

Scott Frame 622-8355

Nancy Libson 208-0005, HUD Cong Affairs

Howard Glasser, 208-0636, ~~MAA~~ HUD ~~Cong Affairs~~

Melissa Benton, OMB

Ed Demarco 622-2792

Penny Zostrow, Treas Leg Affairs

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The Honorable Carolyn B. Maloney  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Ms. Maloney:

I am writing to provide you with the Administration's views on H.R. 3637, the "Children's Development Commission Act." The bill is commonly referred to as "Kiddie Mac", a carryover term from an earlier draft of the bill.

The President shares your deep concern for child care issues and is very grateful for your efforts and your support in this area.

I would like to first note that your bill has received considerable attention and discussion, both here at Treasury and within the Administration. To recap, on March 18 you sent a letter to Secretary Rubin requesting the views of the Department of the Treasury on your Kiddie Mac draft legislation. On April 1, you and Rep. Baker introduced H.R. 3637. This bill differed in substantial ways from the draft that you sent to us in March.

We carefully reviewed your bill, and discussed it with our Administration colleagues. On June 3, Treasury staff met with staff from your and Rep. Baker's offices to discuss the technical concerns we have with the bill. Then, on July 23, staff from your office and from the offices of Rep. Baker and Sen. Kohl met with an interagency group that included representatives from the White House, Treasury, the Small Business Administration, and the Departments of Housing and Urban Development and Health and Human Services. In addition to these meetings, your bill has been the topic of several discussions, both within the Treasury and inter-agency. In short, we have devoted considerable attention to both the objectives and the approach taken in your bill.

Based on this exhaustive analysis and discussion, we have concluded that we strongly agree with your objectives but have significant concerns with your approach. Fortunately, we believe that we can accomplish your objectives through a different approach. I would like to outline that alternative approach here. Attached to this letter is a more detailed outline of some of our concerns with the Kiddie Mac bill.

As we discussed with your staff on July 23, the Small Business Administration (SBA) operates several loan programs that are quite similar to those proposed in your bill. Indeed, these programs have been active in providing credit to support child care facilities.

Since 1989, SBA's section 7(a) program has guaranteed over 4600 loans to child care businesses, totaling over \$1 billion. Section 7(a) guaranteed loans may be used for working capital or for the purchase or renovation of real estate and equipment. Over the same period, the SBA has guaranteed nearly 600 loans to child care businesses under the 504 loan program. This

program is designed for business to secure long-term, fixed-rate financing for major fixed assets, such as land and buildings. The SBA may also provide loans to child care businesses through the microloan program. Importantly, at the end of last year, Congress permitted SBA to make microloans to non-profit child care centers. This is a unique capability in that the SBA's other loan programs are prohibited from making or guaranteeing loans to non-profit businesses. Through the microloan program, 123 loans, totaling \$972,000, have been made to child care providers.

In addition to providing loan guarantees, your bill would also provide technical assistance to child care centers. Several existing programs already provide such assistance. In particular,

- SBA offers technical assistance through a number of its programs including the Service Corps of Retired Executives (SCORE), the Small Business Development Center (SBDC) program, and the 7(j) program;
- In collaboration with the SBA Women's Business Development Centers, SBA distributes a handbook entitled "Dollars and Sense: Child Care Business Skills Training" to promote viable commercial child care;
- SBA is also expanding its online Women's Business Center ([www.onlinewbc.org](http://www.onlinewbc.org)) with specific information on how to start and operate child care businesses;
- SBA is marketing loans, distributing printed materials, and providing child care business training through the SBA resource partner network. This network currently includes 69 SBA District offices, 1,100 Small Business Development Centers and subcenters, 63 Women's Business Centers, 389 SCORE Chapters, 119 MicroLoan Program sites, 46 Business Information Centers, and 15 One Stop Capital Shops;
- SBA also provides grants to lenders to provide microborrowers with technical assistance;
- The National Child Care Information Center, sponsored by the Child Care Bureau of the Department of Health and Human Services (HHS), provides a clearinghouse for information on child care issues, including child care businesses. It operates a toll free number and a World Wide Web site for the dissemination of information ([www.nccic.org](http://www.nccic.org)); and
- HHS' Child Care Bureau operates the Child Care and Development Fund which will provide nearly \$3.2 billion to States in 1999. (Most States use some of this money to enhance the quality of child care, and some States use at least part of the money to operate revolving loan programs that provide credit for, or enhance the quality of child care facilities. These funds are generally targeted at lower-income families.) The Bureau also provides an array of technical assistance.

Not all of these programs are focussed solely on child care, and some of them are fairly new. Yet they are in place and providing credit and services to child care facilities today. Rather

3

than duplicate these services with a brand new program, we believe that we can work together to promote these existing programs. Doing so would (a) eliminate the need for another bureaucracy, (b) forego the added expense and delays of starting from scratch, and (c) be more attractive to lenders since they would not have to deal with a special loan guaranty program just for child care.

I understand that you and your staff have had numerous discussions with child care center operators, and some may have suggested improvements to existing SBA programs. SBA would welcome such feedback so that it can improve the delivery of its services. SBA is working hard to make its programs more accessible.

In conclusion, the Administration is deeply grateful for your commitment to child care issues and we share your goal of improving the supply and quality of child care facilities. We encourage you to continue to work with us to strengthen our current efforts. Working together, I hope that we can improve the fine programs already in place in order to increase the supply of quality child care facilities.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

Lawrence H. Summers  
Deputy Secretary

Enclosure

**Administration Concerns with H.R. 3637  
The Children's Development Commission Act**

H.R. 3637 would authorize the Secretary of Housing and Urban Development (HUD) to insure mortgages related to child care and development facilities and to establish a Children's Development Commission. The Commission would be charged with certifying child care and development facilities for insurance and for other purposes. The bill would require the Departments of the Treasury, HUD, and Health and Human Services (HHS) each to submit three nominees for the Children's Development Commission. Treasury would also be required to submit a report to Congress concerning the possibility of creating a secondary market for child care and development facility loans, and submit a report to Congress after the program's expiration in 2005 that evaluates the need for continued mortgage insurance for child care facilities.

We have doubts about whether potential child care facility operators -- either large or small -- face different capital constraints than other types of businesses of like size. It is therefore unclear whether there exists a credit market imperfection that would warrant the establishment of the proposed credit program. (We would also note that the program lacks any targeting that would direct the subsidy towards lower-income households or areas.)

Full HUD insurance of what are essentially commercial property loans with loan-to-value ratios up to 90 percent may not provide sufficient private sector incentives to underwrite reasonably good credit. Poor underwriting or excessive Federal guarantees would increase the government's potential risk exposure. We note that the Small Business Administration (SBA) achieved favorable loss mitigation results by decreasing its maximum risk exposure from 100 percent to 90 percent of each loan, and losses were further decreased when its maximum risk exposure was decreased to 75 percent of each loan.

While HUD has considerable experience in guaranteeing residential mortgage loans, it has no experience -- and no institutional capacity for -- underwriting commercial loans except hospital loans (with help from the Department of Health and Human Services for underwriting expertise) and nursing home, board and care home and intermediate care facility loans. These very specialized loans are not comparable to the loans contemplated by H.R. 3637. The Small Business Administration (SBA) *does* have such experience. In fact, Kiddie Mac would duplicate existing SBA programs that already provide loan guarantees to child-care facility operators that may face restricted access to capital.

The proposed Children's Development Commission raises several concerns. First, the proposed micro-loan program places all of the credit risk associated with these loans on the government and duplicates the SBA's MicroLoan program. Second, the type of research that would be carried out by the research foundation is already undertaken by such entities as the Education Department's National Institute on Early Childhood Development and Education.

Finally, the Department of Justice has advised that some members of the Commission would clearly not be appointed in conformity with the Appointments Clause of the Constitution, and that the mechanism for the appointment of other members would raise concerns under that clause. For these reasons, we recommend that this section of the bill be eliminated.

From a technical perspective, we note that the terms and conditions of the proposed programs do not conform to the principles of OMB Circular No. A-129, "Policies for Federal Credit Programs and Non-Tax Receivables." In keeping with that circular, the proposed guarantees should be limited to a certain percent of the outstanding principal and interest of each loan, as recommended above. The bill also should require a determination that there is a reasonable assurance of repayment before a loan could be guaranteed or made, authorize the collection of guarantee fees, provide a maximum term to maturity for guaranteed loans that is less than the useful life of the physical assets to be financed by such loans, prohibit any guaranteed or direct loan from being subordinated to other debt contracted by a borrower, and prohibit a guaranteed or direct loan from being used to provide significant collateral or security for tax-exempt obligations.

We are also concerned that proposed section 257(c)(1) of the National Housing Act, in authorizing HUD to acquire certain interests in a borrower to facilitate regulatory compliance, would authorize HUD to acquire equity interests in child-care and development centers. As a general policy, Treasury opposes the Federal government acquiring equity interests in private businesses.

Several terms and conditions of existing HUD insurance programs would be explicitly applied to the proposed new insurance programs, including the authority of the HUD Secretary to pay default claims by issuing debentures instead of by paying cash. The issuance of such debentures is essentially a form of borrowing by the issuing Federal agency. We oppose such authority because it would be more costly and less efficient than other readily available methods of financing HUD's obligation to make payments under the proposed new insurance programs. We note that the Federal Credit Reform Act of 1990 gives agencies authority to borrow directly from the Treasury if a program agency lacks funds to honor its obligations under its guarantee contracts.

In addition, the Department of Justice has advised that some interpretations of the provisions governing mortgage insurance and loans may raise Establishment Clause concerns in particular applications.

The Office of Management and Budget (OMB) has advised that H.R. 3637 would increase direct spending and is therefore subject to the pay-as-you-go requirement of the Omnibus Budget Reconciliation Act of 1990. OMB's preliminary estimates are that the bill would result in \$245 million in new direct spending over a five-year period. The bill does not contain provisions to offset this increased direct spending. Therefore, if the bill were enacted, its net costs could contribute to a sequester.

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I understand that you and your staff have had numerous discussions with child care center operators, and some may have suggested improvements to existing SBA programs. SBA would welcome such feedback so that it can improve the delivery of its services. SBA is working hard to make its programs more accessible. In addition to the resource partner network mentioned above, the Vice President recently announced the national expansion of SBA's pre-qualification loan program. This program permits small business owners to pre-qualify for a loan backed by SBA before they approach a lender.

In conclusion, the Administration is deeply grateful for your commitment to child care issues and we share your goal of improving the supply and quality of child care facilities. We encourage you to continue to work with us to strengthen our current efforts. Working together, I hope that we can improve the fine programs already in place in order to increase the supply of quality child care facilities.

Sincerely,

Lawrence H. Summers  
Deputy Secretary

Enclosure

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

The changed version of the bill would limit the guarantee to facilities in which at least 20 percent of the clients are below SMSA median income. This letter should acknowledge this change, even if the targeting is still not adequate.

Administration Concerns with H.R. 3637  
The Children's Development Commission Act

H.R. 3637 would authorize the Secretary of Housing and Urban Development (HUD) to insure mortgages related to child care and development facilities and to establish a Children's Development Commission. The Commission would be charged with certifying child care and development facilities for insurance and for other purposes. The bill would require the Departments of the Treasury, HUD, and Health and Human Services (HHS) each to submit three nominees for the Children's Development Commission. Treasury would also be required to submit a report to Congress concerning the possibility of creating a secondary market for child care and development facility loans, and submit a report to Congress after the program's expiration in 2005 that evaluates the need for continued mortgage insurance for child care facilities.

We have doubts about whether potential child care facility operators -- either large or small -- face different capital constraints than other types of businesses of like size. It is therefore unclear whether there exists a credit market imperfection that would warrant the establishment of the proposed credit program. [We would also note that the program lacks any targeting that would direct the subsidy towards lower-income households or areas.]

Full HUD insurance of what are essentially commercial property loans with loan-to-value ratios up to 90 percent may not provide sufficient private sector incentives to underwrite reasonably good credit. Poor underwriting or excessive Federal guarantees would increase the government's potential risk exposure. We note that the Small Business Administration (SBA) achieved favorable loss mitigation results by decreasing its maximum risk exposure from 100 percent to 90 percent of each loan, and losses were further decreased when its maximum risk exposure was decreased to 75 percent of each loan. Accordingly, we recommend that the degree of government guarantee in this proposal be reconsidered.

While HUD has considerable experience in guaranteeing residential mortgage loans, it has no experience in -- and no institutional capacity for -- underwriting commercial loans. The Small Business Administration (SBA) does have such experience. In fact, Kiddie Mac would duplicate existing SBA programs that already provide loan guarantees to child-care facility operators that may face restricted access to capital.

The proposed Children's Development Commission raises several concerns. First, by establishing national child care standards for program participants, the Commission is inserting itself into policies more appropriately set at the State level. Second, the proposed micro-loan program places all of the credit risk associated with these loans on the government and duplicates the SBA's MicroLoan program. Third, the proposed research foundation is unlikely to be an "independent" of the Federal government, particularly if it ultimately relies on the government for funding. Fourth, the type of research that would be carried out by the research foundation is

Second  
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Replace w/  
below

~~Given the large number of concerns we have with the bill, we have not asked the Department of Justice to review it for possible constitutional problems.~~

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Total Pages: 7

LRM ID: MNB241

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
Washington, D.C. 20503-0001

URGENT

URGENT

Monday, October 5, 1998

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below  
FROM: *Janet R. Forsgren*  
Janet R. Forsgren (for Assistant Director for Legislative Reference  
OMB CONTACT: Melissa N. Benton  
PHONE: (202)395-7887 FAX: (202)395-6148  
SUBJECT: TREASURY Report on HR3637 Children's Development Commission Act  
DEADLINE: Noon Tuesday, October 6, 1998

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

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|                    | Janet R. Forsgren                                      |



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H.R. 3637 would authorize the Secretary of Housing and Urban Development (HUD) to insure mortgages related to child care and development facilities and to establish a Children's Development Commission. The Commission would be charged with certifying child care and development facilities for insurance and for other purposes. The bill would require the Departments of the Treasury, HUD, and Health and Human Services (HHS) each to submit three nominees for the Children's Development Commission. Treasury would also be required to submit a report to Congress concerning the possibility of creating a secondary market for child care and development facility loans, and submit a report to Congress after the program's expiration in 2005 that evaluates the need for continued mortgage insurance for child care facilities.

We have doubts about whether potential child care facility operators -- either large or small -- face different capital constraints than other types of businesses of like size. It is therefore unclear whether there exists a credit market imperfection that would warrant the establishment of the proposed credit program. We would also note that the program lacks any targeting that would direct the subsidy towards lower-income households or areas.

Full HUD insurance of what are essentially commercial property loans with loan-to-value ratios up to 90 percent may not provide sufficient private sector incentives to underwrite reasonably good credit. Poor underwriting or excessive Federal guarantees would increase the government's potential risk exposure. We note that the Small Business Administration (SBA) achieved favorable loss mitigation results by decreasing its maximum risk exposure from 100 percent to 90 percent of each loan, and losses were further decreased when its maximum risk exposure was decreased to 75 percent of each loan. Accordingly, we recommend that the degree of government guarantee in this proposal be reconsidered.

While HUD has considerable experience in guaranteeing residential mortgage loans, it has no experience in -- and no institutional capacity for -- underwriting commercial loans. The Small Business Administration (SBA) *does* have such experience. In fact, Kiddie Mac would duplicate existing SBA programs that already provide loan guarantees to child-care facility operators that may face restricted access to capital.

ND || The proposed Children's Development Commission raises several concerns. First, by establishing national child-care standards for program participants, the Commission is inserting itself into policies more appropriately set at the State level. Second, the proposed micro-loan program places all of the credit risk associated with these loans on the government and duplicates the SBA's MicroLoan program. Third, the proposed research foundation is unlikely to be "independent" of the Federal government, particularly if it ultimately relies on the government for funding. Fourth, the type of research that would be carried out by the research foundation is

already undertaken by such entities as the Education Department's National Institute on Early Childhood Development and Education. For these reasons, we recommend that this section of the bill be eliminated.

From a technical perspective, we note that the terms and conditions of the proposed programs do not conform to the principles of OMB Circular No. A-129, "Policies for Federal Credit Programs and Non-Tax Receivables." In keeping with that circular, the proposed guarantees should be limited to a certain percent of the outstanding principal and interest of each loan, as recommended above. The bill also should require a determination that there is a reasonable assurance of repayment before a loan could be guaranteed or made, authorize the collection of guarantee fees, provide a maximum term to maturity for guaranteed loans that is less than the useful life of the physical assets to be financed by such loans, prohibit any guaranteed or direct loan from being subordinated to other debt contracted by a borrower, and prohibit a guaranteed or direct loan from being used to provide significant collateral or security for tax-exempt obligations.

We are also concerned that proposed section 257(c)(1) of the National Housing Act, in authorizing HUD to acquire certain interests in a borrower to facilitate regulatory compliance, would authorize HUD to acquire equity interests in child-care and development centers. As a general policy, Treasury opposes the Federal government acquiring equity interests in private businesses.

Several terms and conditions of existing HUD insurance programs would be explicitly applied to the proposed new insurance programs, including the authority of the HUD Secretary to pay default claims by issuing debentures instead of by paying cash. The issuance of such debentures is essentially a form of borrowing by the issuing Federal agency. We oppose such authority because it would be more costly and less efficient than other readily available methods of financing HUD's obligation to make payments under the proposed new insurance programs. We note that the Federal Credit Reform Act of 1990 gives agencies authority to borrow directly from the Treasury if a program agency lacks funds to honor its obligations under its guarantee contracts.

Given the large number of concerns we have with the bill, we have not asked the Department of Justice to review it for possible constitutional problems.

The Office of Management and Budget (OMB) has advised that H.R. 3637 would increase direct spending and is therefore subject to the pay-as-you-go requirement of the Omnibus Budget Reconciliation Act of 1990. OMB's preliminary estimates are that the bill would result in \$245 million in new direct spending over a five-year period. The bill does not contain provisions to offset this increased direct spending. Therefore, if the bill were enacted, its net costs could contribute to a sequester.

*Is this necessary?*



Emil E. Parker  
10/06/98 05:54:39 PM

Record Type: Record

To: Melissa N. Benton/OMB/EOP  
cc: Nicole R. Rabner/WHO/EOP  
Subject: Comments on Treasury report

As a general matter, I am concerned that the letter may overstate the extent to which current SBA programs are meeting the need in the child care facility area.

I have a few comments concerning the attachment ("Administration Concerns with H.R. 3637").

In the fifth paragraph on the first page, the second sentence (which begins "First, by...") should be deleted, never to appear again. The Administration has not to my knowledge taken the position that child care standards are best set at the State level, and in any event this is not remotely within the jurisdiction of the Treasury Department. The fourth sentence (which begins with "Third, the...") should also be deleted, and the remaining sentences renumbered.

My understanding is that the bill will be modified to lower the maximum loan-to-value ratio to 80 percent (85 percent for non-profits). Unless Treasury is proposing that the maximum LTV ratio for the bill be reduced to 75 percent, the third paragraph on the first page should be dropped. At the very least, it should be modified to acknowledge the changes proposed (which were probably in response to previously expressed Treasury concerns).

The last sentence of the second paragraph on the first page states that the bill lacks any targeting. The changes outlined in the memo to House Leg Counsel include a provision limiting the guarantee to facilities in which at least 20 percent of the clients are below SMSA median income. That level of targeting is probably not adequate, but the Administration comments should address that proposed change rather than ignoring it.

Thank you for the opportunity to comment.

**OFFICE OF MANAGEMENT AND BUDGET**

*Legislative Reference Division  
Labor-Welfare-Personnel Branch*

Telecopier Transmittal Sheet



FROM: Melissa Benton

395-7887

DATE: 9/28/98

TIME: 10:15 a.m.

Pages sent (including transmittal sheet): \_\_\_\_\_

COMMENTS:

*Per my phone message*

*10*

TO:

*Karen Dorsey, Treasury*

*Emil Parker*

*Nicole Rabner*

*Jennifer Klein*

*10*

**PLEASE CALL THE PERSON(S) NAMED ABOVE FOR IMMEDIATE PICK-UP.**

# MEMO

**To:** Paul Callen, Office of Legislative Counsel  
**From:** Ian Fried, Office of Rep. Carolyn Maloney 5-7944  
Ted Beason, House Banking Committee, 6-0469  
**Subject:** Revisions for H.R.3637  
**Date:** September 24, 1998

We would like to make some changes to H.R.3637, "The Children's Development Commission Act." Could you please take the original text and make the following changes, putting it in a form which could be added to either H.R.2, the big Public Housing bill, or H.R. 28, the Rural Multifamily Rental Housing Loan Guarantee Extension Act of 1997.

The changes we would like to make are:

(Any page or line numbers refer to the GPO PDF version of 3637)

- **Guaranty Level** -- (p.5, lines 14-21), Change the level to 80% for for-profits; 85% for not-for profits, and a 5% "bonus" of guaranty for either which is in a CDBG area and primarily serves TANF clients (50% of clientele). In addition, no facility can access the guaranty unless at least 20% of their clients are below the median income of the particular SMSA in which it is located.
- **Termination** -- (p.12 Lines 3-4) Change to September 30, 2007
- **Appointments** -- (p.16) Change the Departmental Appointments to the Commission so that Sections (A)(B)(C) are changed to the Secretaries of each department are members of the commission, "or their designees."
- **Technical Expertise** -- (Under FUNCTIONS section which starts on page 18) -- The Commission shall help the recipients of the guarantees and special purpose loans with technical assistance, either directly or by coordinating with those in the federal government who already have the expertise, including appropriate offices of the Small Business Association, HUD, HHS and DoD. The types of expertise will include business planning, as well as quality control.
- **Foundation** -- (Starting on p.21 Line 21) Add language which will allow the Foundation to accept private donations.

Paul Callen, Office of Legislative Counsel

Page 2

September 24, 1998

- **Intermediaries** -- Add language which will allow state agencies which handle guarantees and loans to child care and development facilities within their states to act as intermediaries for disbursement and receipt of small-purpose loans and/or the financial arrangements for the guaranty.
- **Lengthening Maturity of Special Purpose Loans** -- (p.20, lines 19-20) "may not have a term exceeding 15 years."
- **Adding a study regarding Capital Needs of Center-based Child Care in Low-Income Communities** -- This study should cover: 1) The supply and quality of center-based care in low-income communities and neighborhoods; 2) the economic and other market barriers in these localities to (a) creating an adequate supply of center-based child care services and (b) achieving a quality standard in child care centers adequate to support early childhood programs; 3) public policy and private sector initiatives that might be undertaken to address supply and quality programs in low-income communities so as to insure residents have (a) sufficient supply to facilitate employment and support the goals of welfare reform, (b) appropriate child care choices and (c) "at-risk" children receive the quality of care needed to prepare for school.

If you have any questions or technical suggestions, please call us.

Thank you.

I

105TH CONGRESS  
2D SESSION**H. R. 3637**

To amend the National Housing Act to authorize the Secretary of Housing and Urban Development to insure mortgages for the acquisition, construction, or substantial rehabilitation of child care and development facilities and to establish the Children's Development Commission to certify such facilities for such insurance, and for other purposes.

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**IN THE HOUSE OF REPRESENTATIVES**

APRIL 7, 1998

Mrs. MALONEY of New York (for herself, Mr. BAKER, Mr. KANJORSKI, Mr. JACKSON of Illinois, Mrs. MEEK of Florida, Mr. MANTON, Mr. ALLEN, Ms. VALÁZQUEZ, Ms. WOOLSEY, and Mrs. TAUSCHER) introduced the following bill; which was referred to the Committee on Banking and Financial Services

---

**A BILL**

To amend the National Housing Act to authorize the Secretary of Housing and Urban Development to insure mortgages for the acquisition, construction, or substantial rehabilitation of child care and development facilities and to establish the Children's Development Commission to certify such facilities for such insurance, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the "Children's Develop-  
3 ment Commission Act".

4 **SEC. 2. CONGRESSIONAL FINDINGS.**

5 The Congress finds the following:

6 (1) The need for quality nursery schools, both  
7 full-time and part-time child care centers and after-  
8 school programs, after school programs, neighbor-  
9 hood-run mothers-day-out programs, and family  
10 child care providers has grown among working par-  
11 ents, and parents who stay at home, who want their  
12 children to have access to early childhood education.

13 (2) All parents should have access to safe, stim-  
14 ulating, and educational early childhood education  
15 programs for their children, whether such programs  
16 are carried out in a child care center, a part-time  
17 nursery school (including a nursery school operated  
18 by a religious organization), or a certified child care  
19 provider's home.

20 (3) The number of available enrollment oppor-  
21 tunities for children to receive quality child care  
22 services is not meeting the demand for such services.

23 (4) In 1995 there were about 21,000,000 chil-  
24 dren less than 6 years of age, of whom 31 percent  
25 were participating in center-based child care services  
26 and 14 percent were receiving child care in homes.

1       Between 1992 and 2005 the participation of women  
2       24 to 54 years of age in the labor force is projected  
3       to increase from 75 percent to 83 percent.

4       (5) In States that have set up a mechanism to  
5       provide capital improvements for child care facilities,  
6       the demand for services of such facilities still has  
7       not been met.

8       (6) The United States is behind other western,  
9       industrialized countries when it comes to providing  
10      child care services. In France, almost 100 percent of  
11      all children 3 to 5 years of age attend nursery  
12      school. In Germany this number is 65 to 70 percent.  
13      In Japan 90 percent of such children attend some  
14      form of preschool care. In all of these countries early  
15      childhood care has proven to increase children's de-  
16      velopment and performance.

17   **SEC. 3. INSURANCE FOR MORTGAGES ON NEW AND REHA-**  
18                   **BILITATED CHILD CARE AND DEVELOPMENT**  
19                   **FACILITIES.**

20      Title II of the National Housing Act (12 U.S.C. 1707  
21   et seq.) is amended by adding at the end the following  
22   new section:



1       ulated or restricted as to charges and methods of fi-  
2       nancing and, if the mortgagor is a corporate entity,  
3       as to capital structure and rate of return. As an aid  
4       to the regulation or restriction of any mortgagor  
5       with respect to any of the foregoing matters, the  
6       Secretary may make such contracts with and acquire  
7       for not more than \$100 such stock or interest in  
8       such mortgagor as the Secretary may consider nec-  
9       essary. Any stock or interest so purchased shall be  
10      paid for out of the General Insurance Fund, and  
11      shall be redeemed by the mortgagor at par upon the  
12      termination of all obligations of the Secretary under  
13      the insurance.

14           “(2) PRINCIPAL OBLIGATION.—The mortgage  
15      shall involve a principal obligation in an amount not  
16      to exceed <sup>8</sup>90 percent of the estimated value of the  
17      property or project, or <sup>8</sup>95 percent of the estimated  
18      value of the property or project in the case of a  
19      mortgagor that is a private nonprofit corporation or  
20      association (as such term is defined pursuant to sec-  
21      tion 221(d)(3)), including—

22           “(A) equipment to be used in the operation  
23      of the facility when the proposed improvements  
24      are completed and the equipment is installed; or

1           “(B) a solar energy system (as defined in  
2           subparagraph (3) of the last paragraph of sec-  
3           tion 2(a)) or residential energy conservation  
4           measures (as defined in subparagraphs (A)  
5           through (G) and (I) of section 210(11) of the  
6           National Energy Conservation Policy Act), in  
7           cases in which the Secretary determines that  
8           such measures are in addition to those required  
9           under the minimum property standards and will  
10          be cost-effective over the life of the measure.

11          “(3) AMORTIZATION AND INTEREST.—The  
12          mortgage shall—

13                 “(A) provide for complete amortization by  
14                 periodic payments under such terms as the Sec-  
15                 retary shall prescribe;

16                 “(B) have a maturity satisfactory to the  
17                 Secretary, but in no event longer than 25 years;  
18                 and

19                 “(C) bear interest at such rate as may be  
20                 agreed upon by the mortgagor and the mortga-  
21                 gee, and the Secretary shall not issue any regu-  
22                 lations or establish any terms or conditions that  
23                 interfere with the ability of the mortgagor and  
24                 mortgagee to determine the interest rate.

1           “(d) CERTIFICATION BY CHILDREN'S DEVELOPMENT  
2 COMMISSION.—The Secretary may not insure a mortgage  
3 under this section unless the Children's Development  
4 Commission established under section 258 certifies that  
5 the facility is in compliance, or will be in compliance not  
6 later than 12 months after such certification, with—

7           “(1) any laws, standards, and requirements ap-  
8 plicable to such facilities under the laws of the  
9 State, municipality, or other unit of general local  
10 government in which the facility is or is to be lo-  
11 cated; and

12           “(2) after the effective date of the standards  
13 and requirements established under section  
14 258(c)(2), such standards and requirements.

15           “(e) RELEASE.—The Secretary may consent to the  
16 release of a part or parts of the mortgaged property or  
17 project from the lien of any mortgage insured under this  
18 section upon such terms and conditions as the Secretary  
19 may prescribe.

20           “(f) MORTGAGE INSURANCE TERMS.—The provisions  
21 of subsections (d), (e), (g), (h), (i), (j), (k), (l), and (n)  
22 of section 207 shall apply to mortgages insured under this  
23 section, except that all references in such subsections to  
24 section 207 shall be considered, for purposes of mortgage  
25 insurance under this section, to refer to this section.

1       “(g) MORTGAGE INSURANCE FOR FIRE SAFETY  
2 EQUIPMENT LOANS.—

3           “(1) AUTHORITY.—The Secretary may, upon  
4 such terms and condition as the Secretary may pre-  
5 scribe, make commitments to insure and insure  
6 loans made by financial institutions or other ap-  
7 proved mortgagees to child care and development fa-  
8 cilities to provide for the purchase and installation  
9 of fire safety equipment necessary for compliance  
10 with the 1967 edition of the Life Safety Code of the  
11 National Fire Protection Association (or any subse-  
12 quent edition specified by the Secretary of Health  
13 and Human Services).

14           “(2) LOAN REQUIREMENTS.—To be eligible for  
15 insurance under this subsection a loan shall—

16           “(A) not exceed the Secretary's estimate of  
17 the reasonable cost of the equipment fully in-  
18 stalled;

19           “(B) bear interest at such rate as may be  
20 agreed upon by the mortgagor and the mortga-  
21 gee;

22           “(C) have a maturity satisfactory to the  
23 Secretary;

24           “(D) be made by a financial institution or  
25 other mortgagee approved by the Secretary as

1 eligible for insurance under section 2 or a mort-  
2 gage approved under section 203(b)(1);

3 "(E) comply with other such terms, condi-  
4 tions, and restrictions as the Secretary may  
5 prescribe; and

6 "(F) be made with respect to a child care  
7 and development facility that complies with the  
8 requirement under subsection (d).

9 "(3) INSURANCE REQUIREMENTS.—The provi-  
10 sions of paragraphs (5), (6), (7), (9), and (10) of  
11 section 220(h) shall apply to loans insured under  
12 this subsection, except that all references in such  
13 paragraphs to home improvement loans shall be con-  
14 sidered, for purposes of this subsection, to refer to  
15 loans under this subsection. The provisions of sub-  
16 sections (e), (d), and (h) of section 2 shall apply to  
17 loans insured under this subsection, except that all  
18 references in such subsections to 'this section' or  
19 'this title' shall be considered, for purposes of this  
20 subsection, to refer to this subsection.

21 "(h) SCHEDULES AND DEADLINES.—The Secretary  
22 shall establish schedules and deadlines for the processing  
23 and approval (or provision of notice of disapproval) of ap-  
24 plications for mortgage insurance under this section.

1           “(i) DEFINITIONS.—For the purposes of this section,  
2 the following definitions shall apply:

3           “(1) CHILD CARE AND DEVELOPMENT FACIL-  
4 ITY.—The term ‘child care and development facility’  
5 means a public facility, proprietary facility, or facil-  
6 ity of a private nonprofit corporation or association  
7 that—

8                   “(A) has as its purpose the care and devel-  
9 opment of children less than 12 years of age;  
10 and

11                   “(B) is licensed or regulated by the State  
12 in which it is located (or, if there is no State  
13 law providing for such licensing and regulation  
14 by the State, by the municipality or other politi-  
15 cal subdivision in which the facility is located).

16 The term does not include facilities for school-age  
17 children primarily for use during normal school  
18 hours. The term includes facilities for training indi-  
19 viduals to provide child care and development serv-  
20 ices.

21           “(2) EQUIPMENT.—The term ‘equipment’ in-  
22 cludes machinery, utilities, and built-in equipment  
23 and any necessary enclosures or structures to house  
24 them, and any other items necessary for the func-  
25 tioning of a particular facility as a child care and

1 development facility, including necessary furniture.  
2 Such term includes books, curricular, and program  
3 materials.

4 “(3) MORTGAGE; FIRST MORTGAGE; MORTGA-  
5 GEE.—The term ‘mortgage’ means a first mortgage  
6 on real estate in fee simple, or on the interest of ei-  
7 ther the lessor or lessee thereof under a lease having  
8 a period of not less than 7 years to run beyond the  
9 maturity date of the mortgage. The term ‘first mort-  
10 gage’ means such classes of first liens as are com-  
11 monly given to secure advances (including advances  
12 during construction) on, or the unpaid purchase  
13 price of, real estate under the laws of the State in  
14 which the real estate is located, together with the  
15 credit instrument or instruments (if any) secured  
16 thereby, and any mortgage may be in the form of  
17 one or more trust mortgages or mortgage indentures  
18 or deeds of trust, securing notes, bonds, or other  
19 credit instruments, and, by the same instrument or  
20 by a separate instrument, may create a security in-  
21 terest in initial equipment, whether or not attached  
22 to the realty. The term ‘mortgagor’ has the meaning  
23 given the term in section 207(a).

24 “(j) LIMITATION ON INSURANCE AUTHORITY.—

1           “(1) **TERMINATION.**—No mortgage may be in-  
2           sured under this section or section 223(h) after Sep-  
3           tember 30, 2005, except pursuant to a commitment  
4           to insure issued on or before such date.

5           “(2) **AGGREGATE PRINCIPAL AMOUNT LIMITA-**  
6           **TION.**—The aggregate principal amount of mort-  
7           gages for which the Secretary enters into commit-  
8           ments to insure under this section or section 223(h)  
9           on or before the date under paragraph (1) may not  
10          exceed \$2,000,000,000. If, upon the date under  
11          paragraph (1), the aggregate insurance authority  
12          provided under this paragraph has not been fully  
13          used, the Secretary of the Treasury shall submit a  
14          report to the Congress evaluating the need for con-  
15          tinued mortgage insurance under this section.”.

16          “(k) **REGULATIONS.**—The Secretary shall issue any  
17          regulations necessary to carry out this section. In issuing  
18          such regulations, the Secretary shall consult with the Sec-  
19          retary of Health and Human Services with respect to any  
20          aspects of the regulations regarding child care and devel-  
21          opment facilities.”.

1 **SEC. 4. INSURANCE FOR MORTGAGES FOR ACQUISITION OR**  
2 **REFINANCING DEBT OF EXISTING CHILD**  
3 **CARE AND DEVELOPMENT FACILITIES.**

4 Section 223 of the National Housing Act (12 U.S.C.  
5 1715n) is amended by adding at the end the following new  
6 subsection:

7 “(h) **MORTGAGE INSURANCE FOR PURCHASE OR RE-**  
8 **FINANCING OF EXISTING CHILD CARE AND DEVELOP-**  
9 **MENT FACILITIES.—**

10 “(1) **AUTHORITY.—**Notwithstanding any other  
11 provision of this Act, the Secretary may insure  
12 under any section of this title a mortgage executed  
13 in connection with the purchase or refinancing of an  
14 existing child care and development facility, the pur-  
15 chase of a structure to serve as a child care and  
16 development facility, or the refinancing of existing  
17 debt of an existing child care and development facil-  
18 ity.

19 “(2) **PURCHASE OF EXISTING FACILITIES AND**  
20 **STRUCTURES.—**In the case of the purchase under  
21 this subsection of an existing child care and develop-  
22 ment facility or purchase of an existing structure to  
23 serve as such a facility, the Secretary shall prescribe  
24 any terms and conditions that the Secretary consid-  
25 ers necessary to ensure that—

14

1           “(A) the facility or structure purchased  
2 continues to be used as a child care and devel-  
3 opment facility; and

4           “(B) the facility complies with the same  
5 requirements applicable under subsections (d)  
6 and (e) of section 257 to facilities having mort-  
7 gages insured under such section.

8           “(3) REFINANCING OF EXISTING FACILITIES.—

9           In the case of refinancing of an existing child care  
10 and development facility, the Secretary shall pre-  
11 scribe any terms and conditions that the Secretary  
12 considers necessary to ensure that—

13           “(A) the refinancing is used to lower the  
14 monthly debt service costs (taking into account  
15 any fees or charges connected with such refi-  
16 nancing) of the existing facility;

17           “(B) the proceeds of any refinancing will  
18 be employed only to retire the existing indebted-  
19 ness and pay the necessary cost of refinancing  
20 on the existing facility;

21           “(C) the existing facility is economically  
22 viable; and

23           “(D) the facility complies with the same  
24 requirements applicable under section 257(d) to

1 facilities having mortgages insured under such  
2 section.

3 “(4) DEFINITIONS.—For purposes of this sub-  
4 section, the terms defined in section 257(i) shall  
5 have the same meanings as provided under such sec-  
6 tion.

7 “(5) LIMITATION ON INSURANCE AUTHORITY.—  
8 The authority of the Secretary to enter into commit-  
9 ments to insure mortgages under this subsection is  
10 subject to the limitations under section 257(j).”

11 **SEC. 5. CHILDREN'S DEVELOPMENT COMMISSION.**

12 Title II of the National Housing Act (12 U.S.C. 1707  
13 et seq.) is amended by adding at the end (after section  
14 257, as added by section 3 of this Act) the following new  
15 section:

16 “CHILDREN'S DEVELOPMENT COMMISSION

17 “SEC. 258. (a) ESTABLISHMENT.—There is hereby  
18 established a commission to be known as the Children's  
19 Development Commission.

20 “(b) MEMBERSHIP.—

21 “(1) APPOINTMENT.—The Commission shall be  
22 composed of 7 members appointed by the President,  
23 not later than the expiration of the 3-month period  
24 beginning upon the enactment of this section, by and  
25 with the advice and consent of the Senate, as fol-  
26 lows:

1           “(A) 1 member shall be appointed from  
2           among 3 individuals recommended by the Sec-  
3           retary of Housing and Urban Development or  
4           the Secretary’s designee.

5           “(B) 1 member shall be appointed from  
6           among 3 individuals recommended by the Sec-  
7           retary of Health and Human Services or the  
8           Secretary’s designee.

9           “(C) 1 member shall be appointed from  
10          among 3 individuals recommended by the Sec-  
11          retary of the Treasury or the Secretary’s des-  
12          ignee.

13          “(D) 4 members shall be appointed from  
14          among 12 individuals recommended jointly by  
15          the Speaker of the House of Representatives,  
16          the Majority Leader of the Senate, Minority  
17          Leader of the House of Representatives, the  
18          Minority Leader of the Senate.

19          “(2) QUALIFICATIONS OF CONGRESSIONALLY  
20          RECOMMENDED MEMBERS.—Of the members ap-  
21          pointed under paragraph (1)(D)—

22                 “(A) each shall be an individual who ac-  
23                 tively participates or is employed in the field of  
24                 child care and has academic, licensing, or other

1           credentials relating to such participation or em-  
2           ployment; and

3           “(B) not more than 2 may be of the same  
4           political party.

5           “(3) TERMS.—Each appointed member of the  
6           Commission shall serve for a term of 3 years.

7           “(4) VACANCIES.—Any member appointed to  
8           fill a vacancy occurring before the expiration of the  
9           term for which the member’s predecessor was ap-  
10          pointed shall be appointed only for the remainder of  
11          that term. A member may serve after the expiration  
12          of that member’s term until a successor has taken  
13          office. A vacancy in the Commission shall be filled  
14          in the manner in which the original appointment was  
15          made.

16          “(5) CHAIRPERSON.—The chairperson of the  
17          Commission shall be designated by the President at  
18          the time of appointment.

19          “(6) QUORUM.—A majority of the members of  
20          the Commission shall constitute a quorum for the  
21          transaction of business.

22          “(7) VOTING.—Each member of the Commis-  
23          sion shall be entitled to 1 vote, which shall be equal  
24          to the vote of every other member of the Commis-  
25          sion.

1           “(8) PROHIBITION ON ADDITIONAL PAY.—  
2           Members of the Commission shall serve without  
3           compensation, but shall be reimbursed for travel,  
4           subsistence, and other necessary expenses incurred  
5           in the performance of their duties as members of the  
6           Commission.

7           “(c) FUNCTIONS.—The Commission shall carry out  
8           the following functions:

9           “(1) CERTIFICATION OF COMPLIANCE.—The  
10           Commission shall collect such information and make  
11           such determinations as may be necessary to deter-  
12           mine, for purposes of section 257(d), whether child  
13           care and development facilities comply, or will be in  
14           compliance within 12 months, with—

15                   “(A) any laws, standards, and require-  
16                   ments applicable to such facilities under the  
17                   laws of the State, municipality, or other unit of  
18                   general local government in which the facility is  
19                   or is to be located, and

20                   “(B) after the effective date of the stand-  
21                   ards and requirements established under para-  
22                   graph (2), such standards and requirements,  
23                   and shall issue certifications of such compliance.

24           “(2) ESTABLISHMENT OF STANDARDS.—

1           “(A) STUDY.—Not later than 12 months  
2           after the date on which appointment of initial  
3           membership of the Commission is completed,  
4           the Commission, in consultation with the Sec-  
5           retary of Housing and Urban Development and  
6           the Secretary of Health and Human Services,  
7           shall conduct a study to determine the laws,  
8           standards, and requirements referred to in  
9           paragraph (1)(A) that are applicable in each  
10          State. Taking into consideration the findings of  
11          the study, the Secretary shall establish stand-  
12          ards and requirements regarding child care and  
13          development facilities that are designed to en-  
14          sure that mortgage insurance is provided under  
15          section 257 and section 223(h) only for safe,  
16          clean, and healthy facilities that provide appro-  
17          priate care and development services for chil-  
18          dren.

19          “(B) PUBLICATION.—The Commission  
20          shall issue regulations providing for the stand-  
21          ards and requirements established under sub-  
22          paragraph (A) to take effect, for purposes of  
23          sections 257(d)(2) and 223(h)(2)(B) and para-  
24          graph (1)(B) of this section, not later than 18

1           “(A) STUDY.—Not later than 12 months  
2           after the date on which appointment of initial  
3           membership of the Commission is completed,  
4           the Commission, in consultation with the Sec-  
5           retary of Housing and Urban Development and  
6           the Secretary of Health and Human Services,  
7           shall conduct a study to determine the laws,  
8           standards, and requirements referred to in  
9           paragraph (1)(A) that are applicable in each  
10          State. Taking into consideration the findings of  
11          the study, the Secretary shall establish stand-  
12          ards and requirements regarding child care and  
13          development facilities that are designed to en-  
14          sure that mortgage insurance is provided under  
15          section 257 and section 223(h) only for safe,  
16          clean, and healthy facilities that provide appro-  
17          priate care and development services for chil-  
18          dren.

19           “(B) PUBLICATION.—The Commission  
20          shall issue regulations providing for the stand-  
21          ards and requirements established under sub-  
22          paragraph (A) to take effect, for purposes of  
23          sections 257(d)(2) and 223(h)(2)(B) and para-  
24          graph (1)(B) of this section, not later than 18

1 months after the date of the enactment of this  
2 section.

3 “(3) SMALL PURPOSE LOANS.—The Commis-  
4 sion shall, to the extent amounts are made available  
5 for such purpose pursuant to subsection (i) and  
6 qualified requests are received, make loans, directly  
7 or indirectly to providers of child care and develop-  
8 ment facilities for reconstruction or renovation of  
9 such facilities, subject to the following requirements:

10 “(A) Loans under this paragraph shall be  
11 made only for such facilities that are financially  
12 and operationally viable, as determined under  
13 standards and guidelines to be established by  
14 the Commission.

15 “(B) The aggregate amount of loans made  
16 under this paragraph to a single borrower may  
17 not exceed \$50,000.

18 “(C) A loan made under this paragraph  
19 may not have a term to maturity exceeding 7  
20 years.

21 “(D) Loans under this paragraph shall  
22 bear interest at rates and be made under such  
23 other conditions and terms as the Commission  
24 shall provide.

1           “(4) NOTIFICATION.—The Commission shall  
2           take such actions as may be necessary to publicize  
3           the availability of the programs for mortgage insur-  
4           ance under sections 257 and 223(h) and loans under  
5           paragraph (3) of this subsection in a manner that  
6           ensures that information concerning such programs  
7           will be available to child care providers throughout  
8           the United States.

9           “(5) LIABILITY INSURANCE.—Not later than 12  
10          months after the date on which appointment of ini-  
11          tial membership of the Commission is completed, the  
12          Commission shall establish standards and guidelines,  
13          applicable to mortgage insurance under sections 257  
14          and 223(h) and loans under paragraph (3) of this  
15          subsection, requiring child care providers operating  
16          child care and development facilities assisted under  
17          such provisions to obtain and maintain liability in-  
18          surance in such amounts and subject to such re-  
19          quirements as the Commission considers appro-  
20          priate.

21          “(6) RESEARCH FOUNDATION.—Not later than  
22          12 months after the date of the enactment of this  
23          section, the Commission shall submit a report to the  
24          Congress recommending a plan for establishing and  
25          funding a foundation that is an entity independent

1 of the Commission (but which maintains association  
2 with the Commission), the purpose of which shall  
3 be—

4 “(A) to support research relating to child  
5 care and development facilities;

6 “(B) to fund pilot programs to test innova-  
7 tive methods for improving child care; and

8 “(C) to engage in activities and publish  
9 materials to assist persons interested in mort-  
10 gage insurance under sections 257 and 223(h)  
11 and other assistance provided by the Commis-  
12 sion.

13 “(d) NONDISCRIMINATION REQUIREMENT.—

14 “(1) IN GENERAL.—The Commission may not  
15 certify under subsection (c)(1) or carry out any ac-  
16 tivities of the Commission with respect to any child  
17 care and development facility if the provider of the  
18 facility discriminates on account of race, color, reli-  
19 gion (subject to paragraph (2)), national origin, sex  
20 (to the extent provided in title IX of the Education  
21 Amendments of 1972 (20 U.S.C. 1681 et seq.)), or  
22 handicapping condition.

23 “(2) FACILITIES OF RELIGIOUS ORGANIZA-  
24 TIONS.—The prohibition with respect to religion  
25 shall not apply to a child care and development facil-

1       ity which is controlled by or which is closely identi-  
2       fied with the tenets of a particular religious organi-  
3       zation if the application of this subsection would not  
4       be consistent with the religious tenets of such orga-  
5       nization.

6           “(3) CERTIFICATION.—As a condition of certifi-  
7       cation under subsection (c)(1) and eligibility for a  
8       loan under subsection (e)(3), the provider of a child  
9       care and development facility shall certify to the  
10      Commission that the provider does not discriminate,  
11      as required by the provisions of paragraph (1) of  
12      this subsection.

13      “(c) POWERS.—

14           “(1) ASSISTANCE FROM FEDERAL AGENCIES.—  
15      The Commission may secure directly from any de-  
16      partment or agency of the Federal Government such  
17      information as the Commission may require for car-  
18      rying out its functions. Upon request of the Com-  
19      mission, any such department or agency shall fur-  
20      nish such information.

21           “(2) ASSISTANCE FROM GENERAL SERVICES  
22      ADMINISTRATION.—The Administrator of General  
23      Services shall provide to the Commission, on a reim-  
24      bursable basis, such administrative support services  
25      as the Commission may request.

1           “(3) ASSISTANCE FROM DEPARTMENT OF  
2 HOUSING AND URBAN DEVELOPMENT.—Upon the re-  
3 quest of the Commission, the Secretary of Housing  
4 and Urban Development shall, to the extent possible  
5 and subject to the discretion of the Secretary, detail  
6 any of the personnel of the Department of Housing  
7 and Urban Development, on a nonreimbursable  
8 basis, to assist the Commission in carrying out its  
9 functions under this section.

10           “(4) MAILS.—The Commission may use the  
11 United States mails in the same manner and under  
12 the same conditions as other Federal agencies.

13           “(f) STAFF.—

14           “(1) EXECUTIVE DIRECTOR.—The Commission  
15 shall appoint an executive director of the Board, who  
16 shall be compensated at a rate fixed by the Commis-  
17 sion, but which shall not exceed the rate established  
18 for level I of the Executive Schedule under title 5,  
19 United States Code.

20           “(2) OTHER PERSONNEL.—In addition to the  
21 executive director, the Commission may appoint and  
22 fix the compensation of such personnel as the Com-  
23 mission considers necessary, in accordance with the  
24 provisions of title 5, United States Code, governing  
25 appointments to the competitive service, and the

1 provisions of chapter 51 and subchapter III of chap-  
2 ter 53 of such title, relating to classification and  
3 General Schedule pay rates.

4 “(g) REPORTS.—Not later than March 31 of each  
5 year, the Commission shall submit a report to the Presi-  
6 dent and the Congress regarding the operations and activi-  
7 ties of the Commission during the preceding calendar year.  
8 Each annual report shall include a copy of the Commis-  
9 sion’s financial statements and such information and other  
10 evidence as is necessary to demonstrate that the activities  
11 of the Commission during the year for which the report  
12 is made. The Commission may also submit reports to the  
13 Congress and President at such other times as the Com-  
14 mission deems desirable.

15 “(h) DEFINITIONS.—For purposes of this section, the  
16 terms defined in section 257(i) shall have the same mean-  
17 ings as provided under such section.

18 “(i) AUTHORIZATION OF APPROPRIATIONS.—There  
19 are authorized to be appropriated to the Commission to  
20 carry out this section \$10,000,000 for fiscal year 1999,  
21 to remain available until expended, of which not more than  
22 \$2,500,000 shall be available for administrative costs of  
23 the Commission and the remainder of which shall be avail-  
24 able only for loans under subsection (c)(3).”

105<sup>th</sup> Congress  
United States House of Representatives

**CAPITAL MARKETS, SECURITIES  
& GOVERNMENTAL-SPONSORED ENTERPRISES  
Subcommittee**

**of the**

**Committee on  
BANKING AND FINANCIAL SERVICES**

**HEARING**

**June 16, 1998**

**Testimony of**

**JIM WUNDERMAN**

*Vice President, Corporate Affairs  
Providian Financial Corporation*

Presentation to U.S. Congress  
HR 3637  
June 16, 1998  
Written Testimony

Mr. Chairman, Representative Maloney, Members of the Sub-Committee, on behalf of Providian Financial Corporation and our CEO Shailesh Mehta, I'd like to thank you for inviting Providian to appear before you today to present our views on this important legislation, HR 3637.

Let me begin by telling you a little about Providian. Our primary business is consumer lending, and our major products are Visa and Master Card credit cards, home equity loans and lines of credit. We also provide high-yield deposit products. We are headquartered in San Francisco and have operations in Northern California, Utah, Kentucky and New Hampshire. We are a public company, traded on the New York Stock Exchange. We currently employ over four thousand, and are among the ten largest bank credit card issuers in the United States. Significantly, Providian is the largest provider of credit cards to persons who are new to credit, or who have problems with their credit histories and thus experience difficulties getting the credit they need to participate in today's financial marketplace.

Providian's Community Reinvestment program has focused on the creation of jobs and the development of affordable housing for low- and moderate-income families. Our experience in community development and our understanding of the economic circumstances of low- and moderate-income families have led us to conclude that for many, employment and home ownership are beyond reach without safe and affordable child care.

As an employer to thousands nationwide, Providian appreciates the value of child care for all working parents. We believe that our success is generated by the commitment and contribution of our employees, many of whom depend heavily on child care providers. Many of these child care providers are under-assisted, under-financed and often overwhelmed by the very real barriers that stand in the way of assured success.

Child care as a business operates with thin and fragile margins. Adequate provider/child ratios make the business so labor-intensive that the loss of one or two children can put the program under water. Employee turnover is constant, unlicensed competition is relentless, and equipment and facility needs are unique, and therefore, almost useless as collateral. Laws, regulations, and skills of every kind must be mastered, while liability insurance is high priced and often hard to get. In a very real sense, child care lending is not an attractive or even an acceptable option for most financial institutions. Traditional underwriting will not produce anywhere near the supply of credit this business demands.

Child care providers are not strong candidates for traditional loans. Providian understands the importance of credit availability to sectors of society that traditional banking underwriting often deems to be un-bankable. Providian recognizes the cost of and need for quality child care. Child care is an issue affecting working parents everywhere. Our business philosophy is to recognize problems and engineer solutions. We believe that public/private initiatives, like Kiddie Mac, will make a profound impact on the accessibility of quality child care. It can play an effective role in the development of much needed credit availability.

So, what can a financial services company, known for engineered solutions, contribute to the challenge of increasing affordable child care in a market that consistently maintains an "unbankable" status?

In October 1997, Providian committed \$5,000,000 to improve the quality and availability of child care in New Hampshire. Our \$1.8 million grant to the New Hampshire Community Loan Fund (NHCLF) has secured space for hundreds of children statewide, and thousands more children are due to benefit. The first statewide fund of its kind in the country, the NHCLF makes loans to nonprofit organizations, like child care centers, that meet the community needs. Providian's grant will enable the NHCLF to help centers stay open and create more space where it's needed most. Also underway is an in-depth evaluation of New Hampshire's child care needs which is designed to quantify critical child care issues for parents and their children, businesses, government, child care providers, and advocates. The goal is to determine how to maximize Providian's child care commitment and leverage greater support for child care throughout the state. One of our New Hampshire Vice Presidents serves as Co-Chair of Governor Jeanne Shaheen's Business Commission on Child Care.

In San Francisco, Providian recently contributed \$400,000 to the Child Care Facilities Fund (CCFF). The CCFF is a unique public/private partnership geared toward improving the access to and the quality of child care in San Francisco by providing zero or low-cost financing opportunities to child care providers in order to meet one-time capital expenditures. The goals of the program are to help child care providers stay in business, go into business and provide higher quality care. Initially, the fund has been organized into two programs, a Family Child Care Assistance Program that provides small grants to family based child care providers, and a Child Care Center Assistance Program designed to provide low cost financing to nonprofit child care centers for the purposes of improving their quality, safety and overall environment.

Providian is devoted to addressing the child care challenge for our employees and all working parents in the communities in which we do business.

In the first six months, the activity generated by Providian/NHCLF's Child Care Loan program in New Hampshire, has confirmed what our experience as a leading lender to the "unbanked" market had suggested: the child care industry presents a credit challenge to even the most highly motivated community lender. A child care provider's loan

application depicts a small organization that is labor intensive, yet pays wages that generate close to 50% turnover annually. Child care centers are small businesses whose operating expenses depend on modest parent fees, that must remain affordable, and often fundraising to meet operating expenses.

At Providian, we care about child care. We are here today to add that “Kiddie Mac” offers an important tool for lenders who join us in recognizing the importance of these providers to our children and to our businesses.

First and foremost, the loan guarantee provided in this legislation will open doors for child care centers to approach banking institutions to discuss their financial needs. By providing a federal guarantee, Kiddie Mac will help make banks more comfortable with child care providers as borrowers. We’re confident that the new dialogue between banks and centers will lead to creative financing opportunities that otherwise would not have been realized.

Secondly, it is especially important to provide a loan guarantee program for non-profit institutions like child care centers, since Small Business Administration loans have not been available to this sector.

Third, low cost fire and liability insurance will help protect the centers and will do so at an affordable price. By reducing insurance costs, resources are freed up for debt repayment and other needs.

Finally, the legislation allows privately funded programs like ours to direct efforts away from guarantees, and to focus on other areas like interest rate buy downs and technical and training assistance, which can be critical to the success of child care center financing.

Clearly, Kiddie Mac is only one piece of the child care puzzle. But it will go a long way toward addressing one of the major unmet needs of the child care industry - access to capital. As we all know, there are other needs to be considered, including child centers’ ability to generate revenues, and their need for business and technical assistance.

The legislation you have before you is a good start. By enhancing credit, it will create child care centers which otherwise never would have existed. It will effect expansions that serve more children and more working parents. It will provide for improved facilities, better play equipment, and a safer environment for our children. We urge your support for Kiddie Mac. You have our commitment to work with you to make it succeed.

Attached is a report, commissioned by Providian Financial Corporation, by Dr. Lisa Shapiro, Chief Economist for Gallagher, Callahan & Gartrell, discussing the economy and child care markets. This analysis demonstrates that the child care challenge is multi-faceted and that addressing these challenges will require creative partnerships between the public and private sectors. Kiddie Mac is a fine example of this collaborative effort at work.

# **New Hampshire Economy and Child Care Markets**

An Overview Presented to  
Governor Shaheen's Business Commission on  
Child Care and Early Education

May 26, 1998

Lisa K. Shapiro, Ph.D.  
Chief Economist  
Gallagher, Callahan & Gartrell

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*Sponsored in cooperation with  
Providian Financial Corporation*

# New Hampshire Economy

- Strong Growth; Measured but continued growth forecasted.
- Labor markets tight; Unemployment very low and employment growth has slowed recently. Finding and retaining employees among the biggest challenges N.H. businesses face.
- Net in-migration still important
- Technical workers at all skill levels in high demand.
- Business face increased pressure to be competitive with greater ties to national and export economies.

# Changing Labor Markets

## *Working Parents*

**Percent of children < 6 living with working parents**

**New Hampshire, 1997**

**74%**

**United States, 1997**

**United States, 1970**

**30%**

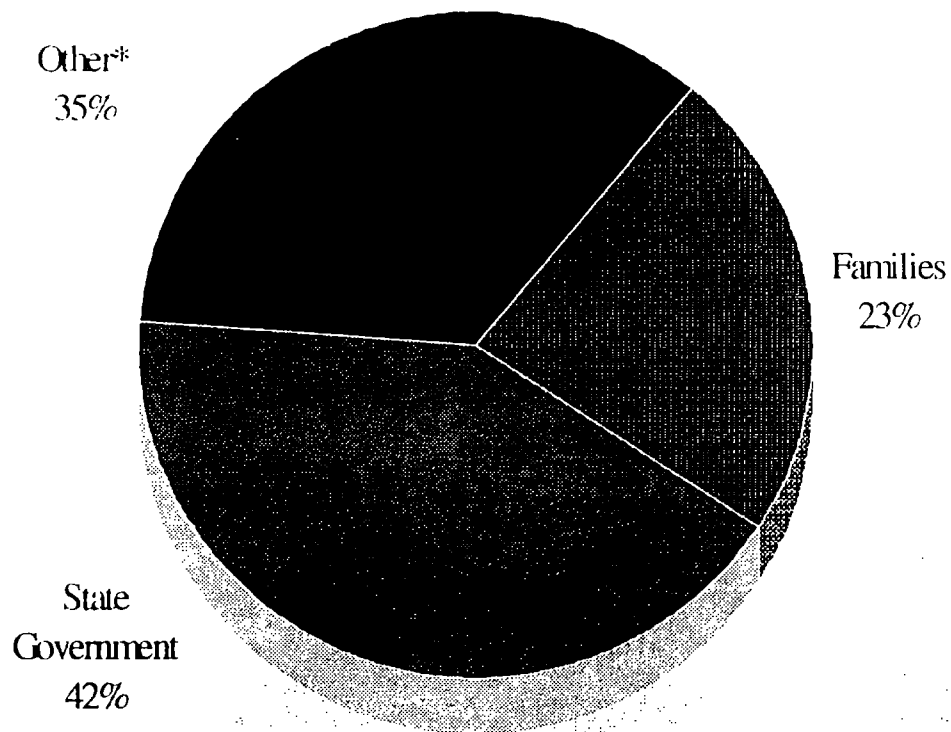
# Changing Labor Markets

## *Welfare-to-Work*

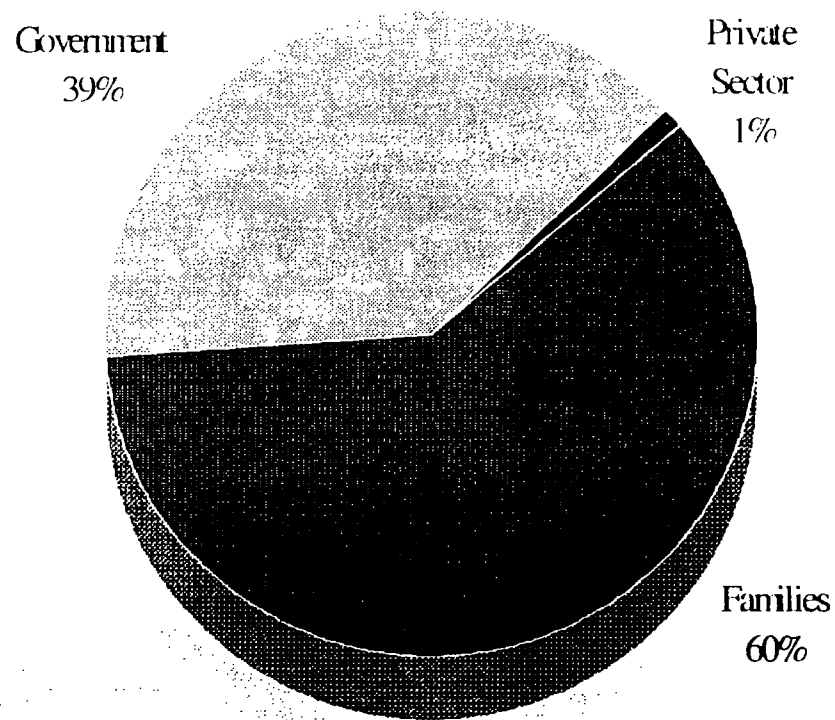
- More workers and more children in need of affordable, quality child care
  - In 1997, 2,620 welfare recipients entered the workforce in New Hampshire
  - 6,500 additional New Hampshire children will need child care as a result of reforms
- Child care centers employ welfare recipients
  - 80% of for-profit chain centers
  - 40% of independent nonprofit centers
  - 30% of church-sponsored centers
  - 20% of independent for-profit centers

# Public Money for Child Care and Early Education

## Public Higher Education



## Child Care and Early Education



*\*The "other" category includes federal and local government appropriations, research and other grants and contracts from public and private sources and endowment income.*

# New Hampshire Child Care Market Summary

**Annual Revenues** **\$85 million**

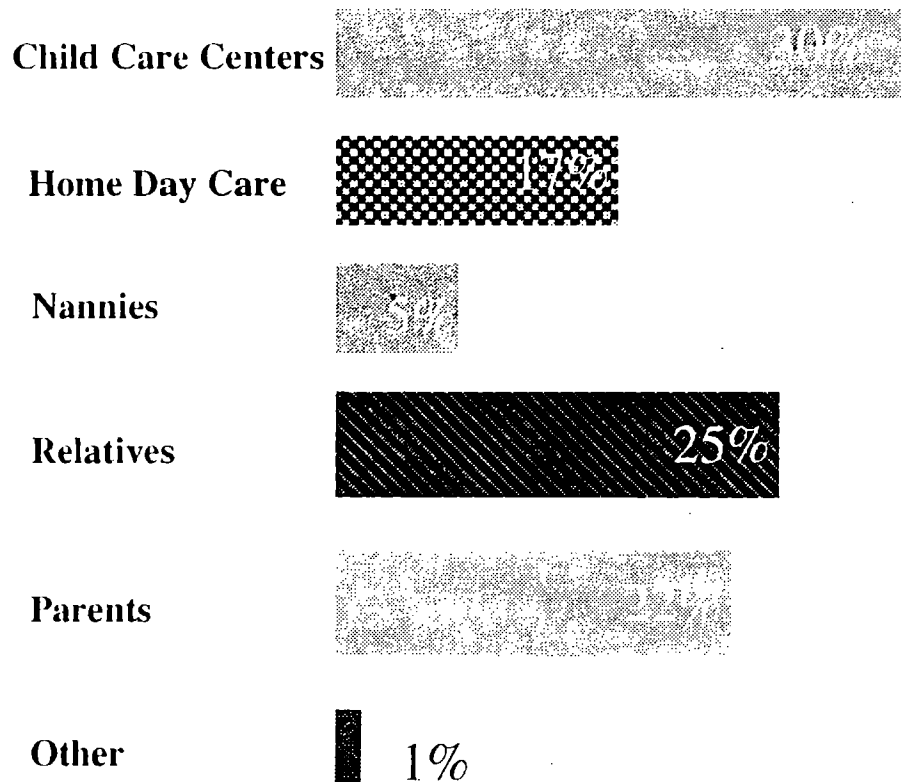
**Employment** **4,500**

<b>Wages</b>	<i>Median Hourly Wage</i>
<i>Child Care Workers</i>	<b>\$6.90</b>
<i>Preschool Teachers</i>	<b>\$9.08</b>

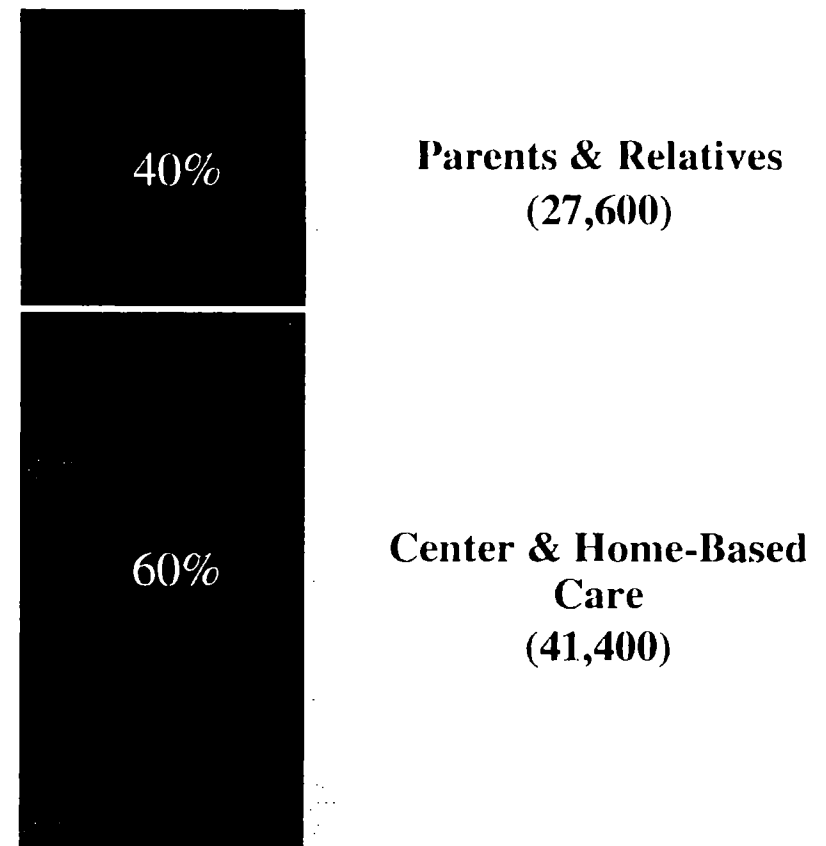
# Where Are the Preschoolers?

## Child Care For Children Under 6

### NATIONAL



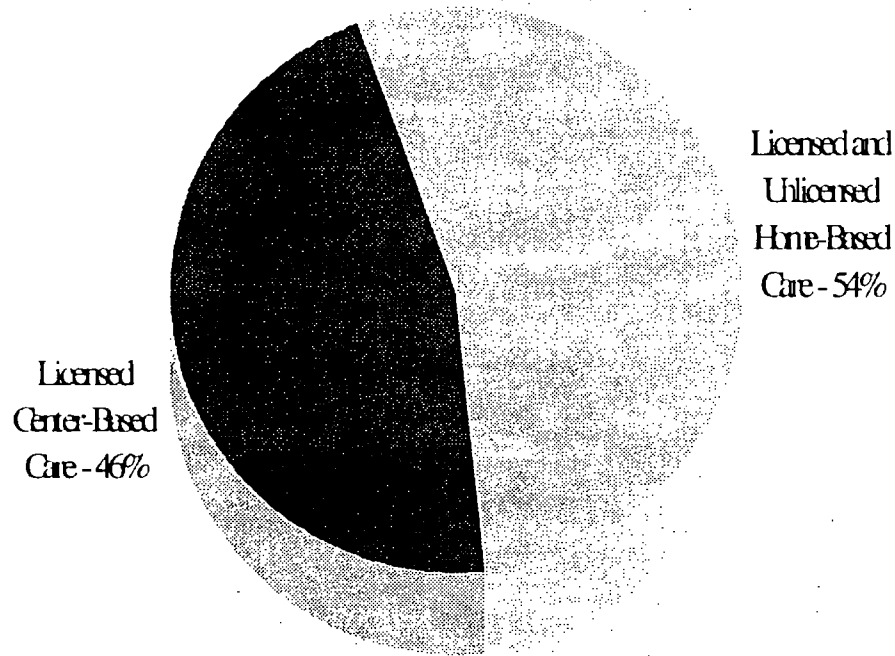
### NEW HAMPSHIRE



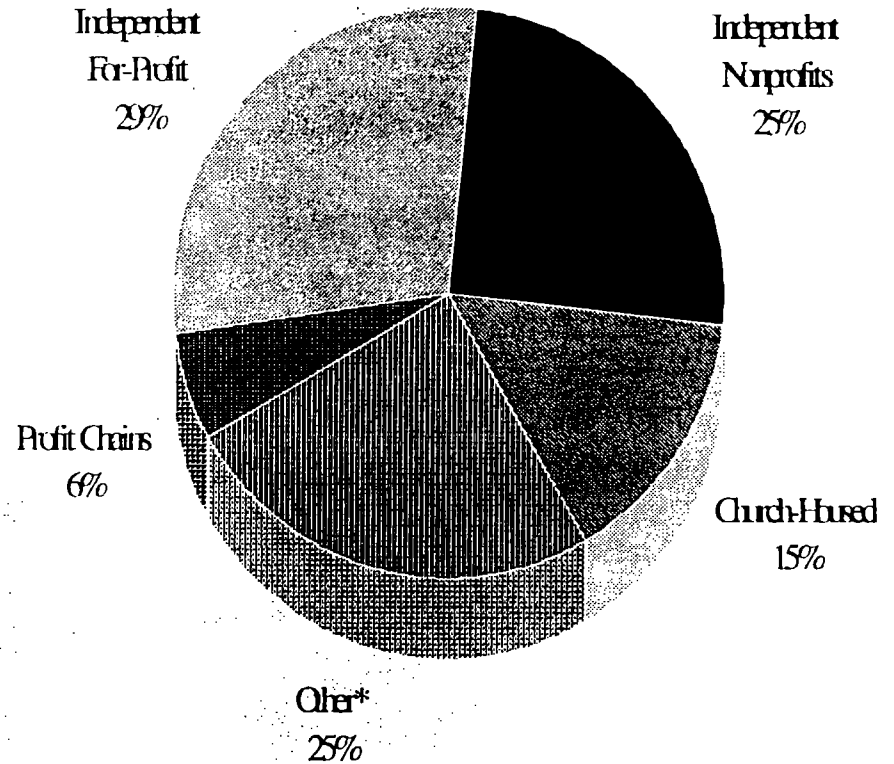
# Industry Structure

## *Types of Providers*

**New Hampshire Options**



**U.S. Types of Centers**



\*Other is: 8% Other Nonprofit, 8% Public School Preschools, and 9% Head Start.

# Industry Structure

## *Size*

- Total Annual Revenue \$30 billion
  - Non Profit \$12 billion - Corporate Sponsorships \$2 billion
- Number of Children 9 million
- Number of Locations 90 thousand
- Annual Growth Rates
  - Industry Wide 5 % - Corporate Sponsorships 25 %
- Market Concentration
  - Top 50 companies control less than 10 % of the market

# Industry Structure

## *National Employment in Child Care Services*

	<b><u>1996 Jobs</u></b>	<b><u>Share of Total</u></b>	<b><u>Percent Growth 1986-1996</u></b>
All Occupations in Child Care Industry	569,300		77%
Executive, Administrative & Managerial	50,766	9%	146%
Professional Specialty	219,115	38%	53%
Technicians and Related Support	888	0%	-7%
Marketing and Sales	84	0%	6%
Administrative Support - incl. clerical	105,861	19%	54%
Service Occupations	183,758	32%	130%
Agriculture, Forestry and Fishing	235	0%	-57%
Precision Production, Craft and Repair	760	0%	-61%
Operations, Fabricators, Laborers	7,833	1%	36%

Gallagher, Callahan & Gartrell  
Concord, New Hampshire

## Top of the Heap?

- Bright Horizons is the nation's largest provider of early childhood education for the corporate market. The company partners with its corporate sponsors to provide services to the sponsors' workforce, on or near corporate premises.
- Bright Horizons is a publicly traded company. The company's revenue has increased at a compound annual growth rate of 38% over the past 5 years to \$85 million in fiscal 1997.
- Bright Horizons operates 140 centers, has a licensed capacity for 14,156 children and has 134 clients.
- Occupancy costs constitute about 9% of revenue at Bright Horizons vs. 26% for the for-profit, residential center.

# Child Care Financing

## *Child Care Center Budgets*

	Percent of Total	
	Nonprofit	For-Profit
<b>•Revenues</b>		
Parents	55	88
Public Funds	35	10
Other Private Funds	10	2
<b>•Expenses</b>		
Labor	79	62
Occupancy	9	22
Food	5	4
Other Operating, Overhead	7	12
<b>•Surplus or Profit</b>	2.9	5.1

# Child Care Financing

*Child Care Center Budgets (Continued)*

	<b>Mean Values</b>	
	<b>Nonprofit</b>	<b>For-Profit</b>
• Percent of children who are subsidized	34	13
• Percent of centers using volunteers	52	27
• Percent of centers with before and after care for school-age children	47	72

# Child Care Financing

*Change in Sources of Center Revenue  
(1988-1997)*

<u>Sector</u>	<u>Income from Public Funds</u>	<u>Income from Parent Fees</u>
Independent For-Profit	+10%	-9%
For-Profit Chain	+17%	-9%
Independent Nonprofit	-4%	-2%
Church-Related Nonprofit	+4%	-3%

# Child Care Financing

## *Home-Based Child Care Economics*

	<b>6</b>	<b>5</b>	<b>4</b>
Number of Child Care Slots			
Weekly Charge Per Child	\$90	\$90	\$90
Weekly Revenue	\$540	\$450	\$360
Vacancy Rate	10%	10%	10%
Adjusted Weekly Revenue	\$486	\$405	\$324
Occupancy/Overhead Costs	\$185	\$154	\$123
Gross Profit	\$301	\$251	\$201
Annual Gross Profit	\$15,669	\$13,057	\$10,446

# Compensation

## *Trends in Hourly Wages for Center-Based Child Care Staff*

<u>Staff Position</u>	<u>Real Average Hourly Wage</u>		<u>Percent Change</u>
	<u>1992</u>	<u>1997</u>	<u>1992-1997</u>
Lowest-Paid Assistant	\$5.91	\$6.00	1.5%
Highest-Paid Assistant	\$7.03	\$7.00	(0.43%)
Lowest-Paid Teacher	\$7.55	\$7.50	(0.66%)
Highest-Paid Teacher	\$10.33	\$10.85	5%

# Compensation

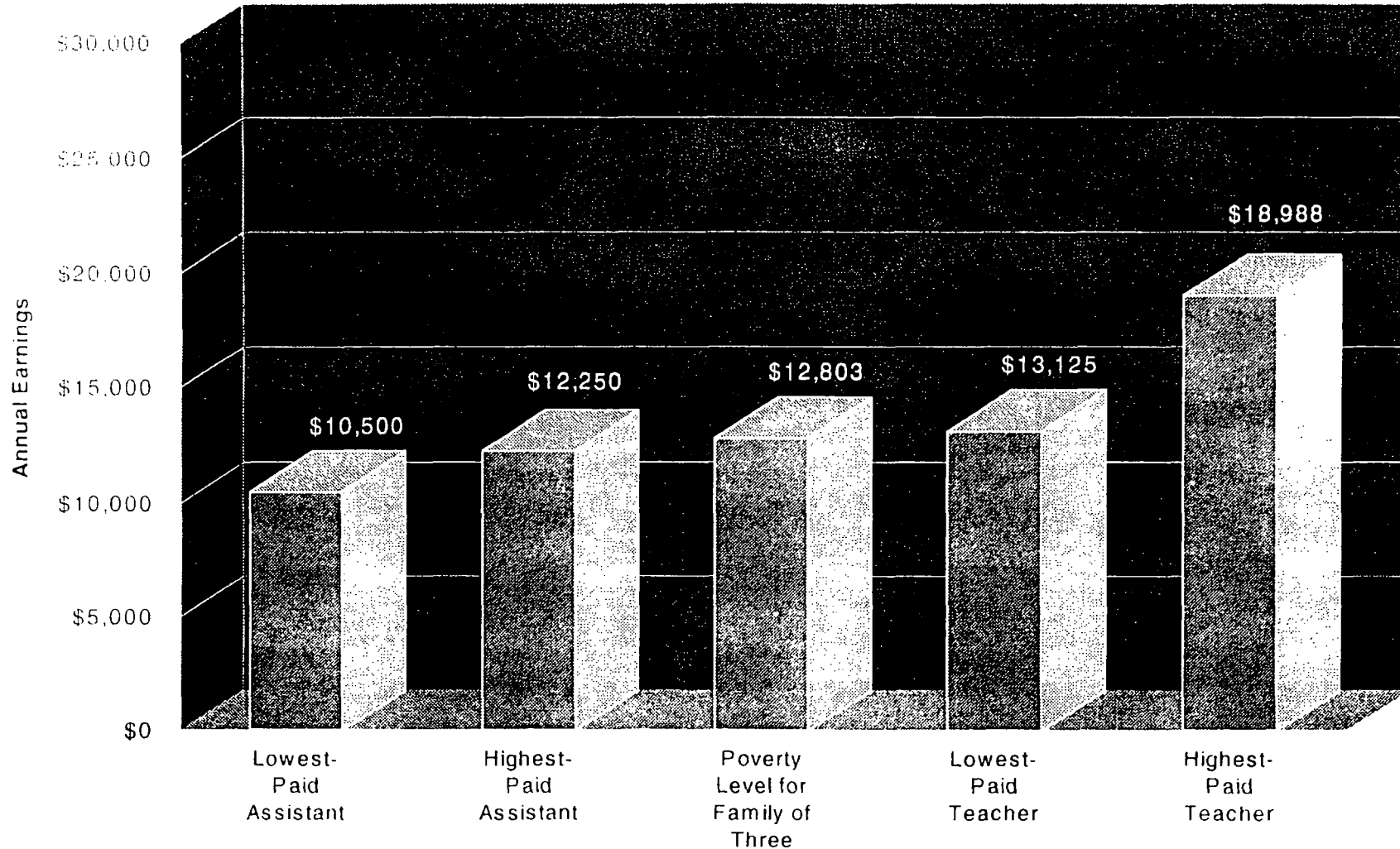
## *Average Hourly Wages by Sector and Accreditation Status*

<b>Program Type</b>	<b>Lowest-Paid Assistant</b>	<b>Highest-Paid Assistant</b>	<b>Lowest-Paid Teacher</b>	<b>Highest-Paid Teacher</b>
Independent For-Profit	\$6.06	\$7.62	\$7.36	\$11.19
For-Profit Chain	\$5.46	\$6.21	\$5.52	\$7.16
Independent Nonprofit	\$6.62	\$7.79	\$8.65	\$12.27
Church-related Nonprofit	\$6.17	\$7.18	\$7.62	\$10.59
Not NAEYC-Accredited	\$6.20	\$7.34	\$7.64	\$10.73
NAEYC-Accredited	\$6.79	\$8.52	\$8.97	\$14.35

Gallagher, Callahan & Gartrell  
Concord, New Hampshire

# Compensation

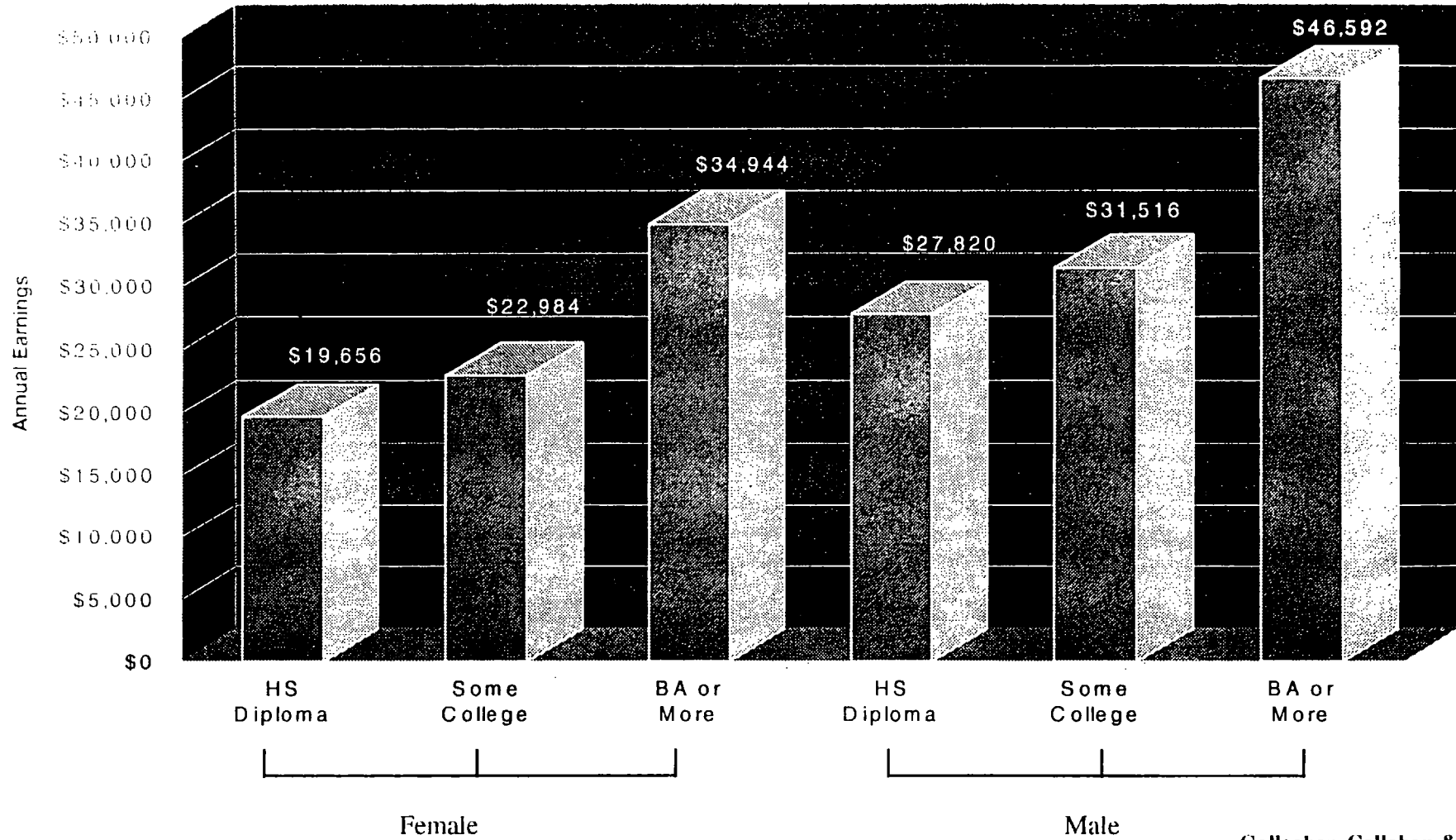
## *Average Annual Earnings of Child Care Teaching Staff*



Gallagher, Callahan & Gartrell  
Concord, New Hampshire

# Compensation

## *Average Annual Earnings of Civilian Labor Force*



Gallagher, Callahan & Gartrell  
Concord, New Hampshire

# Child Care Costs

- Percent of Monthly Family Income Spent on Child Care

## Annual Income

## Share of Income

Under \$14,400

25%

\$14,400-35,999

12%

\$36,000-53,999

8%

\$54,000 and over

6%

- Amount U.S. employers lose due to child-care-related absences: **\$3 billion**. Est. N.H. Losses: **\$12-24 million**
- Percentage of employees eligible for employer-assisted child-care benefits: **4 percent**

# Child Care Costs and Quality

- Lowering Costs may not encourage parents to buy better child care

	<b>Average Hrs of Care Consumed</b>	<b>Average Group Size</b>	<b>Average % Trained Providers</b>	<b>Average Staff to Child Ratio</b>
High Priced Markets	30.8	10.3	89%	1:4.5
Moderate Priced Markets	36.6	12.5	85%	1:4.7
Low Priced Markets	45.3	14.7	79%	1:5.12

# Quality

## *State by State Child Care Assessments*

State	Quality	Safety	Availability	Commitment	Composite
Connecticut	4	4	4	4	16
Hawaii	4	4	4	4	16
Maryland	4	4	4	4	16
Massachusetts	4	4	4	4	16
Minnesota	4	4	4	4	16
California	3	4	4	4	15
Washington	3	4	4	4	15
Colorado	3	3	4	4	14
Vermont	4	3	3	4	14
Wisconsin	3	3	4	3	13
Delaware	3	3	3	3	12
Illinois	3	3	3	3	12
Michigan	3	3	3	3	12
New York	3	3	3	3	12
North Carolina	2	2	4	4	12
Ohio	2	2	4	4	12
Pennsylvania	3	3	3	3	12
Rhode Island	3	2	4	3	12
DC	3	4	2	2	11
Florida	2	2	3	4	11
Indiana	3	2	3	3	11
New Jersey	3	2	3	3	11
Oregon	2	2	3	4	11
Georgia	2	2	3	3	10
Kansas	3	3	2	2	10
Kentucky	2	2	3	3	10

State	Quality	Safety	Availability	Commitment	Composite
Maine	3	3	2	2	10
Missouri	3	2	2	3	10
Nebraska	3	2	3	2	10
West Virginia	2	2	3	3	10
Arkansas	2	2	2	3	9
Iowa	3	2	2	2	9
Oklahoma	2	3	2	2	9
Tennessee	2	2	2	3	9
Texas	2	2	3	2	9
Alabama	2	2	2	2	8
Alaska	2	2	2	2	8
Arizona	2	2	2	2	8
New Hampshire	2	3	2	1	8
South Carolina	2	2	2	2	8
Utah	3	2	2	1	8
Virginia	2	2	2	2	8
Wyoming	2	2	2	2	8
Montana	2	2	1	2	7
South Dakota	2	1	2	2	7
Nevada	2	2	1	1	6
New Mexico	2	2	1	1	6
North Dakota	2	2	1	1	6
Idaho	1	1	1	1	4
Louisiana	1	1	1	1	4
Mississippi	1	1	1	1	4

# Quality

## *Turnover And Stability*

Numerous studies indicate that low staff turnover and administrative stability contribute to higher-quality child care.

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<b>Program Type</b>	<b>Annual Turnover</b>	<b>Teaching Staff Remaining 5-10 Years</b>
Independent For Profit	35%	29%
For-Profit Chain	45%	20%
Independent Nonprofit	28%	39%
Church-related Nonprofit	26%	29%
Not NAEYC- Accredited	34%	29%
NAEYC-Accredited	20%	53%
All Centers	31%	32%

# Corporate Involvement in Child Care

## *A “One Sided” Introduction*

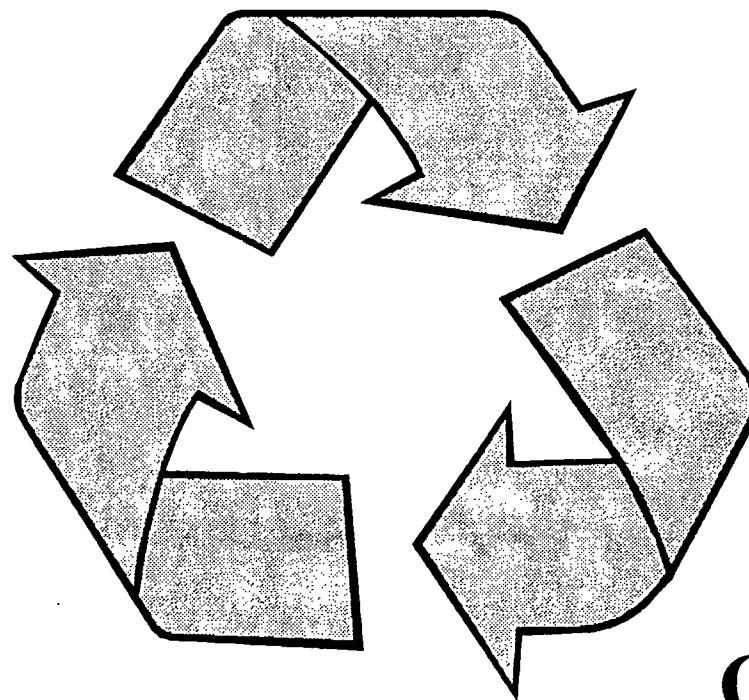
- Percent of Large Companies Involved in Child Care

	<u>1990</u>	<u>1995</u>
<i>Work Site Care</i>	6%	10%
<i>Child Care Assistance</i>	64%	85%

- Simmons Graduate School of Business Study
  - 42 % of survey respondents cited child care as an important factor in joining a company
  - 19 % turned down or did not pursue a job because of lack of benefits
- Union Bank
  - savings from reduced turnover and absenteeism were double the cost of subsidizing the center

# The Policy Puzzle

**Cost**



**Quality**

**Compensation**

# Governor's Business Commission

## *Summary of Overview Presentation*

### **Trends**

- Tight Labor Markets
- Increased Competition
- Working Parents
- Welfare-to-Work
- Kids Count

### **Issues**

- Business
- State
- Quality
- Compensation
- Cost/Access

# Governor's Business Commission

## *Summary of Overview Presentation*

### **Some Options for Business**

- Corporate-Partnerships for on-site child care
- Corporate-Sponsored vouchers
- Expanded/Flexible Benefits Packages
- Equity Investments

### **Some other Policy Options**

- Tax Credits
- Public/Private Partnerships
- Quality Enhancement
- Creative Financing Programs
- Volunteerism
- Parents

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- Top of the Heap - Everen Equity Growth: Bright Horizons, Inc. and Everen Equity Growth Educational Services Industry, Child Care Market.
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the USA figures. The New Hampshire factor was then applied to the estimated national loss of \$3 billion. Fifty percent of the estimated New Hampshire factor was used as the lower bound. Further research would be needed to identify, measure, and forecast the actual losses in New Hampshire. Blau and Hagy, *Journal of Policy Economy and Washing Post*, February 5, 1998 pg. E1.

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TESTIMONY

THE HOUSE BANKING SUBCOMMITTEE ON CAPITAL MARKETS, SECURITIES  
AND GOVERNMENT SPONSORED ENTERPRISES

PREPARED BY  
TRINITA LOGUE, PRESIDENT  
ILLINOIS FACILITIES FUND

JUNE 16, 1998

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to speak with you about H.R. 3637, the Children's Development Commission Act. To my knowledge, this is the first bill of any substance to address the overwhelming need for an organized response to the crisis in child care facility finance and development that exists in many parts of the country. Such a commission will be able to help support a coherent system of early childhood development in the United States, even while supporting states in their individual efforts to respond to the needs and desires of all families.

The Illinois Facilities Fund is a statewide nonprofit community development financial institution created in 1988 by a foundation to make below-market loans to nonprofits unable to obtain conventional financing. The IFF also undertakes real estate development for nonprofits. While we work with nonprofit agencies in many fields, we have an expertise in child care. In addition to lending and consulting on real estate projects, we financed, constructed and own seven large child care centers in five Illinois cities, through a program we designed in partnership with the State of Illinois. We are managing the construction of two additional child care centers in Chicago, which will break ground this summer, partly funded with Empowerment Zone funds and focused on supporting the goals of welfare reform. These buildings will both create jobs and enable parents to accept employment.

The majority of our work is in disinvested or low-income neighborhoods, because these are the communities in which banks are more hesitant to lend, generally due to low real estate values.

The IFF is a founder of the National Children's Facilities Network, a group of nonprofit organizations similar to the IFF, which tracks state and federal policy with regard to capital investment in the child care field, and encourages better financial planning. In Illinois, the IFF is involved in research and policy activities to improve planning for child care and to increase funding and operating flexibility. The IFF provides consulting to government entities and nonprofit agencies on planning, the financial feasibility of real estate projects, and on the construction, operations and funding of buildings for new or growing programs.

Child care has recently become a visible and integral part of American life as women of all ages and incomes continue to seek full time or part time employment. In

addition, there is a growing realization that appropriate early childhood development is absolutely critical in every child's life. Child care is more than a support service to enable parents to work; early childhood development determines whether children are developmentally prepared for kindergarten. For these reasons, there is tremendous pressure on the child care field to grow. While many families have child care choices with little or no financial constraint, parent behavior shows that there is a limit to the amount that will be paid for this care, no matter what the family income. It is generally agreed by child care advocates and observers of the economics of the field that no family should pay more than 10 percent of the family income for child care. As with so many other services, higher income families actually pay a smaller percentage of their incomes for child care than lower income families pay.

Studies show that 32% of all parents using out-of-home care for their pre-schoolers choose or want to choose a child care center. Further, studies show that a majority of parents using out of home care for children older than age two choose or want to choose center based care, because it is believed that centers provide socialization and education more consistently and with greater accountability than other providers.

Federal policy over the past several years has dramatically increased the demand for child care for low income families but has done nothing to increase supply. Study after study provide critiques and recommendations for the rapidly growing field. However, few of these address the financial and capital needs of this asset-intensive business, and this is what H.R. 3637 will do. It is a welcome addition to the efforts to design a comprehensive system for parents who must or choose to take advantage of early childhood development programs for their children.

It is no surprise that child care programs for middle and low income families are experiencing even greater pressure as a result of the repeal of welfare. In the communities where this urgency exists, we do not have the supply of quality early childhood programs that middle and upper income communities take for granted.

According to the Illinois Department of Human Services, as of March 1, 1998, there were 530,000 recipients of Temporary Assistance to Needy Families (the program that replaced AFDC). Of these, 370,000 were children. The Illinois Facilities Fund projects that in the Chicago metropolitan area alone about 39,000 of these children will need full-day care within the next two years and will qualify for a child care subsidy. Of these families, 13,000 children are likely to select center-based care.<sup>1</sup> Illinois currently does not have child care programs to accommodate this projected demand. One example is in the Englewood neighborhood of Chicago, where 1,519 children under five are eligible for 161 child care spaces (including child care centers and licensed home providers). This community can only provide child care for 11 percent of the children needing care, even though these parents qualify for a subsidy and most will lose welfare benefits in the near future.

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<sup>1</sup> The IFF uses conservative estimates based on current parent behavior, which indicates that between 32% and 38% of parents choose child care centers, and a majority of parents of children three and four years of age choose centers, according to The Future of Children: Financing Child Care. (1996).

Child care is a highly regulated industry - both the building and the program of any child care center are subject to licensing, health and safety codes, and curriculum requirements. (Licensed homes also have regulations in Illinois.) Licensing covers staffing and square foot requirements. In order to obtain a license, the child care provider is required to make an up-front capital investment in buildings, supplies, playgrounds, and professional staff. Few child care providers with a mission to serve a mixed income community can make this investment, for reasons that are common to many small businesses and many nonprofit agencies, including a lack of collateral, low real estate values, and, most importantly, constrained revenues. However, the regulations are not causing problems of affordability. Personnel costs account for at least 80% of the costs of a typical child care center, and no one in the child care field believes that there are more staff than needed to provide quality programs.

Child care as a business cannot increase revenues to cover increased expenses without a very careful analysis of parent income and other choices available to parents. As a rule, child care providers work very hard to keep costs as low as possible. Their mission - whether for-profit or nonprofit - is to work with young children, and they want to remain in business.

Earlier this year President Clinton stated that he would like to subsidize child care for 1 million more low-income children, and increase Head Start by 350,000 children. The table below shows the projected capital costs associated with such a goal. In the table, it is assumed that only 32% of the children would use this subsidy in child care centers (see Footnote 1 on page 2):

Program	Additional children to be served in child care centers over five years	Additional classrooms needed	Additional square feet needed	Total cost over five years
Child Care Block Grant	320,000 children (32% of total)	16,000 <sup>2</sup>	22.4 million <sup>3</sup>	\$2.24 billion <sup>4</sup>
Head Start	350,000 Total <ul style="list-style-type: none"> <li>• 270,000 three-to-five-year-olds</li> <li>• 80,000 Early Head Start children</li> </ul>	20,588 <sup>5</sup>	12.25 million <sup>6</sup>	\$1.23 billion

Source: Illinois Facilities Fund

This table shows that for every additional dollar spent on the above programs, \$0.31 in capital investment will be necessary to meet the increased demand, just from the parents who choose child care centers. We have not kept up with the need for capital investment in child care centers in the communities throughout the country where they are most needed.

<sup>2</sup> Based on 20 children per classroom

<sup>3</sup> Assumes 70 square feet per child

<sup>4</sup> Assumes \$100 per square foot for new construction. Source: The Future of Children: Financing Child Care, Vol. 6, No. 2, 1996.

<sup>5</sup> Based on 17 children per classroom. Assumes full-day

<sup>6</sup> Based on 35 square feet net usable space, per Head Start regulations.

Do we need a federal program to deal with this enormous need? Yes. H.R. 3637 is the first such broad effort. However, there are a number of barriers to financing that must be addressed as H.R. 3637 is designed and implemented.

Revenue limitation creates three distinct barriers to adequate market response to the growth of the child care field, particularly in middle and lower income communities. First, while government subsidies have increased overall, per child revenues have not increased and they are inadequate to spur investment or cover the true cost of quality care. Second, when child care providers want to respond to new demands, they still need to make a capital investment, or they spend a significant amount of time saving or raising the funds in order to undertake the facility project. Too often the immediate day to day needs win out over saving for a downpayment for a new facility. If successful in raising enough capital to launch the project, the low margins available for debt service determine the amount that can be borrowed. And finally, child care center buildings are special use buildings, decreasing their value to conventional lenders. As a result, lenders often require higher interest rates and greater debt coverage and loan to value ratios. H.R. 3637 will be able to address this problem directly.

These financing barriers have other implications and consequences for communities, families and children. The supply of center-based child care does not increase as demand increases, particularly in low-income neighborhoods. Intervention in this market is necessary, and this is the role that can be played by H.R. 3637.

Many banks are interested in community development lending, but in our experience in Illinois, even if debt service coverage requirements can be met through revenues, in most cases banks still require equity contributions of 20 percent and loan to value ratios based on appraisals. A sensible companion to H. R. 3637 would be an authorization to allow the states to use the Child Care Block Grant to provide equity grants to child care centers and programs in certain underserved communities. These projects would then be able to make use of bank lending, assuming they can generate enough revenue to cover debt.

In general I believe the guarantee amount proposed in H.R. 3637 should be used as a mechanism to stretch banks further in their loans to child care centers. I urge the Committee to provide guarantees based on terms proposed by banks, adjusting the level based on concessionary interest rates on the part of the bank. I also propose that special consideration be given to banks that work hard-to-make loans in low to moderate communities, so that H.R. 3637 is used to direct investment more equally throughout our communities.

#### SUMMARY

Despite wide recognition of child care as a valued service for parents and children, the field faces a constant lack of adequate resources to meet demand. This is largely because the costs of quality child care are more than what most parents will pay or are able to pay. The economics of the current child care field are built on keeping costs low.

The child care work force is the lowest paid work force in the country - in order to improve quality these salaries must be increased. H.R. 3637 is an opportunity to proactively address the issues of supply and related issues.