will likely vote for the amendment -- although support for individual pieces may vary -- and against final passage if the amendment fails. Republicans may offer anti-CRA amendments. In addition, there may be amendments offered by members of either or both parties with respect to permitting banking organizations to conduct new activities through operating subsidiaries, and limiting the unitary thrift provisions. We support such amendments as consistent with your veto letter, although there is some question about our likelihood of success on the floor. Our strong support for the "have and maintain" requirement for CRA is likely to further bolster our support from Democrats for these other amendments. If the Democratic CRA amendment fails, Democrats are likely to be unified in opposing the bill on final passage, and we may have more leverage to fix other issues in conference, such as banking and commerce or the operating subsidiary. If the CRA amendments succeed, we may be in a weaker position to make other changes to the legislation in conference.

Community groups strongly support our opposition to the Gramm bill, but believe that the House-passed version, with its "have and maintain" requirement, is at best minimally acceptable. They likely to oppose any financial modernization legislation that does not significantly expand CRA.

DISCUSSION

Recommendation

Part 1: Veto threat on "have and maintain"

Your advisors believe??? that we should **announce this week that you would (ISN"T THIS WHAT YOUR PROPOSE)** veto financial modernization legislation that fails to include a requirement that banking organizations both have and maintain a satisfactory CRA record in order to engage in newly authorized activities. We would leave flexibility as to the enforcement mechanism for this requirement.

As a policy matter, there is no disagreement that this requirement should be a part of any financial modernization legislation that this Administration supports. In the future, the number of banking merger applications -- and, thus, occasions for reviewing a bank's CRA record – will diminish as the industry consolidates. Banking organizations will increasingly focus on newly authorized activities. The requirement that banking organizations have and maintain an adequate CRA record in order to engage in newly authorized financial activities is important to maintaining the relevance of CRA. This requirement also strengthens CRA enforcement -- by conditioning applications for non-banking activities on CRA compliance and by subjecting the bank to further consequences if its CRA record becomes unsatisfactory after the applications is approved -- without expanding the scope of CRA beyond insured depository institutions. {Sentences shortened – too long.]

In addition, insisting on the "have and maintain" requirement is consistent with your strong stance on CRA over the last six years, and is a position that consumer, community, and civil rights groups expect you to take.

However, there is some question about whether or not it is prudent for your to say that you will veto a bill without that specific language at this time.

Pros: *T*there are tactical advantages to taking a tough negotiating stance on CRA. **[WHAT ARE THEY? THIS IS THE NUB OF THE POLICY CHOICE HERE. THIS ISN'T A NEGOTIATING STANCE WE ARE RECOMMENDING – THIS IS A BOTTOM LINE POSITION THAT WILL BE SHARED PUBLICALLY.]** It increases our leverage in conference, **[HOW?]** as Congressional Democrats have thus far been relatively **[THAT IS A BIG WAFFLE? CAN WE TELL THE PRESIDENT HOW MANY DEMOCRATS WOULD SUPPORT HIM IF HE MADE THIS THE SINGLE ISSUE ABOUT WHICH HE WAS TO VETO A BILL?]** united in supporting a "have and maintain" requirement this year. Democrats are not as united on our other concerns. Thus, CRA will be a key rationale should a veto be necessary. **[IF THE TRUTH IS THAT WE EXPECT WE WILL LOOSE THIS FIGHT ON OP SUB GROUNDS AND WE WANT A REASON TO VETO OTHER THAN OP SUB, THEN WE NEED TO TELL THE PRESIDENT THAT. THAT IS HOW THIS READS. IF THAT IS THE GOAL, WILL IT BE TRANSPARENT? WILL DEMOCRATS SUPPORT US?] FINALLY, I SENSE THAT OUR**

GOAL IS TO GET A BAD BILL OUT OF CONGRESS WITH DEMOCRATS UNIFIED AGAINST IT. THUS, WE ARE REALLY TRYING TO PREVENT DEMOCRATS LIKE SCHUMER FROM REACHING A DEAL WITH GRAMM BY US DROPPING HAVE AND MAINTAIN AND GRAMM DROPPING SAFE HARBOR AND – BECAUSE WE DON'T THINK HE WILL GIVE US WHAT WE WANT. AND IF SCH

Cons: In the end, it is unlikely that we will get a bill out of Congress containing the "have and maintain" requirement. Chairman Gramm has said that he will bring down any bill that is not at least "CRA neutral." Chairman Gramm argues that "have and maintain" is an expansion of CRA. Moreover, in the unlikely event that you are forced to veto a bill *solely* over the "have and maintain" requirement, that veto could be difficult to sustain. For example, many Democrats at the end of the day may not oppose a bill that addressed their other concerns with the Gramm bill, but dropped the "maintain" requirement. (Prospects of sustaining the veto are somewhat better in the House than in the Senate.) Last Congress, moreover, the Administration sent up a bill requiring that banks have a satisfactory CRA rating but <u>not</u> that banks maintain their CRA rating, and the Senate Banking Committee reported a bill last year with this more limited requirement, 16-2.

Part 2: Support Democratic CRA Floor Strategy

Your advisors believe that we should support Minority Leader Daschle and Ranking Member Sarbanes, be careful not to push votes that will divide Democrats on CRA issues, and be especially careful not to drive moderates to cut a deal with Gramm.

Pros: Democratic unity behind a comprehensive CRA amendment would be a significant achievement because many Democrats want modernization legislation and are tempted to compromise on the small bank exemption or "have and maintain." If Republicans offer an "anti-extortion" amendment, we would oppose it on the grounds that it would chill legitimate relationships between financial institutions and communities, and that extortion is already illegal, but the debate will be difficult for Democrats. Republican might propose an amendment requiring disclosure of bank-community group CRA settlements, and it would be difficult to press Democrats to oppose this. In fact, we could support such an amendment. If it is offered, we should encourage Democrats to offer a "second-degree" amendment requiring financial institutions to report on their progress in meeting their CRA commitments, which would garner support from Democrats and community groups, but the amendment is unlikely to pass.

Cons: On the one hand, community groups have been urging us to be more aggressive, arguing that we should expand CRA as we modernize the financial system. On the other, some Democrats would prefer to get financial modernization enacted, even if it meant a weakening of CRA.

APPENDIX: BACKGROUND ON CRA

Current law. CRA requires a bank to serve the convenience and needs of all communities in which it operates. The Fed, OCC and OTS examine the banks they each regulate periodically (every 24-36 months) for CRA compliance, and make these CRA evaluations public. However, enforcement comes only when a bank files an application to merge with another bank or opens a new branch. (A bank's CRA record is not currently scrutinized in connection with applications to affiliate with non-banking companies.) In considering an application, the regulator must take into account the bank=s CRA and the public has an opportunity to comment. Regulators issued regulations in 1995 in response to your request that CRA focus on performance not paperwork. CRA ratings are now based on a three-pronged test: lending, services, and investments. In addition, regulators revised and streamlined the examination process, particularly for smaller institutions.

Effectiveness of CRA. Evidence suggests that public disclosure of CRA ratings, together with the changes made by the regulators under your leadership, have significantly contributed to improved performance by financial institutions in meeting the needs of low and moderate income communities and minorities. Since 1993, the number of home mortgage loans to African Americans increased by 58 percent, to Hispanics by 62 percent, and to low and moderate income borrowers by 38 percent, well above the overall market increase. Since 1992, nonprofit community organizations estimate that the private sector has pledged over $1 trillion in loans and investment under CRA. In 1997, banks and thrifts subject to CRA=s reporting requirement made 2.6 million small business loans for a total of $159 billion, two-thirds of all small business loans made that year. More than one-fifth of those loans were made to small businesses in low and moderate income communities.

Changing Nature of the Financial Services Industry. Commercial banks have seen their share of total financial intermediary assets decline from about 60 percent at the end of World War II, to roughly 25 percent today. As the lines between banking and non-banking products become increasingly blurred and as financial firms become larger and financial power in the industry more concentrated, some have become concerned that financial modernization -- both as it is already occurring in the marketplace, and in the form of new legislation -- will reduce the assets subject to CRA. Communities groups are likely to oppose any financial modernization legislation unless CRA were extended to securities and insurance providers, which Treasury has not supported in the past, which stands no chance of success in the current or foreseeable political environment, and which presents practical and theoretical difficulties.

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001. memo	Memorandum for the President & the Vice President (4 pages)	04/07/1999	P5
002. memo	Memorandum to the President (3 pages)	02/22/1999	P5
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Rich Sheridan
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ms435

RESTRICTION CODES

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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 advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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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]

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April 7, 1999

MEMORANDUM FOR THE PRESIDENT & THE VICE PRESIDENT

FROM: ROBERT RUBIN, LARRY STEIN, CHUCK RUFF, GENE SPERLING, BRUCE REED

SUBJECT: **Community Reinvestment Act (CRA) Strategy Memo**

ACTION-FORCING EVENT

The House and Senate Banking Committees have approved major financial services legislation. On March 12, the House Banking Committee approved its bill -- developed by Chairman Leach and Ranking Democrat LaFalce -- on a broad, bipartisan vote (51-8). The bill includes a provision we strongly support requiring banks to have and maintain an adequate CRA record in order to engage in newly authorized financial activities. But the Senate bill, developed by Chairman Gramm, and reported out on strict party lines (11-9) on March 4, would: significantly weaken CRA; erode the national bank charter and the Administration's role in financial services policy making; provide inadequate consumer protections; and provide increased leeway for affiliations between banks and nonfinancial firms. You issued a veto threat on the Gramm bill on March 2, citing these concerns.

In addition to the context of financial modernization legislation, CRA will be the focus of hearings likely to be held this spring by Chairman Gramm and House Financial Institutions Subcommittee Chair Roukema. Senator Gramm and other Republicans may also introduce CRA proposals as stand-alone bills or in "regulatory burden relief"legislation. The purpose of this memorandum is to present you with a strategy to prevent any rollback of CRA and preserve CRA's relevance in the financial services industry of the 21st century.

BACKGROUND

Current law. CRA requires a bank to serve the convenience and needs of all communities in which it operates. Although banks are examined periodically (every 24-36 months) for CRA compliance, and these CRA ratings and evaluations are made public, enforcement comes only when a bank files an application to merge with another bank or opens a new branch. The regulator must then consider the bank's CRA record in evaluating the bank's application. The public has an opportunity to comment on the application. A bank's CRA record is not *currently* scrutinized in connection with applications to affiliate with non-banking companies. In 1993, at your request, the banking regulators revised the CRA regulations to focus on performance, not paperwork. They now base CRA ratings on a three-pronged test: lending, services, and investments. In addition, regulators revised and streamlined the examination process, particularly for smaller institutions.

Effectiveness of CRA. Evidence suggests that public disclosure of CRA ratings, together with the changes made by the regulators under your leadership, have significantly contributed to improved performance by financial institutions in meeting the needs of low and moderate income communities and minorities. Since 1993, the number of home mortgage loans to African Americans increased by 58 percent, to Hispanics by 62 percent, and to low and moderate income borrowers by 38 percent, well above the overall market increase. Since 1992, nonprofit community organizations estimate that the private sector has pledged over $1 trillion in loans and investment under CRA. In 1997, banks and thrifts subject to CRA's reporting requirement made 2.6 million small business loans for a total of $159 billion, two-thirds of all small business loans made that year. More than one-fifth of those loans were made to small businesses in low and moderate income communities.

Changing Nature of the Financial Services Industry. Commercial banks have seen their share of assets decline from about 60 percent at the end of World War II, to roughly 25 percent. As the lines between banking and non-banking products become increasingly blurred and as financial firms become larger and financial power in the industry more concentrated, some have become concerned that financial modernization -- both as it is already occurring in the marketplace, and in the form of new legislation -- will reduce the assets subject to CRA. Communities groups are likely to oppose any financial modernization legislation unless CRA were extended to securities and insurance providers which stands no chance of success in the current or foreseeable political environment and which presents practical and theoretical difficulties.

Status of Legislation

House. The Leach-LaFalce bill contains no weakening of CRA, and requires that banks must "have and maintain" a satisfactory CRA rating in order to undertake newly authorized non-banking activities. Secretary Rubin sent a letter to Leach and LaFalce on March 3 indicating our strong support for their legislation.

Democratic amendments to expand CRA to securities and insurance firms, in various ways, were defeated by significant margins, as was a Waters amendment, which we supported, to require the provision of low-cost "life-line" banking accounts as a precondition for expanded nonbanking activity (31-27).

Senate. Chairman Gramm's financial modernization bill would seriously weaken CRA, and you have issued a statement that you would veto the bill in its current form. The bill has three main problems with respect to CRA: (1) it does not require banks to have and maintain an adequate CRA record as a condition for engaging in newly authorized financial activities; (2) it gives banks with satisfactory CRA records a safe harbor from CRA reviews during applications; and (3) it exempts small banks outside metropolitan areas from CRA. In addition, Gramm may yet offer an "anti-extortion" amendment that would chill legitimate relationships between financial institutions and communities.

Senator Sarbanes, the Ranking Democrat, worked with the Treasury to unite Banking Committee Democrats behind an alternative bill that had much in common with the Leach-LaFalce bill. The Democratic alternative lost on an 11 - 9 party line vote.

Failure to condition authority to conduct new non-banking activities on banks having a satisfactory CRA record. The Leach-LaFalce bill allows a financial services company to engage in new non-banking activities only if the company's subsidiary banks have and maintain a satisfactory CRA record. Although such a requirement was not contained in the Administration's 1997 bill, Treasury and Rep. LaFalce successfully argued that such an argument had to be included this time. The Leach-LaFalce bill has now been referred to the House Commerce Committee, and we understand that Commerce will leave this provision intact.

Basically, the "have and maintain" requirement, while not expanding the scope of CRA beyond insured depository institutions, broadens the enforcement mechanism for CRA to include the potential for denial of applications for non-banking activities as well as banking activities, and for further consequences if the bank's CRA record becomes unsatisfactory *after* the application is approved. (Under the Leach-LaFalce, this later action explicitly includes a requirement that a compliance plan be submitted and the possibility of forced divestitures of the newly approved activities. It could be read to include civil money penalties -- a sanction that the Justice Department found in 1994 does not apply under CRA as it is currently written.) In arguing for this provision in the Senate and the House testimony, Secretary Rubin noted that the financial services system of the future may include fewer bank merger applications and more non-banking activities. Thus, absent this additional enforcement mechanism, there could be fewer opportunities to take action against a bank with an unsatisfactory CRA record. A bill that is silent on CRA (and thus supposedly neutral) would, in our view, tend to weaken the effect of CRA, and we would oppose such a bill.

RECOMMENDATION

Our near-term goal is to continue to assist Leach and LaFalce in moving their bill forward, while doing everything possible to block the Gramm bill. By taking a strong stand on CRA, we should be able to help unite Democrats against the Gramm bill and for the Leach-LaFalce bill. We also need to find opportunities for you, Secretary Rubin, and others to highlight the vital importance of CRA for building homes, creating jobs, and restoring hope in economically distressed communities throughout the United States.

The Administration's long-term strategy should be to 1) continue to strongly oppose legislation that would weaken CRA, and insist on provisions that would, for the first time, require banks to have and maintain an adequate record on CRA to engage in newly authorized non-banking activities. <u>All of your advisers support this position at a minimum.</u> 2) In addition, the DPC and (?) believe we should actively encourage amendments that would enhance enforcement of CRA, such as the LaFalce amendment requiring financial institutions to report on their progress in meeting publicly announced "commitments" under CRA -- an amendment LaFalce has not offered this year in recognition of Republican restraint in not offering amendments to weaken CRA. DPC believes supporting something along these lines could strengthen our hand in negotiations later on; moreover, as we provide the industry with new opportunities, they argue, we should insist on some new responsibilities. However, a majority of your other advisers, including Treasury and the NEC, believe these amendments would present an uncomfortable vote for moderate Democrats, have slim prospects for passage, and could possibly jeopardize the CRA provisions already in the House bill.

_____Agree on Long-Term Strategy (1)
_____Agree on Modified Long-Term Strategy (2)
_____Discuss Further

February 22, 1999 -- THIRD DRAFT

MEMORANDUM TO THE PRESIDENT

CC: THE VICE PRESIDENT

FROM: GENE SPERLING
BRUCE REED
LARRY STEIN

SUBJECT: **The Community Reinvestment Act**

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

Background: How CRA Works

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

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

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

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

CRA "Neutrality"

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

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

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

CRA "Extortion" or "Bribery"

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

In response, Senator Gramm proposes two amendments. The first would make it a crime to provide a contribution of any kind or to establish any "quota or set aside" for employment, purchases, sales, or other activity (other than loans), with the intent to influence the person to refrain from providing information or to influence the content of the information, in connection with a review of the bank's CRA compliance. As written, the language could make criminal much of the activities that institutions undertake to strengthen their relationship with their communities. The possibility of

criminal penalties will likely deter legitimate efforts to invest in community-based organizations or make voluntary hiring, contracting or supplier commitments. The second amendment would provide a "safe harbor" for any institution with a satisfactory CRA rating during its most recent exam. Banks in the "safe harbor" would be deemed to be in compliance for all purposes, precluding any analysis of the institution's CRA record during a merger application. Although community groups can comment on an institution's performance at any time, in reality they focus their attention on institutions that have applied for merger or branch approval. As each of ____ thousand institutions **[Treasury -- how many institutions are subject to CRA?]** are examined for CRA compliance ever 24 to 36 months, groups simply do not have the resources to evaluate CRA performance of each institution on an ongoing basis.

Next Steps

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

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

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

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

February 22, 1999 -- THIRD DRAFT

MEMORANDUM TO THE PRESIDENT

CC: THE VICE PRESIDENT

FROM: GENE SPERLING
BRUCE REED
LARRY STEIN

SUBJECT: **The Community Reinvestment Act**

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

Background: How CRA Works

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

3 prong
1) loan
2) serv
3) inv

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

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

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

CRA "Neutrality"

1) open new branch 2) merge 2 institutions

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

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

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

may want to make point here that market will weaken CRA.

CRA "Extortion" or "Bribery"

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

In response, Senator Gramm proposes two amendments. The first would make it a crime to provide a contribution of any kind or to establish any "quota or set aside" for employment, purchases, sales, or other activity (other than loans), with the intent to influence the person to refrain from providing information or to influence the content of the information, in connection with a review of the bank's CRA compliance. As written, the language could make criminal much of the activities that institutions undertake to strengthen their relationship with their communities. The possibility of

Criminal sanctions? But to be kidding

How much of Gramm's critique is "quota" - race-related + how much goes beyond that?

criminal penalties will likely deter legitimate efforts to invest in community-based organizations or make voluntary hiring, contracting or supplier commitments. The second amendment would provide a "safe harbor" for any institution with a satisfactory CRA rating during its most recent exam. Banks in the "safe harbor" would be deemed to be in compliance for all purposes, precluding any analysis of the institution's CRA record during a merger application. Although community groups can comment on an institution's performance at any time, in reality they focus their attention on institutions that have applied for merger or branch approval. As each of ____ thousand institutions **[Treasury -- how many institutions are subject to CRA?]** are examined for CRA compliance ever 24 to 36 months, groups simply do not have the resources to evaluate CRA performance of each institution on an ongoing basis.

Are there bad stories, however

Next Steps

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

Are there bad examples that he will bring out at hearing

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

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	From Lisa Green To Marjorie Tarmey and Heather L Davis (1 page)	10/14/1999	P5

COLLECTION:
Clinton Presidential Records
Policy Development
Lisa Green
OA/Box Number: 20586

FOLDER TITLE:
Legislative

Rich Sheridan
2012-0043-S
ms436

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 advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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

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]

Lisa Green
10/14/99 05:34:23 PM

Record Type: Record

To: Marjorie Tarmey/WHO/EOP@EOP, Heather L. Davis/WHO/EOP@EOP

cc: Melissa G. Green/OPD/EOP@EOP, Ronald Minsk/OPD/EOP@EOP, Natasha F. Bilimoria/OPD/EOP@EOP
Subject: RESPONSE REQUESTED: Site Selection for the New Markets Trip - POTUS Memo

I think this concern needs to be incorporated (probably very diplomatically) in an Issues to Consider section for Hermitage, Arkansas. Please let me know what Maria and Stephanie think about this latest development.

---------------------- Forwarded by Lisa Green/OPD/EOP on 10/14/99 05:10 PM ---------------------------

Lisa M. Kountoupes
10/14/99 04:14:07 PM

Record Type: Record

To: Lisa Green/OPD/EOP@EOP

cc:
Subject: RESPONSE REQUESTED: Site Selection for the New Markets Trip - POTUS Memo

---------------------- Forwarded by Lisa M. Kountoupes/WHO/EOP on 10/14/99 04:14 PM ---------------------------

Lisa M. Kountoupes
10/14/99 04:13:49 PM

Record Type: Record

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

cc: See the distribution list at the bottom of this message
Subject: RESPONSE REQUESTED: Site Selection for the New Markets Trip - POTUS Memo

i have to flag that this selection for arkansas is in the fourth congressional district which is represented by rep. jay dickey who has repeatedly pounded on and insulted the potus. i think we should expect great anger from other elected officials in the state if we go there instead of the delta (which i understand is an option under consideration). i know there has been a lot of work put into this, but i think this could be a significant problem.

---------------------- Forwarded by Lisa M. Kountoupes/WHO/EOP on 10/14/99 04:07 PM ---------------------------

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	From Lynn G Cutler To Debra D Alexander (1 page)	08/09/1999	P5
002. memo	Memorandum for Lisa Green; RE: home address/phone number [partial] (1 page)	07/26/1999	P6/b(6)

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

FOLDER TITLE:
New Markets: FU [Follow Up] Correspondence

Rich Sheridan
2012-0043-S
ms238

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]
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Lynn G. Cutler
08/09/99 02:57:58 PM

Record Type: Record

To: Debra D. Alexander/WHO/EOP@EOP

cc: See the distribution list at the bottom of this message
Subject: Re: New markets mail - fyi

You need to be very careful on the Leonard Peltier question. I think you should get guidance from counsel before there are any responses done on those. Unfortunately, the President told the Peltier supporters that he"would look into it". This is very dicey.

Message Copied To:

delia a. cohen/who/eop@eop
lisa green/opd/eop@eop
jeffrey h. oakman/who/eop@eop
christopher k. scully/who/eop@eop
tracy f. sisser/who/eop@eop
shannon m. hinderliter/who/eop@eop
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Maria Echaveste/WHO/EOP@EOP
Cheryl D. Mills/WHO/EOP@EOP

Withdrawal/Redaction Sheet
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001a. memo	Memorandum for John Podesta (20 pages)	08/17/1999	P5
001b. memo	Memorandum for the Chief of Staff (2 pages)	09/02/1999	P5
001c. memo	Memorandum to the Chief of Staff (4 pages)	08/12/1999	P5
001d. paper	Strategic/Message Plans (3 pages)	08/10/1999	P5
001e. memo	Memorandum for Karen Tramontano From Neal Lane (5 pages)	08/10/1999	P5

COLLECTION:

Clinton Presidential Records
Policy Development
Lisa Green
OA/Box Number: 20586

FOLDER TITLE:

[New Markets---Ideas] [2]

Rich Sheridan
2012-0043-S
ms437

RESTRICTION CODES

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

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THE WHITE HOUSE

WASHINGTON

August 17, 1999

MEMORANDUM FOR JOHN PODESTA, DOUG SOSNIK, STEVE RICCHETTI, MARIA ECHAVESTE, KAREN TRAMANTANO

FROM: GENE SPERLING

SUBJECT: NEC's Long-Term Policy Announcements and Message Ideas

The overarching theme of our economic message is President Clinton as protector of the economy. President Clinton has had a three-part economic strategy since he took office in 1993: fiscal responsibility; investing in people; and opening foreign markets. This strategy has led to the creation of over 19 million new jobs, the first budget surplus in a generation, low inflation, low interest rates, and strong economic growth. And now, President Clinton will not let the congressional Republicans or anyone else threaten this economy.

- He will insist on a responsible fiscal plan and will veto any tax bill that would lead to higher interest rates and hurt the economy.
- He will not sign appropriations bills that harm priorities such as education and health care, and he will ensure that we do not leave any communities behind.
- He will fight to open markets around the world, resist protectionism, and ensure vigorous, timely enforcement of our trade laws.

We have structured this strategy memorandum in the manner you requested, listing message ideas and policy announcements for the President and Vice President. It is organized as follows:

Strategic Theme: President Clinton as Protector of the Economy
- Preventing a Bad Tax Cut that Would Hurt the Economy
- Saving Social Security and Strengthening Medicare
- Ensuring that Everyone Participates in the Growing Economy
- Fighting to Open Markets Abroad
- Reforming the International Financial Architecture

Upcoming Challenges Requiring Administration Response
- Timing; Responses; and Presidential Action

Executive and Other Non-Legislative Actions

STRATEGIC PLANS

I. PREVENTING A BAD TAX CUT THAT WOULD HURT THE ECONOMY. Perhaps our most important objective for the remainder of the year is to ensure that we are able to keep a harmful tax cut from becoming law. The President will continue to make statements and hold events that present him as the protector of the economy and as a strong fiscal hawk on this issue.

Veto the Tax Bill with Constructive Offer. When Congress returns from recess in September, we will receive the tax legislation from the Hill for the President's veto. We need to consider how we want to handle the actual veto in early September. Clearly, we want to present this veto as a necessary step for the President to take to protect the economy from fiscal recklessness. We should make news and policy by making a veto statement -- or the next day make a specific announcement on Medicare. *Timing: early September*

Final Budget Surplus Numbers. At the end of the fiscal year, we will receive the final budget surplus numbers for FY99. We should, as we do annually, hold an event where the President and Vice President can tout the successes of fiscal discipline and of our economic strategy – and warn that we cannot abandon the strategy that has created the strong current fiscal situation. *Timing: September 22*

Highlight Threat to Interest Rates Increasing. We could highlight the threat that the Republican tax plan and higher interest rates pose to ordinary Americans by holding an event focused on the benefits of low interest rates (e.g., highlight homeowners, college students, small business owners).

II. SAVING SOCIAL SECURITY AND STRENGTHENING MEDICARE. We need to continue to create an environment in which the President's Social Security and Medicare reform proposals can be enacted this year. By presenting President Clinton as a leader willing to address the twin fiscal challenges – maintaining budget discipline and addressing long-term entitlement reform – we can continue to promote the image of the President as protector of the economy.

A. ***Specific Agenda Items***

Medicare. I am working with Larry Stein on a strategy memo on how to both engage internally and publicly on Medicare, with a possible public offer to work together after the veto or with the veto.

Continuing Legislative Process on Our Social Security Framework. Archer may do a mark-up of his bill in September. We need to decide between the following four approaches:

- Stay where we are
- Put out lock-box legislation
- Put out lock-box legislation without "mirroring"
- Seek to work on negotiations with Archer/Democrats

We need to explore whether the House Democrats feel it is helpful to have an administration legislative proposal.

B. ***Possible Presidential Actions***

Call for Process to Achieve Medicare Reform. When the Hill completes work on its Medicare bill, the President could call for a process whereby the Administration would work together with both parties on the Hill to achieve meaningful Medicare reform.

Release the Social Security Actuaries Memo. The Actuaries memo will show that the President's Social Security plan extends the solvency of the Social Security program to 2053. This event will give us the opportunity to reiterate our commitment to the Social Security program and provide further details about our plan. We could use this event to signal our willingness to work with Congress in a bipartisan fashion to further extend the solvency of the program.

Release Further Details on Reducing Widow Poverty and Earnings Test. At this point the economics team is still analyzing several anti-widow poverty initiatives and the repeal of the Social Security earnings test. A key issue is whether to release such details even though we said in the State of the Union that we would only do this with bipartisan reform.

Conduct Event around First Mailing of Social Security Statements to American Workers. On October 1, SSA will begin mailing annual Social Security statements to American workers age 25 and older. The statement provides workers with estimates of benefits they can expect to receive when they retire or become disabled, or what their family can expect from Social Security if the worker dies. These mailings (125 million per year) represent the largest customized mailing ever by the federal government. *Timing: end of September, early October*

Medicare State by State. We are working on compiling state-by-state information on Medicare, for a possible event early in September. It would mostly include basic information like the number of beneficiaries by gender, race, etc. by state -- not very specific to the proposal. The idea would be to bring in regional press for a day-long White House event with briefings, an event with the President, etc. (modeled on the climate change/weathermen event a couple years ago). *Timing: early September*

Children's Health Outreach Event. In late September, we are hoping to get a POTUS event to: (1) announce the new Federal Interagency Task Force report, that includes new actions like getting AmeriCorps involved in kids' outreach; putting posters on public transportion with the toll-free number; and putting the information on stamps or change of address cards through the postal service; (2) ordering HHS and Education to develop a plan to institutionalize school-based enrollment in CHIP; and (3) more private actions including a multi-million dollar foundation effort to promote outreach. *Scheduling request is pending for late September*

C. *Republican Agenda and Likely Response*

The Hill Republicans are trying to sell their tax cut agenda over the August recess. After the veto, they may seek a new tax cut compromise. We must make Medicare the next step. Come the end of the fiscal year, they intend to send one short continuing resolution at last year's levels after another, hoping that these Spartan levels will coerce us into agreeing to tax cuts. Diminished and diminishing expectations limit the credibility of large-scale responses. As the year progresses, the size of the initiative that the Administration can credibly advance will decline.

D. *Timing and Strategy*

Toward the end of the fiscal year, we need to remind observers of the government shutdown scenarios of the past and highlight the inability of Hill Republicans to govern.

III. ENSURING THAT EVERYONE PARTICIPATES IN ECONOMIC GROWTH. The President will continue to promote economic opportunity for all Americans by promoting economic development in New Markets, expanding worker training, increasing mentoring opportunities for pre-college students, and pressing for other initiatives for working families. *This is particularly important through the fall Appropriations process.*

A. *Specific Agenda Items*

Appropriations Process. We need to ensure that over the course of the fall, we are holding events regularly that show the President as protecting our domestic economic priorities by highlighting issues like education, health care, and other priority initiatives that he will not allow to be cut from the budget.

New Markets Initiative Legislation. We will continue to push forward this legislation, parts of which were formally introduced the week of August 2. The New Markets Legislation includes the New Markets Tax Credit and the America's Private Investment Companies which were introduced on Thursday August 5. We anticipate that the remaining major component of the legislation, the New Markets Venture Capital Firms will be introduced immediately following the recess.

Bipartisan New Markets Effort. We are working on the following steps to get a bipartisan agreement. First, Larry Stein and I will meet with Danny Davis, a lead co-sponsor with Talent and J.C. Watts on the Republican American Community Renewal Act. Second, we could do a possible "offer" letter from the President to Hastert saying that there are some elements of the American Community Renewal Act with which we could live.

New Markets Regulatory Changes. Several elements of the New Markets Initiative do not involve statutory changes. These include, Small Business Investment Companies targeted to Low and Moderate Income areas. SBA will propose these regulatory changes this fall.

Manufacturing Task Force. The presidents of the industrial unions have raised concerns about recent slippage in manufacturing employment and softness in the manufacturing sector associated especially with a downturn in exports. The President and Vice President recently committed that we would undertake an Administration-wide process to develop a comprehensive plan for the manufacturing sector. The plan should encompass technology, training, offsets/outsourcing, small and medium enterprise, and export promotion policies. We would work towards consultations with labor and industry on an initial proposal by mid-Autumn and then work to finalize the plan as part of the State of the Union/Budget process in the winter.

Highlighting Education Priorities in Appropriations Process. The President could release a list of ten key education items that are critical priorities and that we expect to win on during the Appropriations process. We could present these items as the types of things that must be in any budget for the President to sign it. This will set up clear "wins" for us on our education agenda. *Timing: Fall*

B. *Possible Presidential Actions*

A Second New Markets Trip. Focusing on economic development needs in North Carolina, Hartford, Newark, and other locations, we will prepare for a second trip in early November. *Timing: October-November*

Announcement of the Community Development Financial Institutions Fund Awards. Possible announcement of the CDFI Fund announcements of awards to groups around the country. This event could take place at the White House or off campus. *Timing: August - September*

Executive Order on Market Research for New Markets. Possible announ

OK

interagency task force that will be responsible for assembling and publishing data helpful the private sector in their evaluation of investment opportunities in untapped markets. The task force might also work to coordinate a conference with leading practitioners and academics that do work on new markets and related community development. *Timing for EO: September; Timing for Conference: November*

Highlighting the Census Study: Poverty in the United States: 1998. The President could roll out the Census Bureau study on poverty in the United States on September 30. Each year the Census Bureau releases the study. Given the strong economy, low unemployment and low inflation, the numbers should be extremely good. In addition to the statistical findings of the study, the President could highlight the Clinton/Gore policy accomplishments in this area and then say that more needs to be done and that is why he is doing another New Markets trip to highlight the pockets of poverty that remain. *Timing: September 30*

Addressing the Skills Gap and Training American Workers for American Jobs. One recent survey found that over 60 percent of corporate leaders say that the number one barrier to sustained economic growth is the lack of skilled workforce. The President and Vice President could meet with a number of CEOs to discuss the current skills gap and what needs to be done to close it. We have a number of ideas, but the Vice President may want to take the lead on this.

1. HG – or cover few Go to a nat'l GED ceremony r equal N.H.?

Adult Literacy Initiative. We could help to highlight the Adult Literacy Initiative by focusing on the importance of Graduate Equivalency Degrees (GEDs). This could be done by having a graduation ceremony at which the President could distribute diplomas to 50 recent GED graduates – one from every state. We could announce a new Administration initiative, possibly an Executive Order designed to further education and training opportunities to GED graduates. One student could play a valedictorian role and tell a personal story. Secretary Riley and Secretary Herman could participate, and students from every state might encourage members of Congress to attend. *Timing: September or October, or anytime*

Could we do at one of the Higher Ed Assoc. meetings? College Univ? Comm. College? or great city schools?

Making College Available to All Through the GEAR UP Mentoring Initiative. We could follow up on this week's announcement of the $120 million in GEAR UP grants by further addressing the initiative through the appropriations process. We could hold an event where the President will make several announcements regarding GEAR UP, including: the Ford Foundation's partnership with the Administration to provide technical assistance to applicants and grantees, doubling of the Ford Foundation's funding to their own grantees, the creation of the High Hopes for College Leadership Group, the President's letter to all College Presidents urging them to participate, and the unveiling of the GEAR UP application package. He will also obviously push for his proposal to double funding for the GEAR UP mentoring program.

Focus on the Minimum Wage. Obviously, this is an issue we want to coordinate closely with the Hill. One possibility would be to have the Labor Department write a short report on the impact of the 1996/1997 minimum wage increase on job growth, unemployment, and wages. *Timing: TBD*

C. ***Republican Agenda and Likely Response***

The Republicans will have a limited training and economic development agenda. Nonetheless, there have been some indications that key Republicans may want to move on some of our legislation. For example, Rep. Goodling made some very positive statements about our entire workforce initiative on the day the President announced it in late January. And Reps Watt and Talent have moved forward on a New Markets-style initiative of their own. We will continue to try to forge bipartisan support around as many of these initiatives as possible.

D. ***Timing and Strategy***

OK

We would like to focus a great deal of attention on our worker training agenda and our community empowerment agenda over the next four months. In some instances, our timing on these issues will be dictated by movement on the Hill (e.g., when Kennedy moves on minimum wage).

IV. FIGHTING TO OPEN MARKETS AROUND THE WORLD AND RESIST PROTECTIONISM. We need to use Presidential leadership to build a new consensus in favor of opening markets and resisting protectionism, as it delivers on his commitment to uphold our trade laws and to put a human face on the global economy.

A. ***Specific Agenda Items***

Launching a New WTO Round: The President announced the launch of a new Round at the Seattle WTO ministerial in December. This will provide an opportunity to set ambitious objectives on opening agricultural and services markets and to advance "new consensus" issues, such as increasing the accountability and openness of the WTO and securing a forum for consideration of the effects of trade on labor and environmental standards. We are also seeking important outcomes at the Ministerial, including an extension of the WTO prohibition on e-commerce duties (especially relevant in the Seattle area), a procurement transparency agreement, and an accelerated tariff liberalization (ATL) agreement on key sectors where the U.S. is quite competitive. However, many of our foreign partners will pursue opposing agendas, such as attempting to place U.S. anti-dumping laws on the table or to reopen the controversial area of investment -- non-starters for us. We will seek strong endorsement by APEC Leaders of our key priorities for the WTO Ministerial. However, the ministerial also presents a

[illegible]

convenient target for domestic opponents of trade, and a coalition of opposition groups is organizing now to get their message across loudly in Seattle.

China WTO Accession/MFN: This issue is both an opportunity and a challenge. We continue to push hard to conclude a WTO accession agreement with China in the run-up to the Seattle WTO ministerial – using the bilateral meeting between the President and Chinese President Jiang to make progress. Such an agreement would be applauded by the multinational segment of our business and agricultural communities and would significantly bolster our bilateral relationship. The associated need for permanent NTR status will also load up our trade legislation agenda with a potentially tough fight; organized labor has already signaled strong concerns.

Good

Securing Passage of the CBI and Africa Trade Bills: Senate floor consideration of a trade bill including CBI and Africa trade preferences is likely by late September. The goal is to marry the Senate product, which could include an extension of the Trade Adjustment Assistance and Generalized System of Preferences programs and possibly a wool tariff reduction favored by UNITE and the domestic wool suit industry, with the House-passed Africa bill in conference. We will seek to promote compromises in conference sufficient to ensure Congressional passage while preserving adequate trade benefits and improving worker protections for CBI and African countries.

Good

Securing Passage of a Southeast Europe Trade Initiative: We will also work with Senator Moynihan and others to identify an appropriate vehicle for the trade initiative proposed by the President at the Southeast Europe Stability Pact Summit in Sarajevo.

Wrap it together a F[illegible] Trade - draft for Chile, Singapore, Australia, Japan

Articulating a Strategy to "Level Up" Labor and Environmental Standards: The President's Chicago and ILO speeches expanded upon the SOTU call for a new consensus on trade policy based on a process of leveling up labor and environmental standards as the liberalization of trade and investment rules proceeds. Our efforts to promote a successful Seattle WTO ministerial and lay the groundwork for a potential Congressional vote in connection with China's WTO accession would benefit by further policy advances in this regard. We will need to continue articulating and elaborating a clear, comprehensive policy including both long-term objectives and specific, near-term initiatives to help blunt labor and other domestic criticism of our efforts in Seattle and improve the climate in the House Democratic Caucus for trade legislation. Staff is developing additional policy options and themes addressing public concerns about the "race to the bottom" concerns, which will focus primarily on initiatives outside the traditional boundaries of trade policy and on applying carrots rather than sticks.

New Arm at the ILO to Strengthen International Labor Standards: We are working with the AFL and others to design and fund a new program at the ILO that would provide assistance to developing countries to enforce core labor standards such as collective bargaining. We are seeking FY'00 appropriations of $25 million for the ILO [illegible] million for DOL to advance this initiative.

Bilateral Trade Agreement with Vietnam: We are aiming to conclude a bilateral trade agreement with Vietnam for possible signature at APEC. The business community will be very enthusiastic about the terms we have secured so far. However, we will need to nail down a strong textiles agreement (with labor conditions) before submitting legislation to Congress granting Vietnam NTR.

B. *Possible Presidential Actions*

Address a day [illegible] 2 [illegible]

Opening or Closing Address at WTO Ministerial Meeting. The President should give a speech at the ministerial in order to highlight his leadership in the launch of the new global round, emphasize the core U.S. agricultural and high tech interests at stake, take credit for implementation of the WTO reform agenda he laid out two years ago, and discuss his vision of how the globalization process must become a mechanism for leveling up as we move into the 21st century. *Timing: November 30 – December 03.*

Presidential Speech at the APEC CEO Summit: The President is scheduled to give a speech to the CEO Summit at APEC in New Zealand. Although this speech will not get a lot of attention at home, it provides a good opportunity for the President to lay out a strong pro-trade agenda going into the WTO ministerial – which would be welcomed particularly by domestic agriculture. Depending on what happens in our trade negotiations with China, it could also provide an opportunity for making a strong case for a possible trade agreement with China. *Timing: September 12.*

yes

Presidential Witnessing Signing of Vietnam Bilateral Trade Agreement at APEC: We are working hard to wrap up negotiations with Vietnam on a trade agreement by the time of the APEC leaders meeting. The President could join with the President of Vietnam in witnessing the signing of the trade agreement when both are in Auckland. Obviously, such an event would invite some criticism as well as strong support from the business community and some other groups. *Timing: September 11-12.*

Presidential Speech on "Leveling Up": The President could give a speech outlining a broad policy framework to guide our efforts to promote broad-based improvements in living standards through parallel trade liberalization (WTO/China/regional agreements) and "leveling up" (economic democracy institutional building) agendas, per above. The speech could be presented before a major international affairs audience in the autumn a few weeks before the Seattle ministerial. It could include, but would preferably be separate from, an articulation of our specific goals for Seattle (see separate entry).

yes

Africa Trade Bill Event: The President should do an event highlighting his strong commitment to passage of the Africa trade bill this year prior to any Senate floor action. Such an event would highlight the diversity and breadth of international and domestic

pres. [illegible] for CBI too – Florida? Why?

support for this legislation – and the President's personal commitment, which has been less visible of late. The thrust of the event should be limited to an appeal to Congress to work together in a bipartisan fashion to send a bill to the President this year. It should steer clear of bill specifics, which remain somewhat in dispute. Also, given that Senate Finance is likely to move the Africa trade bill in a package with CBI enhancement, which is much more controversial with Labor, we will need to navigate the politics carefully. *Timing: Early October.*

C. *Republican Agenda and Likely Response*

CBI/Africa Omnibus Trade Bill. The Senate is likely to consider by late September a trade bill including CBI, Africa, GSP, TAA and perhaps other items. Senators Lott and Roth will try to discourage amendments to the CBI and Africa provisions, arguing that conference is the best place to consider compromises. Nevertheless, Gramm is likely to offer House-like Africa textile provisions, which we support, and lose. And Jeffords may offer a compromise between the House and Finance Committee textile texts depending on assurances from Lott and Roth as to what they would support in conference. Feingold may offer Jesse Jackson, Jr.'s bill as an amendment but should attract limited support. Helms' and Hollings' ultimate posture is unclear.

ok

agree, we can't do that

Trade Authority. Whereas the House is unlikely to initiate any legislation to renew fast track trade negotiating authority, Senator Roth may conduct a Finance Committee markup of a bill in late September. His intention would be to report a modified version of last Congress' bill with bipartisan support as a signal to our trading partners in Seattle that the U.S. is likely to have negotiating authority in place when it needs it. He is not interested in pressing for a vote by the full Senate in this session. Discussions on a potential Administration response have been pessimistic, although there is some interest in exploring the possibility of a "new consensus" WTO-only approach. We may want to develop a set of principles for the treatment of labor and environment that could demonstrate broad Democratic unity – as opposed to the much more difficult task of crafting a "Democratic" bill. If instead we remain silent, we may send Finance Committee Democrats again into the hands of their Republican colleagues out of frustration with a lack of Presidential leadership, cleaving the Party further on trade. The endgame may be an attempt by Roth to draft a Senate or Concurrent Resolution limited to an expression of support for certain WTO trade negotiating objectives.

D. *Timing and Strategy*

Trade Authority. Should Senator Roth proceed with a mark-up in late September, the Administration could make a policy statement on the treatment of labor and environmental objectives that commands broad Democratic support – as described above. This statement could take the form of a broader policy speech focused on "levelling up" labor and environmental standards as discussed above. *Timing: September/October.*

CBI/Africa. In anticipation of a likely Senate consideration in late September, we are preparing for a debate on textile and apparel trade and conducting Hill and private sector outreach. It may also be advisable to make a high-level appeal to the Congressional leadership in early September to place this bill on a schedule that would permit it to be sent to the President by mid-October. The goal would be to prevent it from being backed up against the end of the session, when opponents have used their enhanced leverage in the past to block passage of CBI and Africa. *Timing: September/October.*

V. REFORMING THE INTERNATIONAL FINANCIAL ARCHITECTURE AND RELIEVING THE DEBT BURDENS OF HIGHLY INDEBTED POOR COUNTRIES. Continue to work with the G-7 and others to implement the debt relief plan and international financial architecture agenda agreed to at the G-7/8 Summit in Cologne.

A. *Specific Agenda Items*

This is very important to us (stay with all we could do here)

New Debt Policy. The NGO community and primarily African beneficiary nations are pressing for radical debt relief as a demonstration of our commitment to a relationship of partnership and equality with the poorest nations as we enter the new millennium. Under the Cologne Debt Initiative, which we championed, the U.S. is responsible for providing financing for substantial additional bilateral and multilateral debt relief. Our share of these costs is estimated to be approximately $850 million over 5 to 10 years. In addition, we had planned to seek Congressional authorization for the use of a portion of the IMF's gold reserves to fund its debt reductions – although that plan is now in doubt with the Congressional prospects worsening. We will seek authorization for the full $850 million this year and appropriation of a significant share in FY 2000 (depending on budget constraints) in order to give the Initiative international credibility and attract early financing from other countries. Treasury will also work with Congress to authorize a modified approach to tapping the market value of the IMF's gold reserves.

Good

New Social Safety Net Policy. G-7 countries are discussing ways to encourage the implementation of better social safety net policies in developing countries, particularly those hit hard by the world financial crisis. An internationally accepted set of best practices or principles could be established to guide the policies of poor countries and the lending practices of MDBs. In addition, the need for crisis-stricken countries to protect budgets for social programs should be emphasized in IMF and World Bank programs per the recent agreement by G-7 leaders to place greater emphasis on poverty alleviation in economic reform programs. Finally, we are exploring with the international financial institutions whether they might play an expanded role in helping emerging market economies launch unemployment insurance and other social insurance programs.

Implement G-7/8 Reforms of the International Financial Architecture: We continue work to implement the international financial architecture reforms agreed in Cologne, to further strengthen international financial institutions, such as the Financial Stability Forum, and to institutionalize a finance ministers process that includes key emerging markets along with the traditional G-7 industrial economies.

B. ***Possible Presidential Actions***

Speech at Africa Economic Conference to Roll Out New Debt Policy. In an event this fall, the President could propose a budget amendment representing part or all of the costs of the Cologne Debt Initiative, while appealing to Congress to pass an authorization that includes authority to support use of the IMF's gold to finance its debt reductions. Interagency staff is reviewing appropriations and IMF gold policy options as well as potential event ideas. *Timing: Early September for World Literacy Day or Late September in advance of IMF/World Bank annual meeting.*

Speech on Strengthening Social Safety Nets in the Developing World. Either separately or as part of a broader speech on leveling up labor and environmental standards (see above under Building a New Consensus on International Trade), the President could articulate a U.S. strategy to promote implementation of basic social safety programs in the developing world. He could challenge the international financial institutions to play a more deliberate role in this area as part of their efforts to redeploy and better coordinate their energies and financial resources, particularly with respect to middle income countries that no longer require large amounts of official international financing and whose social safety nets proved woefully inadequate during the financial crisis. *Timing: September/October.*

UPCOMING CHALLENGES REQUIRING ADMINISTRATION RESPONSE

End of Fiscal Year. As the October 1 deadline for enactment of appropriations bills approaches, Hill Republicans will likely ratchet up the blame game, attempting to place the onus for appropriations deadlock on the President.

Emergency Agriculture Spending. As the President and Vice President have both noted, farmers have been hurting this year due to low prices, and the absence of a sufficient safety net in the Freedom to Farm Act has exacerbated their pain. In working with the Congress on emergency agriculture spending, we should emphasize the need to ensure additional spending is directed to those in the greatest need, and not according to existing formulas that would direct a large portion of the funds to large farms that are weathering the current situation. The NEC agriculture working group recommended a counter-cyclical income assistance program that would do just that. We should work to see that such a program is the most prominent feature of any emergency agriculture spending. *Timing: September*.

Computer Export Controls. Computer industry CEOs will be in town on January 20, 2000, asking for export relief again. This will be needed because of a new powerful microchip that Intel will be shipping called the Merced. In the announcement that the President made in July 1999, he agreed to a six-month review. An announcement in this area could show the President's continued commitment to maintain America's high-tech leadership while protecting our national security. NEC and NSC should start a working group process in September so that we can have a decision by January 2000. We should also consider getting a few computer industry execs cleared so that they can have classified discussion of long-term implications of Merced. *Timing: January 2000*

Encryption. The Administration should announce new steps to eliminate some restrictions on the export of encryption (e.g., 64-bit globally, unlimited exports to Europe, and exports of "recoverable" encryption to most countries and end-users). This will be particularly important if the House and Senate move legislation that is unacceptable to the Administration. *Timing: September-October*

Electricity Restructuring: Under electricity restructuring, state regulated utilities would no longer have the exclusive right to sell electricity in their geographic territories. Instead, consumers could purchase electricity from any generator that served their market, just as they currently choose their long distance telephone carrier. The bill is expected to generate $20 billion of savings and to provide important environmental benefits.

A. ***Timing.*** The Department of Energy submitted the Administration's bill to Congress on April 15th. Both the House Energy and Power Subcommittee and the Senate Energy Committee have held hearings, although there is more momentum in the House. Chairman Barton plans to mark up a bill by late

September, and Chairman Bliley plans for the full committee to consider the bill shortly thereafter. There is little likelihood of a bill passing this year, but a small chance that one could pass before Easter 2000.

B. *Responses.* We are monitoring the bill's progress, and are working with Energy and committee staff as they move forward on the legislation.

C. *Presidential Action.* None.

Bankruptcy. In May, the House passed its bill 313 to 108, a margin sufficient to override a Presidential veto. Unless privacy or another unrelated issue sidetracks Senate floor debate, the bill is expected to pass the Senate by a comparable margin sometime this fall. The Senate Republicans have agreed to adopt on the floor an amendment on reaffirmations that we believe offers significant new consumer protections in this one area. It also will adopt an amendment providing limited new credit disclosures and protections, although far less than we believe is appropriate. However, if these provisions survive conference, they provide some balance to a bill that we have long criticized as grossly unbalanced.

A. *Timing.* Majority Leader Lott promised Senator Grassley that the bill would go to the Senate Floor the first week that Congress returns from recess if a time agreement can be reached. Democrats believe a time agreement is unlikely. If not addressed early when they return, it could be delayed until October.

B. *Responses.* We are exploring whether recent overtures present a genuine opportunity for some movement in our direction. Meanwhile, we are working with Democrats on amendments that would be difficult to oppose (e.g., exceptions for sympathetic debtors like victims of domestic abuse and displaced steel and agricultural workers).

C. *Presidential Action.* Given strong support from Democrats for the bill, we will not do anything more to escalate our public opposition and will avoid issuing a veto threat on the Senate bill. If the bill that results from Conference does not contain even the few improvements achieved in the Senate but commands strong support in both chambers, the President will have the option of allowing it to go into law without his signature.

Financial Modernization. The President has threatened to veto the Senate-passed version, which we believe would weaken CRA, limit choice in bank operating structure, and provide inadequate consumer protections. The Administration strongly supports the House bill, although we would like to see its financial privacy provisions strengthened and its weak medical privacy provisions eliminated. The Conference Committee has not begun serious deliberations. Everyone is waiting for a signal from Senator Gramm about how far he will be willing to compromise in order to get a bill that the President will sign. We are working very closely with House Banking

Committee Republicans and Democrats and Senate Democrats as their views and ours are most closely allied.

A. *Timing.* Uncertain. Some believe that the Conference could last months, spilling over until next year. The Conference Committee is so large that effective negotiations will be difficult. Others expect that Senator Gramm will quickly put an offer on the table and a deal will be cut quickly with just a few around the table.

B. *Responses.* The Administration is taking every opportunity to reiterate that we will hold firm on CRA and choice in bank operating structure. There is some fear that our supporters might be too eager to compromise with Senator Gramm on our core concerns in order to get a bill. We have the option of elevating the public attention to the CRA and privacy issues, if need be.

C. *Presidential Action.* Nothing foreseeable at this time.

<u>Class Action Reform</u>. This bill is the highest priority of the industry tort reform coalition for this year. They hope to build on momentum from the Y2K bill, which contained comparable provisions for Y2K actions. The House Judiciary Committee completed mark-up of its bill, which could go to the House floor this fall. The Senate Judiciary Committee has held hearings, but Senator Hatch is reluctant to move the bill without stronger bipartisan support. Our allies (consumer groups and trial attorneys) will be looking for us to continue to demonstrate our strong opposition. We will continue to work to strengthen our case against the bill and find opportunities to express our concerns.

A. *Timing.* House floor action could come in September if there is time on the calendar. Senate mark-up is unlikely soon, unless additional Democratic sponsors are found or until after House floor action puts pressure on the Senate to act.

B. *Responses.* We will hold a series of outreach meetings with affected constituencies and State government groups that might be concerned about the federalism implications. We will work closely with Democrats in the House and Senate on strategy.

C. *Presidential Action.* We may reiterate last year's veto threat when the bill gets to the House floor. Nothing else foreseeable at this time.

EXECUTIVE AND OTHER NON-LEGISLATIVE ACTIONS

I. Building the New Economy and Advancing Technology

Technology Training for Tomorrow's Teachers. The Department of Education will soon be ready (after August 16th) to announce $75 million in grants to help train new teachers to use technology effectively. This is a key component of the President's Educational Technology Initiative, since getting schools connected to the Internet will not improve educational performance unless teachers can use technology in the classroom. Currently, Riley is scheduled to announce these grants sometime during an August 23-26 trip to California. The Department would like to announce the grants in August. The Vice President is not available. *Timing: Sometime in August*

Good idea
Work w/ Gene
Jan. before Conf.
come half of Dec. ala
L.R. Econ Conf
12/92

White House Conference on the New Economy. We could bring together top economists to meet with the President and Vice President on this issue. High profile panelists such as Alan Greenspan and a substantive discussion of major, cutting edge issues would ensure significant press coverage. Topics could include the impact of information technology on productivity, the business cycle, and inflation; the changing relationship between unemployment and inflation; and the changing relationship between regulation and international trade. *Timing: open*

Research Funding in a Post-Cold War World. Although there is strong support for bio-medical research, there is little public or congressional understanding of the importance of investing in other research areas, such as physical sciences and engineering. In the past, DOD conducted much of the research in this area, but it has been cutting back on long-term research for the last ten years. The Administration needs to define and fund a set of research challenges for the 21st century (e.g., sustainable development) and the President could do so, just as he did at the MIT commencement in June 1998 in the context of the information revolution.

E-Society Initiative. In 1997, the Administration pulled together a set of public policy activities under the umbrella of "e-commerce." We believe that there is a value to organizing a similar effort on the social benefits and dimensions of the Information Revolution. By launching an "e-society" initiative, the President and Vice President can reinforce the message that the Information Revolution is not just about commerce, it is also about enabling Americans with disabilities to lead more independent lives, improving the way we educate our children, allowing adults to acquire new skills at a time, place and pace that is convenient for them, making government more open, efficient, and responsive, and expanding access to quality health care in rural communities. The Administration's budget makes significant contributions in this direction. We could potentially issue an Executive Order -- like the e-commerce EO -- to

and closing the digital divide
very important.

delegate the Administration's e-society agenda to the appropriate government agencies. *Timing: November-December*

II. International Economic Initiatives

Executive Order on Sanctions Reform. Sanctions reform remains a critical priority for our agriculture and business communities. The President could announce an Executive Order imposing discipline on the imposition of economic sanctions under executive authority to broaden our policy on food and medicine sanctions announced this past spring. This action could provide leverage for a broader deal for similar self-restraint by Congress. We have already indicated support for sanctions reform legislation sponsored by Dodd, and are attempting to work with Helms and Lugar on their alternative proposals. However, it appears that the Helms legislation, which is most likely to move, will not contain our key priority (freestanding national interest waiver authority for the President) and may be more restrictive of the Executive Branch than Congress. As a fall-back, we would issue the Executive Order, challenge the Congress to get their own House in order, and then work with the Congress on a food and medicine sanctions bill that parallels the President's recent policy change. (There is an Ashcroft/Hagel amendment on food and medicine sanctions attached to the agriculture appropriations bill). *Timing: September* — Can we pass this? — Strongly

I should call him personally

International Child Labor. The President recently sent the new ILO convention on the worst forms of child labor to the Senate. All indications are that Senator Helms and the Foreign Relations Committee will respond favorably to the convention, but there is no guarantee. We hope that Helms will hold hearings in September and move the Convention to the floor for advice and consent this year. We ~~need to find~~ a balance, ~~pressing him to move forward~~ without antagonizing him and making ratification more difficult. If the Senate gives its advice and consent, we can use the occasion of U.S. ratification to celebrate the President's leadership in efforts to eliminate abusive child labor. At the same time, we will be monitoring and pressing for full funding for our international child labor budget initiatives: (1) continued full funding ($30 million) for the ILO's International Program for the Elimination of Child Labor (IPEC); (2) $10 million in new funds for "Schoolworks!" – USAID's new program to help provide educational opportunities to remove children from abusive child labor; and (3) increased funding for customs and domestic child labor law enforcement.

agree

Meet with Ex-Im and OPIC to Promote Manufacturing Exports. The President and Vice President could sit down with Jim Harmon at Export-Import Bank and George Munoz of OPIC to discuss everything that the two agencies are doing to address the global economic situation and to promote our initiative to boost manufacturing exports.

III. Protecting Consumers

Financial Privacy and Other Forms of Privacy. Through a radio address or Vice Presidential event, we could focus on privacy issues before Congress returns or around that time. We do not need to identify it with either the bankruptcy bill or financial modernization. However, it will create uncertainty about our intent in both contexts and raise our leverage without committing us to insist on it in any specific context. We would not be making much policy news -- as on May 4 when the President outlined our view and two weeks ago when Gensler reiterated it before the Senate Banking Committee. Our message would be that Congress has an opportunity this fall to provide financial privacy protections to Americans, and that with so much change in the financial industries and with new technologies, we should not let the opportunity pass to make clear that financial privacy is a high priority. *Timing: early September.*

IV. Addressing Key Industry Challenges

Balancing Industry, Consumer, and Environmental Interests in Biotechnology: We have the strongest biotechnology industry in the world – and enjoy enormous economic and environmental benefits. However, concerns about biotechnology are increasingly stymieing our agricultural trade, especially with Europe, and domestic environmental and consumer groups are becoming more critical and outspoken. Unless managed carefully, the biotechnology issue could grow to similar proportions as climate change. We are in the process of an Administration-wide review of our posture toward biotechnology that should culminate in the rollout of a coherent policy plan, following extensive consultation with key outside groups. We are considering addressing the consumer's right to know through voluntary labeling, placing greater emphasis on public education, and expanding scientific assessment in those areas where there are legitimate questions. On the trade side, given the strength of EU consumer antipathy, we are examining a shift in emphasis away from trade confrontation toward winning consumer acceptance through public education and science-based regulation. We will have to navigate a shift in our posture delicately, given strong Congressional interests in this issue and divisions among the diverse elements of our own industry. *Timing: late October.*

See paper attached

I am for labeling GMO and country of origin key voluntary labeling consumers need to know

Strengthening the Domestic Oil & Gas Industry. In 1998 and early 1999, the oil and gas industry suffered unusually low prices. Small independent producers were hit particularly hard, and 50,000 jobs were lost. At the request of Secretary Richardson, the NEC initiated a process to identify steps to assist the industry. The industry is primarily interested in tax cuts, reduced environmental regulation, and greater access to federal lands -- each of which is opposed by the relevant federal agency. Moreover, OMB, CEA and Treasury believe that no real crisis exists, and point out that prices have rebounded. The President's decision to sign the Byrd/Domenici loan guarantee bill goes some distance in addressing the industry's concerns. Commerce will shortly send the results of a Section 232 trade investigation to the President that will recommend that we implement the existing national energy strategy, which was developed in response to an earlier Section 232 report on oil. We will need to determine whether we want to take additional steps to address DOE's concerns. *Timing: September-October.*

V. Other Initiatives and Announcements

School Modernization. There are more kids in school today than ever before. The growth of the school age population increases the need to build more new schools. In addition, existing schools are, on average, over forty years old and in need of modernization and repair. This is particularly true in urban and rural areas. The President's School Modernization proposal addresses this issue by providing tax credit bonds to help finance the building and repairing of over 6,000 schools. Representative Rangel, the House sponsor of the President's proposal, recently filed a discharge petition to force the House to consider this issue. The petition already has 190 of the 218 signatures necessary to force the House to vote on the issue. There are two upcoming opportunities to highlight this issue:

- On August 19th, the Department of Education will release the Baby Boom Echo report on the growing school age population.
- The labor movement has organized a series of school construction events throughout August, and has agreed to make school construction a focus on Labor Day. The President is scheduled to do a Labor Day school modernization at a site to be determined, near Camp David.

Domestic Child Labor Law Changes. We are analyzing with DoL legislation sponsored by Senator Harkin to enhance protection of child laborers in agriculture. Currently, U.S. law bars DoL from providing the same protections from hazardous work and from limiting hours of work for children in agriculture as they provide for children in manufacturing and all other workplaces. Administration support for this legislation now might prompt agricultural employers to oppose U.S. ratification of the ILO Convention on the worst forms of child labor, even though we argue that convention does not require any change in U.S. law for ratification. If, however, the Senate gives its advice and consent to the ILO Convention, we may then wish to announce our support for Harkin's bill, perhaps coupled with a budget initiative to fund training to allow children to work more safely on farms.

Domestic Agricultural Labor Laws. We *may* have an announcement about new policy on domestic agricultural labor laws -- but we probably want to spend a few months making the case that there is a problem, before we suggest the solution. Labor is working on a plan. *Timing: Fall*

Report on New Markets for Environment and Energy Technologies: The President's

Committee of Advisors on Science and Technology (PCAST) has completed a report examining the development of energy and environmental technologies. The report concludes that trillions of dollars of investment in this sector will be made worldwide over the next 50 years, including over $100 billion in electricity generating capacity in developing countries over the next decade. This presents a giant export opportunity for U.S. companies. The report recommends $250 million in additional federal spending in FY 2001, ramped up to $500 million by FY 2005 in support of this effort. We could plan an event at which the President acknowledges receipt of the report, and announces that the FY 2001 budget will have funds to implement PCAST recommendations (DOE, USAID are ready to say this, according to OMB). The President could also challenge Secretary Daley to develop a plan to double environmental technology exports in 4 years, a challenge that he is prepared to accept. Industry leaders who helped draft the report (Bechtel, Hewlett Packard, Enron) would attend the event. This message is that we are supporting an effort to increase exports of new technologies, creating jobs for the 21st century in the process.

VI. Upcoming Economic Releases that May Provide Message Opportunities

August 17	CPI, Housing Starts, Industrial Prod & CU
August 19	Trade
August 25	Advance Durable Goods
August 26	GDP-II (rev)
September 2	Productivity
September 3	Employment numbers (August)
September 22	Surplus for FY99
September 30	Census: Income and Poverty Numbers
October 8	Employment numbers (September)

September 2, 1999

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: Bruce Reed
Eric Liu

SUBJECT: Strategic Overview – Fall 1999

This brief memo provides an overview of our congressional and executive strategy for the coming months. We have also attached a lengthier memo that details a range of possible policy announcements and events for the fall. And we will at a later date be sending you a slate of other non-legislative policy initiatives that we could undertake in the balance of the term.

I. Congressional Action

In addition to the budget debate, the major legislative activity when Congress returns will center around four substantive areas:

- **Patients Bill of Rights**: The House should pass it in mid-September. We should press for a quick conference, and set this up as the bill that panicked members turn to when they realize they have to pass something before Congress goes home.

- **Juvenile Justice**: An agreement on gun shows is not out of the question, but more likely the conference will founder or produce a stripped-down bill that dies with a Senate filibuster or veto. We should keep the pressure on throughout the fall; conceivably, we could tell them not to go home without getting it done right.

- **Jeffords-Kennedy**: This bill, the Work Incentives Improvement Act, is waiting for offsets and House passage. It is a good candidate to wrap into any year-end vehicle, like an extenders bill. (The foster care bill, which passed the House, is another contender.) One note from Chris Jennings: we should when possible acknowledge other sponsors (Jeffords-Kennedy-Roth-Moynihan, Lazio-Waxman-Bliley-Dingell).

- **Education**: The House will probably pass a Title I bill we won't like; the Senate may mark up ESEA reauthorization in committee. Our best chance to fight for education reform this year is to insist on the $200 million for Title I accountability we asked for in the Labor/HHS bill. Class size will be the key partisan battle on that bill.

II. Executive Action

We have attached a list of actions – regulations, reports, grants, etc. -- the President can take on his own over the next three months, with or without help from Congress. These include:

- **Education:** We can award a series of grants that will: (1) give us a platform to highlight the budget battles over class size, school construction, and our Children/Education Trust Fund; and (2) reassure parents, through grants, reports and speeches, that we're doing all we can on school safety.

- **Youth Violence:** We will be able this month to do a formal kick-off of the grassroots National Campaign Against Youth Violence, and issue an executive memorandum creating a DPC Task Force to coordinate federal efforts on this problem.

- **Crime/Guns:** We will have two newsworthy reports on guns, charter commitments on the youth violence campaign, and after Congress has left town, the possibility of a housing authority lawsuit on gun violence.

- **Tobacco Lawsuit:** While we're battling with Congress over funds to bring the suit, Justice may soon be ready to be more explicit about the nature and timing of its complaint.

- **Health Care:** We'll keep generating reports to keep the spotlight on Medicare and other legislative priorities, and issue the privacy regulation after Congress goes home.

- **UI/Paid Leave:** Following up on the President's promise at Grambling, we have a regulation in the works that gives states the flexibility, on an experimental basis, to use their unemployment insurance programs to support paid leave. The Labor Department will soon be issuing proposed rulemaking on this.

- **Other Executive Actions:** Another new proposed regulation should also get press attention: a new welfare rule to reward states for boosting Medicaid and Food Stamp coverage (so-called high-performance bonus). We can also find an opportunity to push a good initiative buried in our budget request: a $70 million program that combines ESL and civics education to help new immigrants become full participants in our society. In addition, we could launch a high-profile commission: on boosting voter participation, especially among the young (raised by Rep. Bernie Sanders); or on healthy parenting. And finally, the First Lady's conference on philanthropy could give us an opportunity to unveil some new policies to encourage giving.

August 12, 1999

MEMORANDUM TO THE CHIEF OF STAFF

cc: **Karen Tramontano**

FROM: **Sandy Berger** [illegible]

SUBJECT: Foreign policy/national security priorities for next six months.

[NOTE: All international trade issues were addressed by NEC in March 1999 memoranda – for that reason, they largely are not addressed below.]

I. ***Specific agenda items***

- **Europe:** In next six months, focus will be (1) law and order, civilian administration, justice, reconstruction in Kosovo; (2) reconstruction, development, investment, and trade for southeastern Europe; (3) continued push on implementation of Dayton Accords for Bosnia; (4) renewed diplomatic efforts toward a Cyprus settlement in connection with POTUS trip; (5) reinforcing the capabilities of the OSCE in connection with OSCE Summit; (6) concluding an adapted CFE Treaty; (7) avoiding split between U.S. and Europe on whether greater European autonomy on defense is within NATO context or not (ESDI) and keeping NATO-Russia relations (including cooperation in Kosovo) on track; (8) Continue to facilitate formation of new Northern Ireland government and work toward demonstrable progress on weapons decommissioning.

- **Advancing Middle East peace efforts:** Substantial effort by POTUS and others to encourage both Israelis and Palestinians to implement Wye and begin permanent status negotiations; explore what can be accomplished on Israeli-Syrian track.

- **Russia:** Four critical areas: (1) economics; (2) ABM/NMD, START II ratification, START III negotiations; (3) CFE; and (4) nonproliferation efforts (particularly Iran). Need to ensure new government keeps Russia on sustainable path to economic stabilization, integration with international community. Should work to ensure respect for democratic practices and norms during upcoming parliamentary and presidential campaign season. Must spur effective Russian enforcement actions to stem missile and nuclear technology transfers to Iran while preserving U.S.-Russian commercial space cooperation. Must seek continued negotiated reductions in strategic nuclear forces via START III and possible amendments to ABM Treaty in context of possible NMD deployment.

- **Following through on President's commitment to Africa**

  - **Nigeria.** Solidify foundation for its ongoing democratic transition, using as an opportunity to build significantly the bilateral relationship.

[illegible]

- **<u>Possible UN peacekeeping in Sierra Leone, DROC, Eritrea-Ethiopia</u>.** With three of the most destructive wars ever witnessed on the continent now hopefully coming to an end, Africa is at a turning point. One element of our comprehensive strategy to consolidate peace requires supporting peacekeepers (non-U.S.) in that region. Africa policy constituents are well aware of the contrast between our efforts in Kosovo and outstanding requirements in Africa, and are pushing aggressively for UN assessed peacekeeping operations in these countries.

- **<u>African Growth and Economic Opportunity Act</u>.** (To be addressed by NEC.)

- **<u>Colombia</u>:** Improve effectiveness of drug eradication efforts (especially in southeastern Colombia), while furthering respect for human rights, maintain public support of peace process, and continue to promote economic revitalization.

- **<u>China</u>:** Restabilize U.S. relationship with China, continue to encourage China's constructive engagement in international arena (e.g. Taiwan, non-pro); reach WTO agreement and obtain permanent NTR.

- **<u>North Korea</u>.** Need to preserve the Agreed Framework; encourage continued dialogue between ROK and DPRK, try to walk North back on missile development and conducting another long-range missile test. Continue work trilaterally with Japan and South Korea.

- **<u>Iraq</u>:** Work to rebuild consensus on post UNSCOM disarmament regime in the UN while holding firm on containment. Increase pressure to facilitate regime change. Anticipate likely provocative actions by Iraq – at least continued challenges to No-Fly Zones but possibly actions that would cross our red lines for the use of force.

John Podesta
anychance?

- <u>UN arrears</u>: Need to pay outstanding arrears (nearly $1B) and close growing gap between current peacekeeping budget and congressional appropriation. Fiscal year 2000 is last one in which arrears payments do not count against budget caps, increasing import of appropriating this year.

- **<u>Panama</u>:** Manage Canal turnover process, addressing security, environmental, and bilateral relationship concerns.

II. Possible Presidential action

- <u>Europe:</u> October working visit to Canada; November State visits to Greece, Turkey, Bulgaria and Italy; OSCE Summit in Istanbul 19-20 November; availability for calls to Greek/Turkish/Cypriot leaders, outreach meetings as part of Cyprus push; meetings with Turkish and Norwegian, PMs; U.S.-EU Summit in December.

  - **<u>Southeastern Europe Initiative</u>:** possible "post-conflict address on Kosovo"; using UNGA speech/meetings to maintain momentum on rebuilding Kosovo and SEE initiatives; and statements/actions related to Bulgaria stop in conjunction with

November OSCE trip; budget amendment to address supplemental 050 and 150 needs for Southeastern Europe.

- **Regional Peace Processes: Middle East and Northern Ireland**:

  - availability for calls as needed to regional leaders; outreach meetings with key constituency groups (meeting with leaders of Jewish American organizations occurring August 12); need to ensure Wye budget amendment funded; possibility of travel to Northern Ireland if needed; more intensive involvement (calling parties together) may be necessary at some stage.

- **Arms control**: Decisions on NMD/ABM/START III; continued engagement as needed with Russians as discussion on ABM and START III proceeds; continued statements of support for Comprehensive Test Ban Treaty; possible CTBT event in fall.

- **North Korea**: Meeting with Bill Perry to present his policy recommendations. Possible meeting trilaterally with Japan and South Korea at APEC in September to continue North Korea policy coordination; may need to engage with Congress if missile test occurs.

- **APEC:** An Asia critical bilateral with Jiang Zemin at APEC meeting in New Zealand; pull-asides with Chuan (Thailand) and Estrada (Philippines), as well as NK trilat.

- **North Korea**: Meeting with Bill Perry. Meet trilaterally with Japan and South Korea at APEC in September to continue North Korea policy coordination; may need to engage with Congress if missile test occurs.

- **Panama**: Decide on level of representation at December 10 turnover ceremony, including possible POTUS participation.

III. Congressional agenda and likely response

- **Adequate Funding**

  - Congress indicated reluctance to fund more than 18% of **Kosovo funding, conflict plus reconstruction/SEE assistance** efforts cumulative. Need to work to ensure adequate 050 and 150 funding. (Overall 150 now about $4 billion below need.)

  - **Wye supplemental** not funded for Palestinians or Israelis (only Jordan) in fy99. Thus far no funding for in fy00 bills. Where and when this funding is added key component of overall foreign operations veto strategy.

  - **Expanded Threat Reduction Initiative** – in FY00, 150 account request carries bulk of programs designed to respond to the increased threat in Russia from unpaid scientists and weak export control systems. Congress has not provided any of the additional funds requested, and instead has cut the NIS account dramatically.

- **UN arrears/additional peacekeeping requests.** Some signs that Congress wants to take care of the arrears issue – but still no signs that House Republican leadership will break linkage with abortion politics. Should we manage to break the linkage, acceptably revised Helms-Biden legislative language on UN reform (authorization which would allow the appropriation) available. But current appropriated amounts for fy00 not adequate to pay past arrears, and increase likelihood that arrears will continue to rise because funding also not keeping pace with new peacekeeping commitments.

- **Counternarcotics funding/Colombia:** Burton and Gilman have mounted an assault on our Colombia policy. Hastert has indicated that he will seek to add nearly $1B for counternarcotics efforts to fy00 appropriations.

- **Arms control/readiness/NMD:** Anticipating likely Hill effort to legislatively abrogate ABM treaty, need to ensure sufficiently active negotiating schedule with Russians to give fodder to those who would forestall legislative action; also need to illustrate adequate resource and policy devotion to readiness and missile defense systems.

- **North Korea**: Congressional reaction will be strongly negative should missile test occur. Still trying to gain adequate KEDO funding, tough sell without testing. Agreed Framework may itself be at stake.

- **Iraq:** Negotiating new UN resolution that while narrower, is focused on items/issues of central importance; need to increase pressure on Baghdad to facilitate regime change without taking actions that risk a break with our regional allies. Implement Iraq Liberation Act to full extent practicable, including using military drawdown authority; need frequent consulting with key Hill players on plans and policy so that are continuously building reservoir of support that will back us if need to take further military action at any point.

- **China**: Need approval of permanent NTR is obtain bilateral WTO agreement.

- **African Trade Initiative/CBI:** Need to get to enactment.

STRATEGIC/MESSAGE PLANS

Office of Environmental Initiatives

August 10, 1999

Achievements and priorities given to the environment have distinguished this Administration from those past and continue to demonstrate clearly the differences between Democrats and Republicans. We have an opportunity to leave two indelible environmental legacies, as 1) the first Administration to address seriously the threat of global warming; and 2) the Administration that made environmental conservation a true and *permanent* national priority, through our Lands Legacy proposal.

1. LANDS LEGACY

A. **Objective** – In addition to securing as much of our relevant FY2000 budget as possible, we are working toward enacting authorizing legislation that would create permanent funding for the Land and Water Conservation Fund and other environmental priorities.

B. **Possible Presidential Actions** –

if it [illegible] works

- Announcement and perhaps appearance at site of significant LWCF land acquisition (e.g. Baca Ranch).

- Radio Address on using this time of economic prosperity to secure long-lasting natural prosperity for future generations, perhaps announcing proposed acquisitions.

- Opening of historic section of Civil War battlefield in Fredricksberg saved from development with LWCF funds.

- Visit to site where public-private partnership, without federal land acquisition, preserved valuable and threatened land. Our LL initiative is about more than land acquisition by the federal government, as we have numerous programs to assist private landholders to work with government and non-profits to do the right thing.

- Possible veto of Interior Appropriations bill.

C. **Republican Agenda and Response**

The Republicans are united in not wanting to give the President a legacy, but divided on the substance. Several bills which establish permanent funding for environmental priorities are bipartisan (Murkowski, Lott, Don Young, etc.). While these bills do contain some provisions we support, their emphasis is on "coastal impact assistance" to states that produce offshore oil and gas. The promise of large sums of money to a number their states is the primary Republican motivation – not environmental protection. Some Republicans, mostly Westerners and conservatives, are deeply opposed to these bills, because they believe such legislation will lead to more federal ownership of property. Our agenda will be criticized from this perspective.

D. Timing and Strategy

Relevant bills have not passed committee in either house. Even when they do, floor action is unlikely, or at least unlikely to be successful. Budgetary points of order and opposition from the House leadership are problems. The strategy then is to insert acceptable legislation into an end-game/omnibus situation. This will need to remain a top priority for the President in that context, and Senator Lott has similar interests in trying to include a bill acceptable to him.

Thus, we face several hurdles: 1) keeping this a top priority for us; 2) finding common ground on language with Lott/Young; 3) overcoming objections from House leadership as well as appropriators like Stevens and Domenici; and 4) convincing our supporters that whatever deal clears these tests is worthy of their support.

It is not at all clear that a sharp, partisan message from the President will be the best tool for increasing our chances of reaching a deal. Our message should be to the American people and it should be mostly positive.

2. CLIMATE CHANGE

A. **Agenda** – Promoting domestic actions to reduce greenhouse gas emissions while expanding political support for both strong domestic and international measures. Our focus will be on public education, securing funding for our Climate Change Technology Initiative budget and Clean Air Partnership Fund, legislation to give companies credit for reducing emissions, and ongoing diplomatic efforts.

B. Specific Initiatives/Possible Presidential Actions

- *Bioenergy.* This week, the President will sign an executive order and participate in an event promoting the development of this clean energy source for the 21st century.

- *Utilities.* We are working on a major initiative which if successful would result in a significant portion of the electric power-generating sector to announce voluntary reductions in greenhouse gases. This would be an

Good

appropriate announcement for the President and the Vice President, most likely in September or October.

Very important

- *Federal Fleet.* We are working on an Executive Order that would demonstrate federal leadership in the effort to reduce petroleum consumption, to purchase efficient and alternative vehicles, and to save taxpayers money. We hope to have this done in October or November.

- *Science/Budget.* In conjunction with new information regarding the science of climate change, the President could deliver a strong message to Congress on their failure to fund our climate priorities.

- *Vetoes.* Several appropriations bills may contain very serious climate change riders.

Good

- *Economic Event.* In conjunction with NEC, we are exploring an economic event that would highlight the economic opportunity for American business in producing and exporting the technology that will help the world fight global warming.

C. Republican Agenda and Likely Response

Republicans have for the most part given up on the strategy of fighting over whether or not climate change is real. Instead, they characterize our proposals and economically unsound, a threat to U.S. sovereignty, and extreme. Some of our opponents have introduced legislation that is extremely modest but which could serve as an excuse for doing nothing else. We will continue to be criticized for negotiating a treaty that some studies show would be costly to implement.

D. Timing and Strategy

Over the next two months, we need to keep the pressure on Congress vis a vis our budget and the riders. Public opinion is supportive of our position, and many see the Republican opposition as a function of powerful special interests. We should press that theme. At the same time and beyond, we need to continue to educate the public on the science, and to keep stressing "win-win" domestic proposals that will help us fight climate change and provide economic opportunity to farmers, small businesses and others.

Roger Ballentine RB

Cc: George Frampton

THE WHITE HOUSE

WASHINGTON

August 10, 1999

What about cuts in NASA Langley Aero Research — an intervention?

BC

MEMORANDUM FOR KAREN TRAMONTANO

FROM: NEAL LANE Neal Lane/ke

SUBJECT: Long-term Strategy for Science and Technology

A focus on American leadership in science and technology would be an excellent strategy for the next six months since it offers opportunities for bipartisan cooperation and achievement.

STRATEGY FOR SCIENCE AND TECHNOLOGY

The President has increased the S&T budget in each year of his presidency. The Research Fund for America -- an unprecedented proposal for support of S&T in the FY 1999 budget request -- fared extremely well in Congress. The President has helped to persuade the American people that continued American leadership in the world, a healthy economy, a strong defense posture, and a better quality of life for all Americans depend on our enduring commitment to research and to technology. We are following through on that commitment with strong support for research and development appropriations bills and for the specific agenda items and possible Presidential actions that follow.

Legislative Agenda

1. IT^2 Authorization Bill. The President's FY 2000 Budget requests funding for an initiative for Information Technology in the Twenty-First Century (IT^2). We are working with the House Science Committee and the Senate Commerce Committee to develop legislation that endorses this strategic initiative in three areas: a) long-term fundamental research in computing, information, and communications; b) increased investment in high-end computing to support particularly challenging research in science and engineering; and c) increased research to identify, understand, anticipate, and address the socioeconomic effects of information technology, including education and workforce issues.
2. Reauthorization of the Office of Educational Research and Improvement. We are working with the Department of Education (ED), DPC, and OMB to create a permanent authority for ED's research arm. The proposal offers a bold new vision for carrying out educational research that focuses on a small set of priorities, improves the rigor, quality, and utility of educational research, insulates the agency

from political influence, and bolsters its institutional capacity. Much of the proposed structure for the new research agency draws on the NIH and NSF models.

3. International Technology Transfer. We are working with both the House and Senate on legislation that directs a review to improve international technology transfer policies and practices at the Federal laboratories, particularly with respect to cooperative research and development agreements. The purpose is to ensure that defense and economic security issues are appropriately assessed in these international partnerships. H.R. 209 (Technology Transfer Commercialization Act) passed the House and a similar version is expected to pass the Senate in the near future. The National Science and Technology Council has an effort underway that would be responsive to the legislation.
4. Food Safety. At the request of the President, his Council on Food Safety prepared a response to a National Academy of Sciences report that called for a major restructuring of our federal food safety system. The Council's response to this report committed the federal food safety agencies to a strategic planning exercise including exploring various administrative and legislative options to improve the system's efficiency and effectiveness. Over the next few months, this planning process will create an environment suitable for additional White House leadership to proposed new food safety legislation or take administrative actions that address issues such as overlapping jurisdiction (e.g., eggs) or structural improvements (e.g., consolidation of the inspection force).

Possible Presidential Actions

Science and technology underpin all of the major policy areas identified for development of the strategic plan. The following actions (listed in estimated chronological order) often support multiple priorities (which are identified in parentheses).

1. Nobel Laureates Letter Supporting CTBT (S&T; Strong America). The American Physical Society is ready to provide this letter to the President for release **anytime** the Administration decides to make a major push on the treaty.
2. *National Bioethics Advisory Commission Report on the Ethical Use of Human Embryonic Stem Cells* (S&T; Ethics). NBAC will deliver its report to the President at the end of **August**. NIH plans to publish its draft guidelines for public comment in the Federal Register in **September**. The President could meet privately with the NBAC Chairman and the NIH Director in August, to receive the report and charge NIH to use the NBAC recommendations in drafting its guidelines. The President could use the public release of the draft NIH guidelines as an opportunity to call for support for biomedical research, prior to the appropriations markup of Labor/HHS.
3. *Federal Policy on Research Misconduct: Protecting the Integrity of the Research Record for Federally Funded Research* (S&T; Ethics). This policy will be published for comment in the Federal Register in **September**. The policy underscores the President's emphasis on sustaining public trust in the scientific enterprise, and it's release offers an opportunity for the President to make a

statement on that topic, as does an **October 14** workshop at the National Academy of Sciences.

4. State-Federal-Industry Partnership for K-12 Math and Science Teacher Recruitment (S&T; Education). In **September** we will be ready to announce the pilot program (10 school districts) that will provide core funding for establishing partnerships with local industries to ensure year-round, high-wage employment for math and science teachers.

5. *Creating the 21st Century U.S. Scientific, Technical, and Engineering Workforce* (S&T; Education; Economy). The President directed the NSTC to produce this report, which deals with the participation of women, minorities and the disabled in the science and technology workforce. The report should be ready for release in **September or October.** The President and Vice-President could meet with executives of high-tech companies that rely heavily on the science, technology, and engineering workforce to announce these companies' commitments to increase diversity in the workforce, while also releasing the report.

6. Presidential Summit with CEO's (S&T; Economy; Education). In **September,** the President should me with CEO's and University Presidents to discuss the impacts of current appropriations measures on the long-term prospects for the Nation's S&T enterprise.

7. *PCAST Report on Contributions of S&T to the New Economy* (S&T; Economy). In **September** the President's Committee of Advisors on Science and Technology will produce a report that documents the payoff from the Federal investment in science and technology that the President should transmit to Congress and many other audiences.

8. Interagency Education Research Initiative grants (S&T, Education). The first round of research grants under the IERI will be made in **September**. Inspired by PCAST, this ED-NSF-NICHD initiative will fund large-scale, rigorous research focused on improving key K-12 educational outcomes through technology. The President could use this opportunity to voice his support for educational research funding.

9. *Report from the IWG on Launch Range Review* (S&T; Economy). This report, which will be released in **October,** will make recommendations concerning the civil, commercial, and national security roles and responsibilities for operation, maintenance, improvement, and modernization at U.S. space launch bases and ranges, which the President could announce and implement.

10. Mentoring Awards (S&T; Education). The President established these awards for mentors of underrepresented groups in S&T in 1996 and could make presentations to the new awardees in **October** and make a statement about the importance of diversity to a strong, national S&T enterprise.

11. Dedication of the Relativistic Heavy Ion Collider (S&T ; Economy). On **October 4** the Relativistic Heavy Ion Collider, or RHIC will be dedicated at Brookhaven National Laboratory on Long Island. This new $600 Million particle physics facility will allow experiments designed to turn back the clock to a simulate conditions right after the big bang and test basic theories about what the universe is and how it got that way. The dedication ceremony would be an [illegible] the President to emphasize the need for stable, substantial investments [illegible]

[illegible]

12. Young Scientists Awards (S&T; Education). Each year approximately 60 scientists in their early careers receive Presidential awards for excellence, which the President could present in **November.** The President could use the opportunity to announce new commitments to recruiting a talented, diverse S&T workforce.

VP?

13. Institute for National Information Infrastructure Protection (S&T; Economy). The President's Committee of Advisers on Science and Technology have endorsed establishing a private, non-profit federally funded institute to address the vulnerability of increasingly interconnected U.S. information networks through research, engineering testing, "best practices" research, and vulnerability studies. We have overseen a study of the proposal whose preliminary findings are positive on establishing such an institute. There appears to be significant private sector support for it as well. This could be rolled out as early as **November**.

14. Executive Order on International Energy Cooperation (S&T; Environment; Energy; Economy). Following on the recommendations of the just-released PCAST report, *Powerful Partnerships*, the President could issue an Executive Order in **November** that would create a strategic management process to develop a vision and a plan for international energy research, development, demonstration, and deployment (RD3) activities. The EO could create an NSTC working group with representatives from each of the primary agencies associated with international energy RD3 needs. The working group would conduct a portfolio assessment of energy RD3 needs, building on the work of PCAST, and help coordinate the final FY2001 budget proposals for international energy RD3 areas. The EO would also establish an external Advisory Board to help closely link activities with the private sector and to systematically develop effective partnerships. In addition, the President could use the EO to direct related policy actions at the various federal agencies and the Multilateral Development Banks.

15. Regional Meetings on the Government-University Research Partnership (S&T; Education; Economy). On **November 4-5** at Purdue (IN), **December 1** at Stanford (CA), and in **January** at Georgia Tech OSTP will convene regional meetings to discuss the principles of the Government-University research partnership. The meetings would be opportunities for the President to call for renewed support for university-based research and greater integration of teaching and research.

16. Symposium on Enhancing Innovation (S&T; Economy). OSTP, DOC, DOD, DOT, the Council on Competitiveness and the Industrial Research Institute will sponsor this meeting **November 30/December 1**. The symposium will look at nonbudgetary items that will further enhance the U.S. innovation engine. The best opportunity for the President would be a speech on the afternoon of November 30.

17. Medal of Science/Medal of Technology (S&T; Economy). In **December**, the President should present the Medals of Science and Technology (the American equivalent of the Nobel Prize) to the most outstanding scientists and engineers in the country, using the opportunity to renew the Nation's commitment to stable, substantial investment in S&T.

18. Executive Order on International Technology Transfer at the Federal Laboratories (S&T; Economy). In **January**, the President could issue an E.O. (under development by the National Science and Technology Council) clearly defining procedures to ensure thorough assessment of national security and economic competitiveness concerns, primarily with respect to cooperative R&D agreements and licenses.

19. International Conference on Integrated Nano/Microtechnology for Space Applications (S&T; Economy). The President could role out the Nanotechnology Initiative for the FY 2001 budget on **January** 23-28.

Timing and Strategy

The President should undertake some public events supportive of science and technology investments this Fall to underscore his continued support for his R&D budget request and to indicate a strong commitment to substantial and stable funding for R&D. These events would lead up to a strong FY 2001 budget and SOTU statements.

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	From Lisa Green to Melissa G Green (1 page)	07/30/1999	P5
002. memo	Memorandum to the President From Gene Sperling (4 pages)	03/29/1999	P5

COLLECTION:
Clinton Presidential Records
Policy Development
Lisa Green
OA/Box Number: 20586

FOLDER TITLE:
[New Markets Legislation] [loose]

Rich Sheridan
2012-0043-S
ms438

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 advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
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RR. Document will be reviewed upon request.

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]

Lisa Green
07/30/99 09:58:55 AM

Record Type: Record

To: Melissa G. Green/OPD/EOP@EOP

cc: Sarah Rosen Wartell/OPD/EOP@EOP
Subject: Velazquez and New Markets -- Potential Problems

The discussion described in the e-mail below (see III-B, highlighted with stars) was the first we heard about any discontent that Velazquez has about the New Markets legislation. Apparently, in a meeting with the VP and the Hispanic Caucus, Velazquez indicated that she has concerns about the New Markets Venture Capital legislation, the piece that will go to the Small Business Committee. Velazquez is the ranking member of the Small Business Committee and we expect her to be the lead sponsor. Based on the note below, the VP will bring this up with the President.

Yesterday evening Ted Wartell and Jane Merkin from SBA policy and legislative affairs spoke at length with Michael Day from Velazquez's office to determine the nature of her concerns. Apparently, she is very upset about issues which seem to have very little to do with the actual legislation. #1 she is bothered that Gene did not return her call #2 she is upset that the President did not visit New York and that we went to Watts and did not focus on the Hispanic community enough (a concern that she had raised earlier, and that we knew we would have to deal with) #3 she feels that the process has not been good in terms of the development of the legislation and that she has not had enough opportunity for input (a point that SBA and I would disagree with strongly --- since there have been numerous briefings -- in fact Alvarez briefed her directly).

There also seems to be some vague concern about the targetting criteria being too broad. A concern which I think we can easily address. I think the real problems is that she is looking for a little attention from the White House. Nonetheless, she has "threatened" to not support the bill or reluctanty introduce it with stated objections.

Next Steps: I recommend we have Gene call Velazquez as soon as possible, for the primary purpose of soothing her ruffled feathers. The secondary purpose would be to talk with her about the targetting criteria. We need to address her concerns before the VP raises it with the President. I am also concerned that if we have a closed door meeting next week with POTUS and the sponsors of the legislation, she may raise a fuss.

Let me know if there's a possibility of something happening today from the plane-- I know chances are slim. If not today, is it possible to have Gene place a call Monday morning? In either case, I'll try to pull together some talking points, if you think Gene will want them.

---------------------- Forwarded by Lisa Green/OPD/EOP on 07/30/99 09:30 AM ---------------------------

Paul Thornell@OVP 07/29/99 01:38:04 PM

Record Type: Record

March 29, 1999 -- Draft #1

MEMORANDUM TO THE PRESIDENT

THROUGH: THE CHIEF OF STAFF

FROM: GENE SPERLING

RE: PRESIDENTIAL TRIP TO AMERICA'S NEW MARKETS

Your State of the Union message about the untapped markets within America's borders has generated much enthusiasm. With economies abroad in trouble, private capital is looking for new investment opportunities, some of which can be found here at home. With the U.S. economy booming, we have not only an opportunity, but an obligation, to bring the power of private investment to bear in meeting the needs of our underserved communities. Your Administration has offered new programs that can help to stimulate private equity investment in these communities -- including the New Markets Tax Credit, America's Private Investment Companies, and New Markets Venture Capital Firms. We must promote these proposals aggressively and seek Congressional approval. But we can do even more to showcase the business opportunities in these communities and to mobilize American business to invest here at home.

We have discussed a three-day Presidential trip to distressed communities -- including urban, rural, and Native American communities. At each stop, you could highlight an Administration initiative that is helping to bring new investment to that community and talk about how the Administration's New Markets initiatives could do so much more. But I believe that the trip would capture the imagination of the media if it were not simply a "victory lap" or an advertisement for our new programs, but showed you ***using the power of the Presidency to mobilize the private sector to meet some of the toughest challenges left in our economy***. For example, you might:

- unveil the creation of a new venture capital fund created by a state government under the SBIC program, with major businesses in that state agreeing to provide initial matching capital to help grow small businesses in their state; or

- go to a place where a CDFI had done terrific work and announce that three major companies in that state had agreed to invest $30 million in its work; or

- go to an empowerment zone and announce new corporate investment in the zone; or

- cut the ribbon on a new inner city grocery or drug store and announce the chain's commitment to open X more stores in underserved areas; or
- announce a BusinessLink partnership between a major company or companies and dozens of small businesses in a community, in which the large company (or companies) commits to provide technical assistance, mentoring support, and business opportunities to the small firms in an underserved area.

However, if our goal is to demonstrate meaningful new contributions to these communities -- not simply celebrate what is already going on -- it will require lead time to identify promising locations, work with local community development groups to find projects that merit new investment, and convince investors to make new commitments. It is important that the commitments that we mobilize be meaningful ones -- ones that will make a real difference. We do not want someone coming behind a year later and saying that nothing ever came from the President's visit and the pledges he announced.

I appreciate your interest in taking this trip soon. I would urge, however, that additional time be provided so that this can be something truly special and so that we find the best possible locations to convey the message. A date in July should give us adequate time to pull together a compelling story, coordinated events, and major deliverables from corporate leaders. I have just hired a new staff person from Fannie Mae who will be devoted 100% to working on this initiative. I plan to chair a working group meeting weekly over the next few months to develop the deliverables for the trip. I will be working closely with Treasury Secretary Rubin, SBA Administrator Alvarez, HUD Secretary Cuomo, Commerce Secretary Daley, the Vice President's office, and others to make this happen. I detail below the work plan I have developed to ensure that we make the most of this opportunity.

I do not suggest that we let the message languish in the interim. Legislation to create the New Markets Tax Credit, the America's Private Investment Companies, and the New Markets Venture Capital Firms are all in clearance. We are consulting with Congress but expect to have important sponsors for each component of the legislation. I propose that you unveil the legislation in the next month, here in Washington, joined by the key sponsors of each bill on Capital Hill. These members are likely to include Representatives Rangel and Velasquez and Senator Sarbanes among others. There is at least some prospect for Republican sponsorships of the tax credit, as well.

The DPC has urged that you also find an opportunity to focus on the educational and human resource needs of communities of poverty. While the message is distinct from the New Markets message, you could take the opportunity in May, while school is still in session, to focus on issues involved in the reauthorization of the Elementary and Secondary Education Act (confirm name) -- in particular provisions regarding funds for distressed communities.

WORKPLAN

[RANDOM THOUGHTS]

- Secretary Rubin to host a roundtable of major financial sector CEOs to discuss the President's initiative and how they might be able to increase their investments in America's new markets.

- Secretary Alvarez to host a roundtable of major SBIC fund mangers to discuss the President's initiative and how they might able to increase their investments in America's new markets.

- Secretary Daley to host a roundtable of major corporate CEOs to discuss the President's initiative and how they might be able to increase their investments in America's new markets.

[NOTE: Some competition between corporate folks to develop the best plan for the President to highlight might be constructive.)

- Lead working group in identifying models -- programs that would lead themselves to additional efforts to increase private investment.

- Lead working group in identifying locations -- good sites that would highlight the success of Administration efforts and present the opportunity for new commitments to those communities from the private sector.

- Work with the Governors of the Appalachian Regional Commission to identify promising location to highlight their efforts to promote Appalachia and a new market and for the President to assist their efforts in calling for new private sector investment in their region.

- Work with the coalition of community development financial institutions that are supporting our New Markets legislation to identify promising projects and investors to target.

- Work to develop a small business technology component to the new market initiative to be unveiled during the trip.

- Find way to highlight activity by the Inner City 100 -- the top corporations investing in inner cities -- to be identified in a study by Inc. Magazine and Michael Porter's firm late in April.

- Perhaps release a new study by the Federal Government highlighting the economic potential of underserved areas, proposing key indicators of economic potential, and highlighting underserved communities that meet that test. One role for gov't is to show businesses why it makes good business sense for them to invest in underserved areas.

(Both HUD and Commerce are working on something in this regard. We need to coordinate. Cuomo wants to unveil at Conference of Mayors next month.) Also -- the Social Compact and Southshore are working on a similar study. However, there is much to be gained by the credibility of a gov't study.

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	To Mickey Ibarra (1 page)	06/25/1999	P5
002. list	Roundtable Recommendations; RE: phone number [partial] (1 page)	06/29/1999	P6/b(6)

COLLECTION:
Clinton Presidential Records
Policy Development
Lisa Green
OA/Box Number: 20590

FOLDER TITLE:
Phoenix AZ [Arizona] [1]

Rich Sheridan
2012-0043-S
ms253

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 advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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

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]
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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]

Record Type: Record

To: Mickey Ibarra/WHO/EOP@EOP, Laura A. Graham/WHO/EOP@EOP, Lisa Green/OPD/EOP@EOP

cc: Fred DuVal/WHO/EOP@EOP
Subject: Phoenix- New Market follow-up

Supervisor Mary Rose Wilcox called Mickey to alert him to concerns regarding a possible site - the YET CENTER. The center is run by a (D) who turned (R). He works for the (R) GOV. and has not been too kind to the (D's) in the area. She also said the center has had financial problems and is connected to a charter school. Her feeling was that politically it was not a good place to visit because the visit would be seen as an endorsement for the charter school.

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	From Jonathan A Kaplan To Melissa G Green (1 page)	05/27/1999	P5

COLLECTION:

Clinton Presidential Records
Policy Development
Lisa Green
OA/Box Number: 20589

FOLDER TITLE:

Pine Ridge South Dakota [1]

Rich Sheridan
2012-0043-S
ms441

RESTRICTION CODES

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

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
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JONATHAN A. KAPLAN
05/27/99 04:37:48 PM

Record Type: Record

To: Melissa G. Green/OPD/EOP@EOP
cc: Lisa Green/OPD/EOP@EOP
Subject: heads-up

For Gene from Maria.

---------------------- Forwarded by Jonathan A. Kaplan/OPD/EOP on 05/27/99 04:37 PM ---------------------------

Maria Echaveste 05/27/99 04:36:10 PM

Record Type: Record

To: Gene B. Sperling/OPD/EOP@EOP, Kris M Balderston/WHO/EOP@EOP, Jonathan A. Kaplan/OPD/EOP@EOP
cc: Lynn G. Cutler/WHO/EOP@EOP
Subject: heads-up

I had a very frank discuwssion with andrew in texas at the empowerment conference--told him pine ridge was in play but it all depended on whether there was a real private sector commitment--we would only go if there waqs something real--building 20 houses wasn't enough--I suggest Gene--you should call Andrew and reiterate that messdage and tell him it's not helpful telling tribes that president will be there when we haven't made a commitment--i'LL DO THE SAME WHEN i get back--also kris you should let his cos staff know how unhappy I am to hear that hud is already acting like this is done deal --it is not,. also, andrew was very down on fannie mae being there or having a deliverable--we may need to sort that out,.

---------------------- Forwarded by Maria Echaveste/WHO/EOP on 05/27/99 04:32 PM ---------------------------

Lynn G. Cutler
05/27/99 01:09:12 PM

Record Type: Record

To: Maria Echaveste/WHO/EOP, Gene B. Sperling/OPD/EOP
cc: Jonathan A. Kaplan/OPD/EOP, Broderick Johnson/WHO/EOP
Subject: heads-up

two days ago, I started getting calls from Pine Ridge about how excited they were that the President was coming to the reservation in July. I told them that no decision had been made, and where had they heard

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

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

FOLDER TITLE:
Prime [1]

Rich Sheridan
2012-0043-S
ms258

RESTRICTION CODES

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

P1 National Security Classified Information [(a)(1) of the PRA]
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Lisa Green
06/21/99 08:11:11 PM

Record Type: Record

To: Melissa G. Green/OPD/EOP

cc: Sarah Rosen Wartell/OPD/EOP, Jonathan A. Kaplan/OPD/EOP
Subject: PRIME Legislation

Melissa, for Gene. He will probably want to read this before returning Gensler's call. I will fax or bring over attachments before leaving this evening.

Background

The purpose of this e-mail is to update you on recent developments related to the PRIME Act and a request we have received from both Treasury and Congressman Bobby Rush's office (lead sponsor of the PRIME ACT) to affirm the Administration's support of the PRIME ACT as originally drafted in H.R. 413 with CDFI/Treasury as the agency responsible for administering the program. Attached for your reference are copies of prior memoes sent to you last month regarding the May 26 hearing and markup for PRIME before the House Banking committee. The hearing was uneventful except for testimony from Alvarez raising her strong and adamant concern that PRIME was duplicative of SBA programs. The bill was accepted by the Banking Committee with no amendments.

Update - Supplemental Views and Sequential Referral

Last week Velazquez and 6 other members of the Small Business Committee who also serve on the Banking Committee entered supplemental views into the record on the PRIME Act. (A copy of the supplemental views is attached for your reference). The other members were Rep. Sue Kelly (R-NY), Rick Hill (R-Montanna), John Sweeney (R-NY), Donald Manzullo (R-Illinois), Dennis Moore (D-KS) and Stephanine Tubbs Jones (D-OH). I'd say these are pretty strange bedfellows for a Democrat. She is on our side isn't she? In summary, the supplemental views (1) outlined their concern that PRIME will be duplicative of SBA's current micro-loan programs; (2) implied that the program should be administered by jointly by SBA and CDFI; and (3) suggested that SBA should be involved in developing regulations for PRIME.

At the same time these views were submitted, the Parlimenterian granted a sequential referal to Velazquez and Kitt Bond of the legislation to the Small Business Committee. This sequential referal was requested last year but was not granted. We did not expect that it would be granted this year. No action has been taken yet. The Committee has until July 2nd to act upon the referall.

We have heard from several sources that hearings may be scheduled for later this week. The nature of the hearings would be to lay the ground work for a **potential amendment to the PRIME Act which would require CDFI and SBA to jointly administer the PRIME program**.

Velazquez's Position as it Relates to SBA

Velazaquez has consistently raised concerns over duplication of SBA's program in the Prime Act. In fact, the industry has been very clear that the programs are not duplicative and we believe that Treasury makes a good argument for why PRIME should be administered by CDFI rather than SBA. (This argument is summarized in the attached memo). The staff at SBA has said publicly and to us privately that they are supportive of the PRIME legislation. However, as you know, this issue came up last year, with some disagreement between SBA and Treasury on the matter. At the time we though that the increased funding for SBA's program in the President's budget had brought closure to the debate. However, although there is no clear evidence to support our suspicion, we believe it is likely that SBA has requested Velazquez's assistance on raising the issue again this year in a very threatening manner.

Potential Domino Effect on Other Legislation

We (Treasury/CDFI, Rush's office and myself) are very concerend that the issues that Velazquez is raising and her enlistment of other members, may lead some people to think there is "controversy" surrounding this bill. It follows that any problems with PRIME could be seen as problems for all of CDFI's funding. As you know, PRIME has tremendous bi-partisan support and it would be very unfortunate for this latest development to interfere with co-sponsorhship for either PRIME or CDFI funding or even the New Markets Initiative, by association.

Recommendation

My recommendation (which is supported by Treasury/CDFI and would be welcomed by Rush's office) is to request that **Treasury and SBA sign a joint letter to the Small Business Committee indicating their joint support of the PRIME Act as originally drafted. It may also be appropriate for you to call Velazquez directly on this matter. Time is of the essence given next week's July 2nd deadline and the possibility they may call hearings and conduct a markup as early as this week.**

Please advise.

Lisa: Excellent memo. Thank you. You need to resolve w/ Treas + SBA. There will be no public dueling. We need CDFI bi-partisan support + SBA can't get in the way. Treas should be solid + be cooperative as possible. But SBA should know I want to let them work support for CDFI + Prime. GS 5/24/99

Lisa Green
05/22/99 01:22:20 PM

Record Type: Record

To: Melissa G. Green/OPD/EOP@EOP

cc: Broderick Johnson/WHO/EOP@EOP, Sarah Rosen Wartell/OPD/EOP@EOP, Jonathan A. Kaplan/OPD/EOP@EOP

Subject: Update on PRIME Legislation

For Gene, per his request. I am also faxing over information to attach to this memo.

The purpose of this e-mail is to provide you with information regarding the history of the PRIME Act and to bring to your attention recent developments that may have an impact upon next Wednesday's (5/26) hearing and markup, to be held at the same time as hearings on CDFI's overall funding.

Back Ground on PRIME Act of 1999

The PRIME (Program for Investment in Microentrepreneurs) Act of 1999 (H.R. 413) is being sponsored by Representatives Bobby Rush, James Leach, John LaFalce and Bill McCollum. The Senate version which was recently incorporated into Gramm's Financial Modernization bill was introduced by Kennedy and Domenici.

The House bill has garnered strong bi-partisan support with 100 co-sponsors as of 5/21. The Act would authorize the ~~CDFI Fund~~ to establish a technical assistance and capacity building program that will award ~~grants on a competitive basis.~~ Funds would ultimately ~~help~~ to support microenterprise programs that are providing training and business assistance to low and very low income entrepreneurs (based on 80% of Area Median Income and 150% of poverty).

Funding for Microenterprise in the Presidents FY 2000 Budget

The PRIME ACT would authorize a cumulative appropriaton level of $105 million over four years, starting with an appropriation of $15 million in FY 2000.

In addition to funding for PRIME, the President's FY 2000 Budget includes increased funding for SBA microlending programs and SBA One-Stop Capital Shops which support microenterpise as follows.

- $32 million for SBA Training and Technical Assistance (double the 1999 appropriation of $16 million)
- $6 million for SBA Microlending Program (double the 1999 appropriation of $3 million)
- $10 million for SBA One Stop Capital Shop (nearly three times the 1999 appropriation of $3.1 million)

In total SBA will recieve $48 million in funds which are available to support microenterprise lending and microenterprise development.

Distinction Between PRIME and SBA Programs

SBA's programs are linked directly to ~~the~~ credit provided by SBA for microlending. Although, there is no express requirement in the statute, SBA's program ~~has been~~ used to support technical assistance for lenders participating in the program. In contrast PRIME, administered by CDFI, will provide support for technical assistance providers, some of which may be microlenders, and some of which may not be. CDFI is better equipped to work with community development types of organizations that provide

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	From Broderick Johnson To Lisa Green (1 page)	05/24/1999	P5

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

FOLDER TITLE:
Prime [2]

Rich Sheridan
2012-0043-S
ms442

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]
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Broderick Johnson
05/24/99 02:33:13 PM

Record Type: Record

To: Lisa Green/OPD/EOP@EOP

cc:
Subject: Re:

Michael Day is available for about 15 minutes today at 3, **but at this point I strongly recommend not making the call just yet. My contact with Rep. LaFalce (ranking democrat) thinks this issue is "under control" at the moment; that LaFalce will make relevant comments agreeing with Velaquez concern about PRIME not supplanting or otherwise harming SBA's program, and pointing out the Administration's support for both. At this point LaFalce's folks are comfortable that no amendments will be offered, including any by Velaquez. He thought that it might backfire if we raised this with Velaquez or her staff, and assured me that he would alert us if circumstances change in circumstances that would warrant heightened Administration involvement before Wed. At this point I would prefer that we not make today's call and I can simply cancel with Michael Day. Please call me ASAP if this approach concerns you or Gene.**

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	From Lisa Green To Sarah Rosen Wartell and Melissa G Green (2 pages)	05/18/1999	P5
002. email	From Sarah Rosen Wartell To Lisa Green (3 pages)	05/19/1999	P5

COLLECTION:

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

FOLDER TITLE:

Prime [3]

Rich Sheridan
2012-0043-S
ms443

RESTRICTION CODES

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

P1 National Security Classified Information [(a)(1) of the PRA]
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Lisa Green
05/18/99 07:35:43 PM

Record Type: Record

To: Sarah Rosen Wartell/OPD/EOP, Melissa G. Green/OPD/EOP

cc: Jonathan A. Kaplan/OPD/EOP
Subject: PRIME Legislation

I have had several conversations in the last 24 hours with individuals about the PRIME legislation which is scheduled for a markup and a hearing next Wednesday. I'm getting consistent feedback that Velazquez has concerns about the bill related to SBA's microlending progam versus CDFI's adminstration of PRIME (Program for Investment in Microentrepreneurs). There is a fear that she may introduce an amendment that would provide a statutory preference or priority for SBA microlenders (if/when funding ran under the SBA microlending program).

Background
No one will has heard from her staff explicitly, but it appears that Velazquez's concerns may be stemming from SBA's concerns which were raised last year --- concerns which were supposedly resolved at that time. As you know, the President's budget includes increased funding for SBA's microlending program as well as for PRIME (which will be adminstered by CDFI). Based on my reading and conversations with Michael Barr, Ellen Lazar, Sheila Maith (Kennedy is a major sponsor of PRIME), and Alison Feighan (from Rapoza who is representing the industry groups on this issue) I am convinced that the programs are not duplicative.

Differences in Programs
The difference in the programs is a focus on credit based organizations (under the SBA program) versus technical assistance providers (under PRIME). The industry groups expressed a desire early in the development of the legislation for PRIME to be administered through CDFI, because CDFI is better equipped to deal with community development types of organizations that provide technical assistance to low-income entrepreneurs in contrast to SBA which has a good history of providing assistance to small business lenders that typically serve higher income populations. This issue is likely to be raised (as it frequently is) at the hearing next week. Testimony will be provided at the hearing by several microlenders who operate programs funded by SBA and will be prepared to talk about the differences they believe exist between the existing SBA microlending program and the proposed CDFI program. Kennedy and Domenici are also expected to testify.

Friday Briefing for Caucuses
As you know, I will be presenting at a briefing on PRIME to the Hispanic Caucus, the Womens Caucus and the Congressional Black Caucus this Friday. The briefing is being sponsored and organized by Bobby Rush's office and I will be speaking very generally about the Adminstrations support of the legislation and funding in our budget for Microenterprise programs under PRIME and at SBA.

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Sarah, Jon, Melissa --- Please advise. Should I send Gene a shortened version of this e-mail message? Is there additional information he will want prior to the Friday briefing? Can this wait until after Friday's meeting to brief Gene? [Soon, I hope to be able to make these judgement calls on my own --- but for now I need your guidance].
Thanks

SBA on behalf of administration

tell #s for SBA authorized

Sarah Rosen Wartell
05/19/99 06:18:26 AM

205 6490

Record Type: Record

To: Lisa Green/OPD/EOP@EOP
cc: See the distribution list at the bottom of this message
bcc:
Subject: Re: PRIME Legislation

Jane Butler - Deputy
Patrick McGowan
205-6663
or
205-6657
[illegible]

Lisa --

I'd give Gene a copy of the email as background to read when he can.
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Finally, I am happy to call Swedin with a copy of the letter in my hand and remind her of our support for their microenterprise and other budget programs and express concern that any effort by SBA to undercut PRIME could jeopardize our willingness to go to bat for them. Then, if it still looks like SBA is doing their thing, Gene can call Aida.

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Lisa Green

Lisa Green
05/18/99 08:13:41 PM

Record Type: Record

To: Sarah Rosen Wartell/OPD/EOP@EOP, Melissa G. Green/OPD/EOP@EOP
cc: Jonathan A. Kaplan/OPD/EOP@EOP
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Withdrawal/Redaction Sheet
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	From Sarah Rosen Wartell To Lisa Green (3 pages)	05/19/1999	P5

COLLECTION:

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

FOLDER TITLE:

Prime [5]

Rich Sheridan
2012-0043-S
ms444

RESTRICTION CODES

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

P1 National Security Classified Information [(a)(1) of the PRA]
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LG
one concern to [illegible] is that [illegible] SBA is better with [illegible] currently is a $15M [illegible] is [illegible]
Then
X GS 5/22/9[illegible]

Sarah Rosen Wartell
05/19/99 06:18:26 AM

Record Type: Record

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cc: See the distribution list at the bottom of this message
bcc:
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Lisa Green
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FOLDER TITLE:
[US Conference of Mayors]

Rich Sheridan
2012-0043-S
ms445

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Homeownership week Announcement

Cost Housing

2nd Homeownership Proclamation did it on 05398 last year

Done

FHA

Bar Kraft

Sarah Rosen Wartell
06/08/99 11:55:10 AM

Record Type: Record

To: Melissa G. Green/OPD/EOP@EOP
cc: lisa green/opd/eop@eop, jonathan a. kaplan/opd/eop@eop, Michael Deich/OMB/EOP@EOP, Theodore Wartell/OMB/EOP@EOP
bcc:
Subject: Re: HUD/Help

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While I would want to see details and OMB"s assessment before rendering any judgement on whether this is "meaningful" as Karen asks, I am somewhat dubious about whether, in tight competition for POTUS airtime, this merits a presidential direction -- Cuomo has already committed to Congress to make changes (I think); it would only cover homes with FHA-insured mortgages (not a few -- 750,000+ a year); and it is a bit technical. Moreover, if he is only asking the Secretary to engage in a process to fix -- not saying what the fix is -- it seems to be a pretty unsubstantial announcement. (We need to clarify that. Is the process publish a proposed rule that says .... Or is it negotiate with the affected parties to try to reach a deal.... If the later, there is no policy to announce.)

On the other hand, it appears we are actively soliciting ideas for Executive action, there are cases of FHA homeowners who had shoddy appraisals that didn't uncover serious defects in the home (that isn't the goal of the appraisal -- but that argument is lost in the public debate) and suggestions being made that there was a conflict of interest because the lender selects the appraiser, so it is a good story of consumer harm. Real estate pages around the country have covered it, although not other press. And a few members of Congress have beaten HUD up on the topic. So, if there is any meat, this might be newsworthy....

Melissa G. Green

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06/08/99 11:25:30 AM

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To: Sarah Rosen Wartell/OPD/EOP@EOP

cc: Lisa Green/OPD/EOP@EOP, Jonathan A. Kaplan/OPD/EOP@EOP

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