

PROMOTING INVESTMENT IN AMERICA'S NEW MARKETS

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

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

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

WORKING WITH EXPERTS AND CONGRESS

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

HARNESSING THE POWER OF THE PRIVATE MARKET TO REVITALIZE COMMUNITIES

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

1. ***The New Markets Tax Credit*** -- To help spur \$6 billion in new equity capital for investment in America's New Markets, President Clinton has proposed a tax credit worth up to 25 percent for investments in a wide range of vehicles serving these communities, including community development banks, venture funds and corporations, the new

investment company programs announced by the President (see descriptions below), and other targeted investment funds. Credits would be allocated to the targeted investment vehicles which could use the tax credits to **attract** investors. The investment funds would make their own decisions about what investments or loans to make to help create and grow businesses in the New Markets. A wide range of businesses could be financed by these investment funds, including small technology firms, inner-city shopping centers, manufacturers with hundreds of employees, and retail stores.

2. ***America's Private Investment Companies (APICs)*** -- For years, America has supported OPIC, the Overseas Private Investment Corporation, to promote growth in emerging markets abroad. Now we must do the same thing in America's New Markets. Under this program, investors will put a minimum of \$100 million in equity into new private investment partnerships to be known as America's Private Investment Companies (APICs). HUD and SBA working together will provide up to another \$200 million in loan guarantees for each. APICs will make equity investments in larger businesses that are expanding or relocating in inner cities and rural areas. Under the financing structure, the private investors' funds are at risk ahead of the government. However, the individual investment decisions must be approved by the government for consistency with the public policy mission of the program.
3. ***SBICs Targeted to New Markets*** --Over 40 years, the SBA's small business investment company (SBIC) program has provided roughly \$20 billion in equity and debt financing to more than 85,000 different companies, helping them at a critical stage to grow from small businesses to household names, like AOL and Staples. However, too little of the capital invested has benefited our cities and rural distressed communities. Last summer, the Vice President challenged the SBA to find ways to meet better the needs of minority firms and underserved markets. In response, SBA determined that, under existing legislation, the Agency can offer more flexibility and new financing terms to make it more attractive for SBICs to invest in businesses in low and moderate income (LMI) areas. Specifically, SBICs making LMI investments will be eligible for a new type of federally guaranteed loan to augment their capital for business investment. Interest on the guaranteed funding will be deferred for the first five years of the 10-year term to give SBICs more time to nurture their investments in small businesses before they must produce a return. In addition, SBA will conduct an aggressive outreach campaign around the country to promote LMI investments.
4. ***New Markets Venture Capital Firms (NMVCs)*** -- There are thousands of inner-city and rural entrepreneurs who need both capital and expert guidance to transform their small businesses and great ideas into thriving companies. SBA will select ten-to-twenty NMVC firms whose management has successful records in community-based venture capital. The equity funds of private investors will be matched with government debt guarantees of up to \$10 million per NMVC, with interest on the debt deferred. Investors must also provide at least \$1.5 million in technical assistance over five years to the target firms, matching

SBA's grants of technical assistance. The program should provide long-term, patient growth capital and facilitate critically needed technology and management skills development for smaller businesses in new markets.

5. ***New Markets Lending Companies (NMLC)*** -- For the first time in many years, SBA will approve approximately 10 new non-bank lenders -- firms authorized to originate loans under SBA's largest loan program -- the 7(a) General Business Loan Guaranty program. Under the 7(a) program, SBA guarantees up to 80% of a loan that is made by a lender to a creditworthy small business that cannot otherwise secure financing on reasonable terms. The firms selected must have a strategy to target their lending to underserved areas.
6. ***Continued Growth for CDFIs*** -- The President's initiative to develop community development financial institutions (CDFIs), locally-based institutions with expertise in lending and investment in underserved areas, will continue to grow. His FY 2000 balanced budget will include \$125 million for the CDFI fund. Thus far, CDFI has made over \$180 million in awards to community development organizations and financial institutions.
7. ***BusinessLINC*** -- The President's budget will include \$3 million in seed money to expand BusinessLINC -- an innovative public-private partnership launched by Vice President Gore and led by Treasury Secretary Rubin and SBA Administrator Alvarez -- to new markets in economically distressed communities. BusinessLINC (Learning, Information, Networking and Collaboration) is designed to encourage large businesses to work with small business owners and entrepreneurs in order to improve the economic competitiveness of smaller firms located in distressed areas, both urban and rural. The funds will be used to leverage private sector efforts to spur new BusinessLINC partnerships at the national and local level.
8. ***Specialized Small Business Investment Companies (SSBICs)*** -- The President's budget will expand current tax incentives to increase the amount of equity capital available to economically disadvantaged people by making it easier for Specialized Small Business Investment Companies (SSBICs) to qualify as tax-favored regulated investment companies.