

Utilization of CDBG Funds to Capitalize the Grow America Fund

December 16, 1990

MEMORANDUM FOR: David P. Forsberg, Regional Administrator-
Regional Housing Commissioner, 1S

ATTENTION: William H. Hernandez, Jr., Manager
Hartford Office, 1.1S
Daniel P. Kolesar, Director
Community Planning and Development, 1.1C

FROM: Anna Kondratas, Assistant Secretary for
Community Planning and Development, C

**SUBJECT: Grow America Fund
Waterbury, Connecticut**

This is in response to a memorandum from Daniel Kolesar, CPD Director, dated September 25, 1990, concerning a proposal from the City of Waterbury, Connecticut to use Community Development Block Grant (CDBG) funds to capitalize the Grow America Fund (GAF), a private, for profit small business lending corporation which is a subsidiary of the National Development Council (NDC). Waterbury has been asked to make a \$150,000 CDBG grant to GAF to assist in creating an economic development revolving loan fund. The funds would be used by GAF to make SBA-guaranteed economic development loans to SBA-eligible small businesses in Waterbury. The loan fund would not become active, however, until GAF has raised \$5 million to capitalize the corporation and has received SBA approval to begin operations

The memorandum states that the proposed \$150,000 grant to GAF to create the revolving loan fund appears to be a lump sum drawdown and questions whether or not this would be a violation of the regulations if GAF were an eligible subrecipient under 24 CFR 570.204. Whether GAF is an eligible subrecipient under 24 CFR 570.204 is not relevant in this case since lump sum drawdowns have only been permitted to establish a rehabilitation fund in a financial institution for the purpose of financing the rehabilitation of privately owned properties. Since the CDBG funds would be used for economic development in this case, not rehabilitation, a lump sum drawdown would not be permissible. Further, lump sum drawdowns for rehabilitation are not even permitted currently in the Block Grant program.

The second question raised is whether GAF could receive a grant under the authority of 24 CFR 570.203 which permits the use of CDBG funds for special economic development activities carried out as part of an economic development project, provided such activities meet a national objective of the CDBG program. Section 570.203(b) provides for assistance to private-for-profit entities for activities determined to be "necessary or appropriate" to carry out an economic development project. Under this provision of the regulations, GAF would be a subrecipient and the individual business concerns would be the

recipients of the assistance. The loan to each individual business would have to meet all the eligibility and national objective requirements, including the necessary and appropriate determination. Funds should only be provided to GAF as needed by the business concerns following approval of their individual loans. This would not permit providing to GAF a grant of \$150,000 in a lump sum so that GAF can demonstrate to SBA that there is sufficient funding to capitalize the corporation.

We would like to also bring to your attention that Section 506 of the Small Business Administration Reauthorization and Amendment Act of 1988 seeks to overcome the statutory requirement of meeting a national objective when receiving CDBG funds. This provision states that "on or after May 1, 1991, no development company may accept funding from any source, including but not limited to, any department or agency of the United States Government, if such funding includes any conditions, priorities, or restrictions upon the types of small businesses to which financial assistance may be provided or if it includes any conditions or imposes any requirements, directly or indirectly upon any receipt of assistance." Essentially, this means that development companies that are authorized to administer SBA-guaranteed loans may not accept CDBG funds after that date.

If you have any further questions, please contact the Entitlement Communities Division at FTS 458-1577.