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U.S. Small Business Administration

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U.S. Small Business Administration



*Championing America's Entrepreneurs*

# BORROWER'S GUIDE

## Other Sources

- State economic development agencies
- Chambers of commerce
- Local colleges and universities
- Libraries
- Manufacturers and suppliers of small business products and services
- Small business or industry trade associations

*All of the SBA's programs and services are provided to the public on a nondiscriminatory basis.*

For further information regarding the SBA MicroLoan Program, contact:



## The Facts About ...

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# Micro Loans

The MicroLoan Demonstration Program combines the resources and experience of the U.S. Small Business Administration with that of locally based nonprofit organizations to provide small loans and technical assistance to small businesses. Under the MicroLoan Program, the SBA lends money to qualified nonprofit organizations, which act as intermediary lenders. The intermediaries use the funds provided by the SBA to make loans to new and existing small businesses.

Under the MicroLoan Program, a small business can borrow up to \$25,000 from an intermediary lender, which also provides management and technical assistance designed to help ensure success.

FS0068 (1/96)

## Eligibility Requirements

Virtually any type of for-profit small business is eligible for the MicroLoan Program. The form of the business, whether a proprietorship, partnership or corporation, is not a determining factor. It must, however, meet the SBA's size standards at the time of application (generally, borrowers applying for this type of loan will fall well within these standards).

## Use of Loan Funds

MicroLoan funds may be used for working capital or to purchase inventory, supplies, furniture, fixtures, machinery and/or equipment. These funds may not be used to purchase real estate, to provide a down payment on a project in excess of \$25,000 in value, or, with limited exceptions, to refinance existing debts.

## Loan Terms

Under the MicroLoan Program, the maximum loan amount is \$25,000. The average is around \$10,000.

The maximum term allowed for a loan is six years. However, loan terms vary according to the size of the loan, the planned use of funds, the requirements of the intermediary lender, and the needs of the small business borrower.

Interest rates vary, depending upon the intermediary lender. Rates are generally competitive.

## Credit Requirements

MicroLoan applicants must meet the credit requirements of their local intermediary lender. Generally, however, applicants will be expected to demonstrate good character, a strong commitment to their business idea, and a credit history that demonstrates a reasonable assurance that the loan will be repaid. In addition, applicants should have some management expertise or be willing to participate in training designed to strengthen management skills.

## Collateral Requirements

As with credit standards, collateral requirements for the MicroLoan Program are set by the local intermediary lender. In most cases, loans are at least partially collateralized by equipment, contracts, inventory or other property. Lenders may also require personal guaranties.

## Applying for a Microloan

The first step in applying for a microloan is to contact your local intermediary lender. The lender in your area may be listed on the back of this brochure. The intermediary will provide the details on applying for a loan or receiving technical assistance.

The MicroLoan Program is a pilot program and not available everywhere. If no intermediary lender is listed on this pamphlet, contact the nearest SBA office to find out if one operates in your area.

## For More Information

Information is power. Make it your business to know what is available, where to get it and, most importantly, how to use it. Sources of information include:

- **U.S. Small Business Administration**
- SBA District Offices
- Small Business Development Centers (SBDCs)
- Service Corps of Retired Executives (SCORE)
- Small Business Institutes (SBIs)
- SBA OnLine (electronic bulletin board)
- Business Information Centers (BICs)

The SBA has offices located throughout the United States. For the one nearest you, look under "U.S. Government" in your telephone directory, or call the SBA Answer Desk at (800) 8-ASK-SBA. To send a fax to the SBA, dial (202) 205-7064. For the hearing impaired, the TDD number is (202) 205-7333.

To access the agency's electronic public information services, you may call the following:

SBA OnLine:

*electronic bulletin board — modem and computer required*

(800) 697-4636 (limited access)

(900) 463-4636 (full access)

(202) 401-9600 (D.C. metro only)

Internet:

*using uniform resource locators (URLs)*

SBA Home Page:

<http://www.sbaonline.sba.gov/>

SBA gopher:

<gopher://gopher.sbaonline.sba.gov/>

File transfer protocol:

<ftp://ftp.sbaonline.sba.gov/>

Telnet:

<telnet://sbaonline.sba.gov/>

You also may request a free copy of *The Resource Directory for Small Business Management*, a listing of for-sale publications and videotapes, from your local SBA office or the SBA Answer Desk.

Under CCDBG grants or loans can be made to providers to help meet state standards or licencing requirements, including minor construction or renovations.

38 Lead Agencies have such grants

Of these 21 give grants to help meet standards (example: CT; LA; NV)

Of these 4 encourage the purchase of new equipments (example: NM; WY)

Example, after Hurricane Andrew, Lead Agencies wanted to help child care providers repair damage caused by the Hurricane -- this was o.k. as long as minor remodeling is included as necessary to meet state standards.

Office of Government Sponsored Enterprises Policy  
Room 3025 - Main Treasury Bldg.

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## **Summary of Kiddie Mac Hearing**

### **Issue**

On June 16, 1998, the Subcommittee on Capital Markets, Securities, and GSE's (chaired by Richard Baker) held a hearing on H.R. 3637, the Children's Development Commission Act. The legislation, also known as Kiddie Mac, is co-sponsored by Rep. Baker (R-LA) and Rep. Maloney (D-NY).

H.R. 3637 authorizes HUD (through the FHA) to issue guarantees to private lenders for the construction or rehabilitation of child care and development facilities. Program participants are required to be certified by a newly established Children's Development Commission (or Kiddie Mac).

### **Attendees**

Chairman Baker (R-LA), Rep. Kanjorski (D-PA), Rep. Maloney (D-NY), and Rep. Lazio (R-NY). Rep. Vento (D-MN) arrived during the deliberations.

### **Opening Statements**

Chairman Baker opened the hearing by thanking all the participants and supporters of H.R. 3637. He then went on to briefly describe the proposal. Baker also thanked Rep. Lazio for allowing this hearing to be held in the capital markets subcommittee, rather than that for housing.

Representative Kanjorski noted that Kiddie Mac is the first legislative attempt to work on the supply side of the child care problem. He discussed the bill and drew parallels to a program operated by HUD that targets housing for senior citizens. Kanjorski emphasized that the assistance in this bill should benefit all sectors -- not just white, suburban, dual-income families. To this end, he suggested higher guarantees for those institutions serving the underserved.

Representative Maloney began her statement by citing several statistics in support of her contention that affordable, quality child care is in short supply. She went on to describe the bill in detail and outline its place as a small piece of the broader child care puzzle.

Representative Lazio reiterated the importance of affordable, quality child care -- citing personal experience. However, he did mention a degree of concern with the loan guarantees.

### **Panel 1**

The first panel consisted of Sen. Herbert Kohl (D-WI) and Sen Alfonse D'Amato (R-NY), co-sponsors of a similar measure in the Senate. While neither Senator appeared before the

committee, their statements were entered for the record.

In his statement, Senator Kohl stressed the importance (and shortage) of quality child care -- likening it to the necessities of food, shelter, and clothing. The Senator also noted that recent welfare reforms have exacerbated existing shortages -- citing statistics for Wisconsin and New York. Kohl went on to describe Kiddie Mac as a "market-based, small-government approach to moving capital toward investments that will remedy these unsustainable shortages of quality child care."

Senator D'Amato discussed the need for affordable, quality child care. He also remarked that "the day care shortage is reaching the crisis level" and that "Kiddie Mac could make a life or death difference for a child." Later, D'Amato likened Kiddie Mac to the other GSE's because the government would not get directly involved in the activity. Rather, the government is simply reducing barriers and providing incentives to the private marketplace.

## Panel 2

Melinda Green (Director of the African-American Early Childhood Center of the National Black Child Development Institute) stated that her group strongly supports H.R. 3637. However, she outlined several additional recommendations, including: (1) modeling the federal child care standards after existing national accreditation systems; (2) expanding the function and requirements regarding micro-loans; and (3) providing technical assistance to child care and development facilities.

Jim Wunderman (Vice President of Corporate Affairs, Providian Financial Corp.) cited instances in which his company was involved in providing child care in underserved areas. He noted that securing credit for these businesses is difficult because: (1) the buildings are often single-use; (2) there is generally little equity (i.e., these are often high loan-to-value mortgages); and (3) cash flows are tight -- making debt service difficult. Mr. Wunderman also noted that the Small Business Administration does provide loans for child care facilities, but only those operating for-profit.

Trinita Logue (President, Illinois Facilities Fund) mentioned that her association works with non-profits to build and operate child care centers. She echoed Mr. Wunderman's assertions concerning the difficulties these small firms face in raising capital.

Donna Klein (Director of Worklife Initiatives for Marriott International) discussed the overall paradigm shift in public perception of the child care problem from a family paradigm (i.e. child care is private concern) to a workplace paradigm (i.e., onsite daycare and flexible schedules) and ultimately to a community-wide model. She then described the difficulties that Marriott faced in obtaining financing for a child care center via a non-profit affiliate.

Mildred Wurf (Director of Public Policy, Girl's Inc.) said that the groups she represented worked primarily with school-age children (such groups include the YMCA and Campfire Boys/Girls). She then went on to talk generally about the social problems facing young people

in our society today.

### Questions and Answers

Chairman Baker opened the question and answer session by trying to relate child care quality with cost - citing price differentials for the care of youngest children (under three years) with older ones. Responding, Ms. Logue missed his point. However, she did state that no one should pay more than 10 percent of their income in child care. Chairman Baker then asked Mr. Wunderman if there was anything else that could be included in H.R. 3637 to entice lenders to extend credit to child care centers. Mr. Wunderman responded that financial training and technical assistance for the operators of the centers.

Representative Maloney then asked the panel whether child care centers were bad risks? And if not, why can't they get credit? Ms. Logue responded that these firms generate little revenue and thus can't service the debt - noting that 80 percent of the cost of child care goes to salaries. She recommended that existing block grants be allowed as equity for child care centers seeking loans. Rep. Maloney then went on to cite statistics demonstrating that New York City doesn't have space for all children needing daycare by 2001.

Representative Vento expressed some concern with national standards - particularly with respect to insurance provision. He also noted that the bill, as drafted, assumes that the program will be self-sustaining. Rep. Vento then cited the government's experience with student loan and FHA multifamily programs.

Representative Baker then discussed problems for these centers in obtaining liability insurance. He also kicked around the idea of offering direct, guaranteed loans to individuals - presumably similar to student loans. Rep. Maloney then suggested a separate hearing focusing exclusively on liability insurance for child care centers.

Meeting Discussion Paper - Does Not

Represent the

Administration's position.

CEA / Reas

staff paper

## Evaluation of "Kiddie Mac" proposal

### SUMMARY

Rep. Maloney and Rep. Baker have recently introduced a bill -- H.R. 3637 ("Kiddie Mac") -- to subsidize the supply of high-quality child care. We believe that the proposal in the President's FY 99 budget is a much more effective way of increasing the supply of high-quality, affordable child care. The need for affordable, quality child care is better met by giving subsidies directly to consumers of child care, rather than subsidizing the providers. Furthermore, the provider subsidy offered in Kiddie Mac may be particularly ineffective at increasing the supply of affordable child care. Finally, we are concerned that the bill sets a precedent for the federal government to set national standards for child care providers, a regulatory role that has traditionally been left to the states and could actually serve to limit the supply and increase the cost of child care.

### THE PROPOSAL

The proposal is an amendment to the National Housing Act. In order to reduce the cost to qualifying child care providers of loans for construction or renovation, Kiddie Mac will, through HUD, offer guaranty insurance to lenders for making loans to child care facility builders and operators. This is intended to reduce the cost of loans to child care providers by reducing the risk faced by lenders. The HUD guarantee will cover no more than 90 percent of the loan, or 95 percent if the mortgagor is a non-profit.

In addition, Kiddie Mac will:

- Establish a Children's Development Commission which will, in conjunction with the Secretaries of HUD and HHS, determine the laws, standards and requirements that a facility must meet, in addition to any state requirements, in order to be eligible for the federal guarantee.
- Offer "mini-loans" to qualifying child care providers to help them meet licensing requirements. These loans will be made by the Development Commission.
- Provide "reasonably priced" liability and fire insurance to qualifying providers.
- Establish and fund a foundation that will research issues in early childhood development, fund pilot programs and produce education materials.

Total lending and guarantee activity will be limited to \$2 billion and will expire in 2005.

### ANALYSIS

#### Reducing the cost of child care

The bill argues that liability and fire insurance are not available at "reasonable prices" and that the interest rates on loans are "too high". These rates are high, but there is no evidence that there is some form of market failure that causes prices to be greater than what banks need to cover their costs. The rates are high because the risks are high. Efforts to reduce these rates are designed to

increase the supply of affordable child care. But, as we discuss below, subsidies to consumers are a more effective way of achieving this aim.

### **Will Kiddie Mac increase the supply of affordable child care?**

In order for the Kiddie Mac program to reduce the costs to consumers of child care (or, analogously, in order for it to increase the “supply of affordable child care”) an affirmative answer would be needed to both of the following questions:

- **Would the interest rates that banks charge child care providers fall in response to the subsidy?** The federal guarantee reduces the risks to those who make loans to child care providers. If there are a large number of such lenders eligible for the government guarantee who participate in the program, then their reduced lending costs will be passed on to the child care providers in the form of lower interest rates on loans. But if only a small number of firms are eligible to make such loans or have an incentive to participate in the program, then a large portion of the government subsidy would benefit banks and other lenders rather than child care providers.

The bill stipulates that the HUD secretary must approve the lender. Even if the approval criteria are sufficiently unrestrictive that many lenders are eligible, there is reason to be concerned that few institutions will choose to participate. For example, there may be large start up costs to learning about the program or costs involved in monitoring providers to ensure that they comply with Commission standards.

- **Would a reduction in provider costs have much benefit for consumers?** Even if the proposed subsidies lower costs to child care providers, consumers may not benefit from these lower provider costs. Available evidence suggests this is not likely to be a problem. But if eligibility standards were made sufficiently restrictive (for example through stringent quality standards) that relatively few providers were eligible, then eligible providers would face little competition from other providers, and could pass through only a limited portion of their cost reductions to their consumers in the form of lower prices.

The uncertain answers to these questions suggest that subsidies to consumers are much more likely to be effective in increasing the supply of affordable child care than indirect subsidies to providers. Evidence that the supply of child care will respond to increases in demand at roughly current prices indicates that subsidizing consumers will decrease the cost to consumers and increase the supply of child care at these lower costs, rather than merely driving up the price of care.

### **If the proposal did result in an increased supply of affordable child care, what consumers would benefit?**

- **Reaching particular consumers.** Subsidies administered to consumers can be targeted to benefit particular consumer groups, such as low-income parents. Subsidies to providers, however, even if they do result in lower costs to consumers, benefit all of the providers’

customers, regardless of income level, employment of the mother, or any other consumer characteristic.

- **Likely beneficiaries are centers rather than family day care.** Although in principle any provider that meets the state and Commission's standards can benefit from Kiddie Mac, in practice the federally guaranteed loans to establish and renovate facilities are likely to benefit centers disproportionately, since their operating costs are much higher than family day care homes. This creates an artificial advantage for centers -- without any evidence that center care is better for children than family day care. In addition, center care is used disproportionately by higher income parents and hence benefits would accrue disproportionately to these parents, since any consumer cost reductions benefit the families who were already purchasing the care as well as the families who now start doing so.

### **Improving the quality**

The proposal calls for the establishment of a national Commission which, in conjunction with HUD and HHS, would determine the standards that providers must meet in order to be eligible for any of the subsidies offered by Kiddie Mac. These standards would apply *in addition to* any state standards.

The federal government currently does not set national standards for child care providers. In doing so, the Commission's work could undermine the goal of increasing the supply of affordable child care. Compliance with regulations can be costly, and the imposition of these federal regulations on top of existing state regulations might either impose costs that make it not worthwhile for providers to comply in order to get the Kiddie Mac benefits, or could result in providers having to raise their prices, thus counteracting the desired decrease in prices from federally guaranteed loans. Furthermore, as discussed above, the result of stringent standards and limited eligibility may be a situation in which a limited number of providers benefit without passing on much of their reduced costs to their consumers in the form of lower prices.

### **Additional concerns**

**Is the 5-10% portion of the loan that is not guaranteed the right amount?** In choosing what percentage of the loan to guarantee, a tradeoff must be struck between the goal of encouraging an increase in lending and not distorting the incentives of the lenders to make good loans. In general, most government guarantee programs have addressed this tradeoff by choosing lower guarantee rates. For example, the SBA guarantees loans made to small businesses guarantees 80% of the loan if it is under \$100,00 and only 75% if it is above \$100,000.

### **Duplicating existing programs**

- **SBA 7(a) program.** The SBA 7(a) program provides partial guarantees on loans to small businesses. Many commercial child care providers could therefore get reduced interest rates on loans for construction and renovation through this program rather than the

proposed one.

- **“Micro loans” by Commission.** This is duplicative of SBA micro loan programs for many for-profit child care providers.

**Is HUD the appropriate agency to administer the program?** The loans to child care providers for construction and renovation are commercial real estate loans. It is not clear that HUD -- rather than, say, SBA, is the appropriate programmatic agency for the proposal.

**Treasury Study of Secondary Markets.** The proposed Treasury study of secondary markets for insured commercial real estate loans for child care and development facilities is likely to be infeasible. Due to relatively small loan volumes and geographic dispersion, a private secondary market is unlikely to develop.



IAN M. FRIED  
LEGISLATIVE ASSISTANT

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1330 LONGWORTH BUILDING (202) 225-4709 FAX  
WASHINGTON, D.C. 20515 E-MAIL: IAN.FRIED@MAIL.HOUSE.GOV

**House of Representatives**  
**Washington, D.C. 20515**

MEMORANDUM

NICOLE RABNER:

KATHY BONE SUGGESTED I SEND YOU  
A COPY OF THE KIDDIE MAC BILL. WE WOULD  
LOVE YOUR COMMENTS.

PLEASE CONTACT ME WITH ANY  
QUESTIONS

— IAN FRIED

CAROLYN B. MALONEY  
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1330 LONGWORTH BUILDING  
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(202) 225-7944

COMMITTEES:

BANKING AND FINANCIAL  
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GOVERNMENT REFORM AND  
OVERSIGHT

JOINT ECONOMIC COMMITTEE



# Congress of the United States

House of Representatives

Washington, DC 20515-3214

May 4, 1998

DISTRICT OFFICES:

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- 619 LORIMER STREET  
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(718) 349-1260

Dear Friend:

I thought you might be interested in a bill I introduced to Congress earlier this month which is aimed at encouraging the creation of more and higher quality child care facilities. As you know all too well, the availability of good child care is not matching the need. As more parents enter the workforce and as each state implements welfare reform, we all must find ways to address

The bill itself is really a new concept in how to tackle the lack of quality places for kids. It authorizes HUD to sell guarantees to financial institutions which wish to lend to child care providers. The idea is that with a guaranty on their loans, lenders are more likely to give loans to projects involving child care which are currently perceived as being too risky.

In order for HUD to authorize the guaranty, the bill creates the Children's Development Commission, or "Kiddie Mac," as the certifying authority. Kiddie Mac will make certain that the borrower meets all the necessary criteria. The Commission will have twelve months to determine: federal standards for providers who seek the loans, as well as a method for providing affordable fire and liability insurance. In addition, Kiddie Mac will provide micro-loans to child care providers who need some capital to fund the necessary changes in their facility in order to meet licensing standards.

The focus of this legislation is to stimulate the private sector into meeting the growing demand for child care. But another reason for this design is to have a place in the federal government which is totally focussed on the issue of providing quality child care. To this end, the legislation also asks the Commission to set up a not-for-profit foundation which will work on assisting research and training programs related to child care.

I am very optimistic about the future of this legislation. I am working with my cosponsor, Rep. Richard Baker of Louisiana, on hearings to be held shortly. When we return from recess, a similar bill will be introduced in the Senate by Senator Herb Kohl of Wisconsin.

I have enclosed the bill, as well as some information sheets about the legislation. I would appreciate your thoughts, comments, questions and suggestions. Please contact me, or my staffer working on the issue, Ian Fried, at 202-225-7944.

Thank you for your time and I look forward to hearing from you.

Sincerely,

*Carolyn B. Maloney*  
CAROLYN B. MALONEY

# KIDDIE MAC SUMMARY

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Legislation introduced by Rep. Carolyn Maloney (NY)  
and Rep. Richard Baker (LA)  
*H.R. 3637*

**GOAL:** *To fill the unmet need for quality, affordable child care, the Children's Development Commission ("Kiddie Mac"), will be created as a government entity which will be a catalyst for private-sector construction and development lending.*

## THE BASIC ELEMENTS:

1. **The Concept:** The private sector now hesitates to provide loans for construction or operation of child care facilities because it perceives a high risk of borrower liability in running such centers. Kiddie Mac will reduce that perceived risk to lenders, thus encouraging loans for the construction and opening of child care facilities. Using a combination of products, Kiddie Mac will spur private lending to child care providers, give small loans to get facilities up to licensing standards, and provide affordable fire and liability insurance.
2. **Guaranty Insurance=Low-Cost Loans:** Kiddie Mac will, through HUD, offer guaranty insurance to lenders for potential child care facility builders and operators. Currently, while the private sector appears to want to do something in this area, the perceived risk is too high. A guaranty should be enough security to spur lending with reasonable terms. In order to prevent the cost of insurance from becoming a barrier for starting a facility, Kiddie Mac will also offer reasonably priced liability insurance and fire insurance to qualifying child care providers.
3. **Start-up Costs and Rent:** Besides actual facilities being built or rehabilitated, often what is needed is money for start-up costs and rent. Kiddie Mac will offer mini-loans to qualifying child care providers for these costs. These loans will also be available for a facility which needs to make certain improvements in order to meet licensing standards.

4. **Foundation:** With the money made from its other activities, Kiddie Mac will establish a foundation that will research issues in early childhood development, fund pilot programs and produce educational materials. It will also provide materials and activities to guide applicants through the Kiddie Mac process.

### **SPECIAL CHARACTERISTICS OF KIDDIE MAC:**

1. Executive salaries will be capped.
2. An annual report to Congress and hearings on activities and performance will be required, similar to the Humphrey-Hawkins hearings the banking committees hold with the Federal Reserve Chairman.
3. Total lending and guaranty activity will be limited to \$2 billion. If a need is found beyond this amount, Congress may increase the ceiling.

# Common Questions about KIDDIE MAC

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**"Child Development Commission Act"-- H.R. 3637**  
**Introduced by Rep. Carolyn Maloney (NY) and Rep. Richard Baker (LA)**

## **1. Why is Kiddie Mac Necessary?**

**A:** The United States is falling behind in meeting the needs of its children for high-quality care. Other nations understand the critical role that child care plays in early development, but the quality and quantity of child care space in this country are below acceptable levels. While demand is enormous and growing for trustworthy infant and pre-school slots nationwide, the need is not being met.

## **2. Do we really need federal participation to do this?**

**A:** YES. Such a commission is necessary when private-sector market mechanisms fail for some reason to address a major demand. Child care is an example of a broad demand that profit-seeking firms have been unwilling to meet.

Current market conditions discourage private sector investment in child care facility development. Clearly, with the heightened need for care for America's children, and relief for America's working parents, the capital markets need to be encouraged to contribute toward the care and development of our kids.

Lenders have concerns about risk and the threat these risks pose to safety and soundness to their institutions. Like any financial institution or governmental-sponsored corporation, these institutions need the reliability of the federal government backing them up.

**3. How would Kiddie Mac work?**

**A:** Kiddie Mac would certify requests for loans so the Department of Housing and Urban Development (HUD) could then sell *guaranty insurance* to the lenders. Many private lenders want to invest in child care facilities but are uncomfortable with the risks. Kiddie Mac will provide guaranty insurance for mortgages, loans and some other debts, encouraging private lenders to invest in the needs of our children.

**4. Will Kiddie Mac help someone who wants to convert a building to child care, add to existing facilities or bring a center up to licensing standards?**

**A:** Yes. Kiddie Mac will provide small-facilities loans for improvements to existing centers for the purpose of meeting licensing standards, or to improve the quality of care and/or increase the number of children who can take part. A family-run child-care home, for example, could qualify for one of these loans to make the changes needed for licensing.

**5. Who will pay for Kiddie Mac?**

**A:** After a small appropriation to fund its initial incorporation, Kiddie Mac will be funded by the premiums paid by the lenders who purchase the insurance, *never costing the taxpayer anything more.*

**6. Who will have access to Kiddie Mac?**

**A:** Anyone who is currently licensed or who can demonstrate the ability to be licensed can use Kiddie Mac's services. This includes community organizations, not-for-profit groups, community development financial institutions, for-profit businesses, family-home facilities, churches and other employers.

**7. Will those operations be competing against private businesses?**

**A:** Private businesses which want to develop child care facilities, nursery schools or after-school programs are allowed to access Kiddie Mac just like anyone else. As for private lenders, since the problem in child care has been that the needs are not being met by the open market. Kiddie Mac is needed to fill this role.

**8. How about churches and synagogues? Aren't they banned from taking government money?**

**A:** If a church or synagogue or any other religious body can qualify to be licensed as a child care provider, Kiddie Mac's services are available.

**9. Will Kiddie Mac help in addressing some of the other problems of child care and child development?**

**A:** Yes. Using some of the funds generated by its financial activity, Kiddie Mac will establish a foundation to research problems in child care and child development, fund pilot programs and educational materials, and find ways to make the Kiddie Mac process efficient and accessible to as many people as possible.

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 1, 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

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## 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 90 percent of the estimated value of the  
17      property or project, or 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 gagee 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—

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           “(e) 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 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 (c)(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      “(e) 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 (e)(3).”

1 **SEC. 6. STUDY OF AVAILABILITY OF SECONDARY MARKETS**  
2 **FOR MORTGAGES ON CHILD CARE FACILI-**  
3 **TIES.**

4 The Secretary of the Treasury shall conduct a study  
5 of the secondary mortgage markets to determine—

6 (1) whether such a market exists for purchase  
7 of mortgages eligible for insurance under sections  
8 223(h) and 257 of the National Housing Act (as  
9 added by this Act);

10 (2) whether such a market would affect the  
11 availability of credit available for development of  
12 child care and development facilities or would lower  
13 development costs of such facilities; and

14 (3) the extent to which such a market or other  
15 activities to provide credit enhancement for child  
16 care and development facilities loans is needed to  
17 meet the demand for such facilities.

18 The Secretary of the Treasury shall submit to the Con-  
19 gress a report regarding the results of the study conducted  
20 under this section not later than the expiration of the 2-  
21 year period beginning on the date of the enactment of this  
22 Act.

○



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

Dear Ms. Maloney:

This responds to your March 18 letter to Secretary Rubin requesting the views of the Department of the Treasury on H.R. 3637, the "Children's Development Commission Act." Since the bill as introduced on April 1 differs from the draft that you sent to us in March, we will confine our comments to the bill as introduced. Your bill has been carefully reviewed within the Administration, and we have consulted widely within the Administration in developing the views set forth here.

The Administration shares your interest in increasing the availability of, and access to, quality child care services. We regret that we cannot support H.R. 3637 as it is currently drafted. We would like to suggest ways in which the bill might be improved.

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 Department of the Treasury to submit three nominees for the Children's Development Commission, 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. Moreover, 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, and losses were further decreased when its maximum risk exposure was decreased to 75 percent. Accordingly, we recommend that the degree of government guarantee in this proposal be reconsidered.

The proposed Children's Development Commission raises several concerns. First, by establishing national child care standards for program participants, the Commission could actually increase the cost of child care by creating another layer of regulation. Second, the proposed micro-loan program places all of the credit risk associated with these loans on the government and duplicates other Federal programs (e.g., the SBA's micro-loan 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. 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), 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 would 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.**

**The Office of Management and Budget has advised us that the views set forth herein are consistent with the Administration's policy.**

**Sincerely,**

**998 SE-003655**

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COMMITTEE  
BANKING AND FINANCIAL  
SERVICES

GOVERNMENT REFORM AND  
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JOINT ECONOMIC COMMITTEE



**Congress of the United States**  
**House of Representatives**  
Washington, DC 20515-3214

March 18, 1998

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Secretary Robert Rubin  
Department of the Treasury  
1500 Pennsylvania Ave, NW  
Washington, DC 20220

Dear Secretary Rubin: *Lot*

Attached please find a copy of a letter I have sent to the President regarding the Kiddie Mac bill about which I spoke with you in New York earlier this month. Shortly I will be submitting it to Congress. As I explained then, this bill would create a government sponsored enterprise to address the growing need for child care facilities using the secondary mortgage market, guarantees, and micro-loans.

I am including for your review the latest draft of the bill and some fact sheets regarding the proposal. Your thoughts, comments and questions would be greatly appreciated.

Sincerely,

*Carolyn B. Maloney*  
CAROLYN B. MALONEY  
Member of Congress

cc: Under Secretary John Hawke, Jr.

HR 3637 IH

## 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.

## IN THE HOUSE OF REPRESENTATIVES

April 1, 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. VALAZQUEZ, 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.

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

**SECTION 1. SHORT TITLE.**

This Act may be cited as the 'Children's Development Commission Act'.

**SEC. 2. CONGRESSIONAL FINDINGS.**

The Congress finds the following:

- (1) The need for quality nursery schools, both full-time and part-time child care centers and after-school programs, after school programs, neighborhood-run mothers-day-out programs, and family child care providers has grown among working parents, and parents who stay at home, who want their children to have access to early childhood education.
- (2) All parents should have access to safe, stimulating, and educational early childhood education programs for their children, whether such programs are carried out in a child care center, a part-time nursery school (including a nursery school operated by a religious organization), or a certified child care provider's home.
- (3) The number of available enrollment opportunities for children to receive quality child care services is not meeting the demand for such services.
- (4) In 1995 there were about 21,000,000 children less than 6 years of age, of whom 31

percent were participating in center-based child care services and 14 percent were receiving child care in homes. Between 1992 and 2005 the participation of women 24 to 54 years of age in the labor force is projected to increase from 75 percent to 83 percent.

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

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

### **SEC. 3. INSURANCE FOR MORTGAGES ON NEW AND REHABILITATED CHILD CARE AND DEVELOPMENT FACILITIES.**

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

#### **‘MORTGAGE INSURANCE FOR CHILD CARE AND DEVELOPMENT FACILITIES**

‘SEC. 257. (a) **PURPOSE-** The purpose of this section is to facilitate and assist in the provision and development of licensed child care and development facilities.

‘(b) **GENERAL INSURANCE AUTHORITY-** The Secretary may insure mortgages (including advances on such mortgages during construction) in accordance with the provisions of this section and upon such terms and conditions as the Secretary may prescribe and may make commitments for insurance of such mortgages before the date of their execution or disbursement thereon.

‘(c) **ELIGIBLE MORTGAGES-** To carry out the purpose of this section, the Secretary may insure any mortgage that covers a new child care and development facility, including a new addition to an existing child care and development facility (regardless of whether the existing facility is being rehabilitated), or a substantially rehabilitated child care and development facility, including equipment to be used in the operation of the facility, subject to the following conditions:

‘(1) **APPROVED MORTGAGOR-** The mortgage shall be executed by a mortgagor approved by the Secretary. The Secretary may, in the discretion of the Secretary, require any such mortgagor to be regulated or restricted as to charges and methods of financing and, if the mortgagor is a corporate entity, as to capital structure and rate of return. As an aid to the regulation or restriction of any mortgagor with respect to any of the foregoing matters, the Secretary may make such contracts with and acquire for not more than \$100 such stock or interest in

such mortgagor as the Secretary may consider necessary. Any stock or interest so purchased shall be paid for out of the General Insurance Fund, and shall be redeemed by the mortgagor at par upon the termination of all obligations of the Secretary under the insurance.

‘(2) **PRINCIPAL OBLIGATION-** The mortgage shall involve a principal obligation in an amount not to exceed 90 percent of the estimated value of the property or project, or 95 percent of the estimated value of the property or project in the case of a mortgagor that is a private nonprofit corporation or association (as such term is defined pursuant to section 221(d)(3)), including--

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

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

**`(3) AMORTIZATION AND INTEREST-** The mortgage shall--

`(A) provide for complete amortization by periodic payments under such terms as the Secretary shall prescribe;

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

`(C) bear interest at such rate as may be agreed upon by the mortgagor and the mortgagee, and the Secretary shall not issue any regulations or establish any terms or conditions that interfere with the ability of the mortgagor and mortgagee to determine the interest rate.

**`(d) CERTIFICATION BY CHILDREN'S DEVELOPMENT COMMISSION-** The Secretary may not insure a mortgage under this section unless the Children's Development Commission established under section 258 certifies that the facility is in compliance, or will be in compliance not later than 12 months after such certification, with--

`(1) any laws, standards, and requirements applicable to such facilities under the laws of the State, municipality, or other unit of general local government in which the facility is or is to be located; and

`(2) after the effective date of the standards and requirements established under section 258(c)(2), such standards and requirements.

**`(e) RELEASE-** The Secretary may consent to the release of a part or parts of the mortgaged property or project from the lien of any mortgage insured under this section upon such terms and conditions as the Secretary may prescribe.

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

**`(g) MORTGAGE INSURANCE FOR FIRE SAFETY EQUIPMENT LOANS-**

`(1) **AUTHORITY-** The Secretary may, upon such terms and condition as the Secretary may prescribe, make commitments to insure and insure loans made by financial institutions or other approved mortgagees to child care and development facilities to provide for the purchase and installation of fire safety equipment necessary for compliance with the 1967 edition of the Life Safety Code of the National Fire Protection Association (or any subsequent edition specified by the Secretary of Health and Human Services).

`(2) **LOAN REQUIREMENTS-** To be eligible for insurance under this subsection a loan shall--

`(A) not exceed the Secretary's estimate of the reasonable cost of the equipment fully installed;

`(B) bear interest at such rate as may be agreed upon by the mortgagor and the

**mortgagee;**

**`(C) have a maturity satisfactory to the Secretary;**

**`(D) be made by a financial institution or other mortgagee approved by the Secretary as eligible for insurance under section 2 or a mortgagee approved under section 203(b)(1);**

**`(E) comply with other such terms, conditions, and restrictions as the Secretary may prescribe; and**

**`(F) be made with respect to a child care and development facility that complies with the requirement under subsection (d).**

**`(3) INSURANCE REQUIREMENTS-** The provisions of paragraphs (5), (6), (7), (9), and (10) of section 220(h) shall apply to loans insured under this subsection, except that all references in such paragraphs to home improvement loans shall be considered, for purposes of this subsection, to refer to loans under this subsection. The provisions of subsections (c), (d), and (h) of section 2 shall apply to loans insured under this subsection, except that all references in such subsections to 'this section' or 'this title' shall be considered, for purposes of this subsection, to refer to this subsection.

**`(h) SCHEDULES AND DEADLINES-** The Secretary shall establish schedules and deadlines for the processing and approval (or provision of notice of disapproval) of applications for mortgage insurance under this section.

**`(i) DEFINITIONS-** For the purposes of this section, the following definitions shall apply:

**`(1) CHILD CARE AND DEVELOPMENT FACILITY-** The term 'child care and development facility' means a public facility, proprietary facility, or facility of a private nonprofit corporation or association that--

**`(A) has as its purpose the care and development of children less than 12 years of age; and**

**.(B) is licensed or regulated by the State in which it is located (or, if there is no State law providing for such licensing and regulation by the State, by the municipality or other political subdivision in which the facility is located).**

The term does not include facilities for school-age children primarily for use during normal school hours. The term includes facilities for training individuals to provide child care and development services.

**`(2) EQUIPMENT-** The term 'equipment' includes machinery, utilities, and built-in equipment and any necessary enclosures or structures to house them, and any other items necessary for the functioning of a particular facility as a child care and development facility, including necessary furniture. Such term includes books, curricular, and program materials.

**`(3) MORTGAGE; FIRST MORTGAGE; MORTGAGEE-** The term 'mortgage' means a first mortgage on real estate in fee simple, or on the interest of either the lessor or lessee thereof under a lease having a period of not less than 7 years to run beyond the maturity date of the mortgage. The term 'first mortgage' means such classes of first liens as are commonly given to secure advances (including advances during construction) on, or the unpaid purchase price of, real estate under the laws of the State in which the real estate is located, together with the credit instrument or instruments (if any) secured thereby, and any mortgage may be in the form of one or more trust mortgages or mortgage indentures or deeds of trust, securing notes, bonds, or other credit instruments, and, by the same instrument or by a separate instrument, may create a security interest in initial equipment,

whether or not attached to the realty. The term 'mortgagor' has the meaning given the term in section 207(a).

**(j) LIMITATION ON INSURANCE AUTHORITY-**

**(1) TERMINATION-** No mortgage may be insured under this section or section 223(h) after September 30, 2005, except pursuant to a commitment to insure issued on or before such date.

**(2) AGGREGATE PRINCIPAL AMOUNT LIMITATION-** The aggregate principal amount of mortgages for which the Secretary enters into commitments to insure under this section or section 223(h) on or before the date under paragraph (1) may not exceed \$2,000,000,000. If, upon the date under paragraph (1), the aggregate insurance authority provided under this paragraph has not been fully used, the Secretary of the Treasury shall submit a report to the Congress evaluating the need for continued mortgage insurance under this section.

**(k) REGULATIONS-** The Secretary shall issue any regulations necessary to carry out this section. In issuing such regulations, the Secretary shall consult with the Secretary of Health and Human Services with respect to any aspects of the regulations regarding child care and development facilities.

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

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

**(h) MORTGAGE INSURANCE FOR PURCHASE OR REFINANCING OF EXISTING CHILD CARE AND DEVELOPMENT FACILITIES-**

**(1) AUTHORITY-** Notwithstanding any other provision of this Act, the Secretary may insure under any section of this title a mortgage executed

in connection with the purchase or refinancing of an existing child care and development facility, the purchase of a structure to serve as a child care and development facility, or the refinancing of existing debt of an existing child care and development facility.

**(2) PURCHASE OF EXISTING FACILITIES AND STRUCTURES-** In the case of the purchase under this subsection of an existing child care and development facility or purchase of an existing structure to serve as such a facility, the Secretary shall prescribe any terms and conditions that the Secretary considers necessary to ensure that--

**(A)** the facility or structure purchased continues to be used as a child care and development facility; and

**(B)** the facility complies with the same requirements applicable under subsections (d) and (e) of section 257 to facilities having mortgages insured under such section.

**(3) REFINANCING OF EXISTING FACILITIES-** In the case of refinancing of an existing child care and development facility, the Secretary shall prescribe any terms and conditions that the Secretary considers necessary to ensure that--

**(A)** the refinancing is used to lower the monthly debt service costs (taking into account any fees or charges connected with such refinancing) of the existing facility;

'(B) the proceeds of any refinancing will be employed only to retire the existing indebtedness and pay the necessary cost of refinancing on the existing facility;

'(C) the existing facility is economically viable; and

'(D) the facility complies with the same requirements applicable under section 257(d) to facilities having mortgages insured under such section.

'(4) DEFINITIONS- For purposes of this subsection, the terms defined in section 257(i) shall have the same meanings as provided under such section.

'(5) LIMITATION ON INSURANCE AUTHORITY- The authority of the Secretary to enter into commitments to insure mortgages under this subsection is subject to the limitations under section 257(j).'

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

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

### **'CHILDREN'S DEVELOPMENT COMMISSION**

'SEC. 258. (a) ESTABLISHMENT- There is hereby established a commission to be known as the Children's Development Commission.

'(b) MEMBERSHIP-

'(1) APPOINTMENT- The Commission shall be composed of 7 members appointed by the President, not later than the expiration of the 3-month period beginning upon the enactment of this section, by and with the advice and consent of the Senate, as follows:

'(A) 1 member shall be appointed from among 3 individuals recommended by the Secretary of Housing and Urban Development or the Secretary's designee.

'(B) 1 member shall be appointed from among 3 individuals recommended by the Secretary of Health and Human Services or the Secretary's designee.

'(C) 1 member shall be appointed from among 3 individuals recommended by the Secretary of the Treasury or the Secretary's designee.

'(D) 4 members shall be appointed from among 12 individuals recommended jointly by the Speaker of the House of Representatives, the Majority Leader of the Senate, Minority Leader of the House of Representatives, the Minority Leader of the Senate.

'(2) QUALIFICATIONS OF CONGRESSIONALLY RECOMMENDED MEMBERS- Of the members appointed under paragraph (1)(D)-

'(A) each shall be an individual who actively participates or is employed in the field of child care and has academic, licensing, or other credentials relating to such participation or employment; and

'(B) not more than 2 may be of the same political party.

'(3) TERMS- Each appointed member of the Commission shall serve for a term of 3 years.

'(4) VACANCIES- Any member appointed to fill a vacancy occurring before the expiration

of the term for which the member's predecessor was appointed shall be appointed only for the remainder of that term. A member may serve after the expiration of that member's term until a successor has taken office. A vacancy in the Commission shall be filled in the manner in which the original appointment was made.

`(5) CHAIRPERSON- The chairperson of the Commission shall be designated by the President at the time of appointment.

`(6) QUORUM- A majority of the members of the Commission shall constitute a quorum for the transaction of business.

`(7) VOTING- Each member of the Commission shall be entitled to 1 vote, which shall be equal to the vote of every other member of the Commission.

`(8) PROHIBITION ON ADDITIONAL PAY- Members of the Commission shall serve without compensation, but shall be reimbursed for travel, subsistence, and other necessary expenses incurred in the performance of their duties as members of the Commission.

`(c) FUNCTIONS- The Commission shall carry out the following functions:

`(1) CERTIFICATION OF COMPLIANCE- The Commission shall collect such information and make such determinations as may be necessary to determine, for purposes of section 257(d), whether child care and development facilities comply, or will be in compliance within 12 months, with—

(A) any laws, standards, and requirements applicable to such facilities under the laws of the State, municipality, or other unit of general local government in which the facility is or is to be located, and

(B) after the effective date of the standards and requirements established under paragraph (2), such standards and requirements,

and shall issue certifications of such compliance.

`(2) ESTABLISHMENT OF STANDARDS-

(A) STUDY- Not later than 12 months after the date on which appointment of initial membership of the Commission is completed, the Commission, in consultation with the Secretary of Housing and Urban Development and the Secretary of Health and Human Services, shall conduct a study to determine the laws, standards, and requirements referred to in paragraph (1)(A) that are applicable in each State. Taking into consideration the findings of the study, the Secretary shall establish standards and requirements regarding child care and development facilities that are designed to ensure that mortgage insurance is provided under section 257 and section 223(h) only for safe, clean, and healthy facilities that provide appropriate care and development services for children.

(B) PUBLICATION- The Commission shall issue regulations providing for the standards and requirements established under subparagraph (A) to take effect, for purposes of sections 257(d)(2) and 223(h)(2)(B) and paragraph (1)(B) of this section, not later than 18 months after the date of the enactment of this section.

`(3) SMALL PURPOSE LOANS- The Commission shall, to the extent amounts are made available for such purpose pursuant to subsection (i) and qualified requests are received, make loans, directly or indirectly to providers of child care and development facilities for reconstruction or renovation of such facilities, subject to the following requirements:

(A) Loans under this paragraph shall be made only for such facilities that are

financially and operationally viable, as determined under standards and guidelines to be established by the Commission.

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

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

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

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

(5) LIABILITY INSURANCE- Not later than 12 months after the date on which appointment of initial membership of the Commission is completed, the Commission shall establish standards and guidelines, applicable to mortgage insurance under sections 257 and 223(h) and loans under paragraph (3) of this subsection, requiring child care providers operating child care and development facilities assisted under such provisions to obtain and maintain liability insurance in such amounts and subject to such requirements as the Commission considers appropriate.

(6) RESEARCH FOUNDATION- Not later than 12 months after the date of the enactment of this section, the Commission shall submit a report to the Congress recommending a plan for establishing and funding a foundation that is an entity independent of the Commission (but which maintains association with the Commission), the purpose of which shall be--

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

(B) to fund pilot programs to test innovative methods for improving child care; and

(C) to engage in activities and publish materials to assist persons interested in mortgage insurance under sections 257 and 223(h) and other assistance provided by the Commission.

(d) NONDISCRIMINATION REQUIREMENT-

(1) IN GENERAL- The Commission may not certify under subsection (c)(1) or carry out any activities of the Commission with respect to any child care and development facility if the provider of the facility discriminates on account of race, color, religion (subject to paragraph (2)), national origin, sex (to the extent provided in title IX of the Education Amendments of 1972 (20 U.S.C. 1681 et seq.)), or handicapping condition.

(2) FACILITIES OF RELIGIOUS ORGANIZATIONS- The prohibition with respect to religion shall not apply to a child care and development facility which is controlled by or which is closely identified with the tenets of a particular religious organization if the application of this subsection would not be consistent with the religious tenets of such organization.

(3) CERTIFICATION- As a condition of certification under subsection (c)(1) and eligibility for a loan under subsection (c)(3), the provider of a child care and development facility shall certify to the Commission that the provider does not discriminate, as required by the provisions of paragraph (1) of this subsection.

**(e) POWERS-**

**(1) ASSISTANCE FROM FEDERAL AGENCIES-** The Commission may secure directly from any department or agency of the Federal Government such information as the Commission may require for carrying out its functions. Upon request of the Commission, any such department or agency shall furnish such information.

**(2) ASSISTANCE FROM GENERAL SERVICES ADMINISTRATION-** The Administrator of General Services shall provide to the Commission, on a reimbursable basis, such administrative support services as the Commission may request.

**(3) ASSISTANCE FROM DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-** Upon the request of the Commission, the Secretary of Housing and Urban Development shall, to the extent possible and subject to the discretion of the Secretary, detail any of the personnel of the Department of Housing and Urban Development, on a nonreimbursable basis, to assist the Commission in carrying out its functions under this section.

**(4) MAILS-** The Commission may use the United States mails in the same manner and under the same conditions as other Federal agencies.

**(f) STAFF-**

**(1) EXECUTIVE DIRECTOR-** The Commission shall appoint an executive director of the Board, who shall be compensated at a rate fixed by the Commission, but which shall not exceed the rate established for level I of the Executive Schedule under title 5, United States Code.

**(2) OTHER PERSONNEL-** In addition to the executive director, the Commission may appoint and fix the compensation of such personnel as the Commission considers necessary, in accordance with the provisions of title 5, United States Code, governing appointments to the competitive service, and the provisions of chapter 51 and subchapter III of chapter 53 of such title, relating to classification and General Schedule pay rates.

**(g) REPORTS-** Not later than March 31 of each year, the Commission shall submit a report to the President and the Congress regarding the operations and activities of the Commission during the preceding calendar year. Each annual report shall include a copy of the Commission's financial statements and such information and other evidence as is necessary to demonstrate that the activities of the Commission during the year for which the report is made. The Commission may also submit reports to the Congress and President at such other times as the Commission deems desirable.

**(h) DEFINITIONS-** For purposes of this section, the terms defined in section 257(i) shall have the same meanings as provided under such section.

**(i) AUTHORIZATION OF APPROPRIATIONS-** There are authorized to be appropriated to the Commission to carry out this section \$10,000,000 for fiscal year 1999, to remain available until expended, of which not more than \$2,500,000 shall be available for administrative costs of the Commission and the remainder of which shall be available only for loans under subsection (c)(3).'

**SEC. 6. STUDY OF AVAILABILITY OF SECONDARY MARKETS FOR MORTGAGES ON CHILD CARE FACILITIES.**

The Secretary of the Treasury shall conduct a study of the secondary mortgage markets to determine--

(1) whether such a market exists for purchase of mortgages eligible for insurance under

**sections 223(h) and 257 of the National Housing Act (as added by this Act);**

**(2) whether such a market would affect the availability of credit available for development of child care and development facilities or would lower development costs of such facilities; and**

**(3) the extent to which such a market or other activities to provide credit enhancement for child care and development facilities loans is needed to meet the demand for such facilities.**

**The Secretary of the Treasury shall submit to the Congress a report regarding the results of the study conducted under this section not later than the expiration of the 2-year period beginning on the date of the enactment of this Act.**

***END***

**CAROLYN B. MALONEY**  
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(202) 225-7944

COMMITTEES  
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**GOVERNMENT REFORM AND  
OVERSIGHT**

**JOINT ECONOMIC COMMITTEE**



**Congress of the United States**  
**House of Representatives**  
Washington, DC 20515-3214

March 19, 1998

President William J. Clinton  
The White House  
Washington, DC 20500

Dear Mr. President: *Mr. President*

As you may recall, during a conversation we had earlier this month I mentioned to you a piece of legislation I am developing which will address the increasing need for quality child care facilities. The members of the child care community with whom I have spoken about this have called it revolutionary, and a new approach to addressing the needs which exist. This bill will create a new government sponsored enterprise which we are calling "Kiddie Mac," which I hope will do for day care what Fannie Mae and Freddie Mac have done for home ownership. Equally as important, Kiddie Mac will be an incubator for new ways of addressing issues regarding child care and development.

Kiddie Mac will allow working parents, single parents and stay-at-home parents to have access to quality child care. Rep. Richard Baker of Louisiana, chairman of the Subcommittee on Capital Markets, Securities and Government Sponsored Enterprises, has agreed to co-sponsor this legislation with me, making it a bipartisan proposal.

Kiddie Mac will have four basic components. First, it will have child care facilities be part of the secondary mortgage market by selling the paper to Fannie Mae so it can be bundled into their securities they sell on Wall Street, taking advantage of their high volume and lower interest rates. Second, Kiddie Mac will offer guaranty insurance to those who lend to child care facilities, thereby acting as a catalyst for the private sector, reducing the risk and thereby encouraging lending.

Third, for those who are not building or completely rehabilitating facilities, Kiddie Mac will offer micro-loans. These loans can be used for start-up costs, rent payments, or for improvements for facilities which wish to be licensed.

Finally, Kiddie Mac will offer liability insurance to all child care providers so as to make certain that the costs associated with liability are not a factor against the creation of a facility.

Through the profits created from Kiddie Mac's activities, a foundation will be funded. This foundation will focus on researching child care and development, funding projects and pilot programs. It will also develop materials and aids in order to people in accessing, understanding and taking advantage of the Kiddie Mac process.

Certain elements have been added to the bill in order to make certain that Kiddie Mac stays focussed on the task at hand. These include a capped salary structure for executives, an annual report with congressional hearings similar to Humphrey-Hawkins hearings, and a \$2 billion limit on total activity which can be raised by congressional approval.

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I believe that this approach to addressing the growing need for quality child care is innovative and feasible. Most importantly, Kiddie Mac, after an initial appropriation for its incorporation, is self-financing. It also provides a location within the federal government which focuses solely on child care and child development.

Mr. President, Kiddie Mac adds to your child care program by addressing the lack of quality facilities. It allows both for-profit businesses and not-for-profit organizations, including churches and synagogues, to supply their communities. The passage of this bill will mean greater access to quality child care for all American families.

I am enclosing the latest draft of the bill, though there are still a few items to be worked out. I am also adding an outline of the bill and an information sheet. I hope you find the proposal stimulating and I look forward to any questions and comments you or your staff may have.

Thank you for your commitment to affordable and available child care.

Sincerely,



CAROLYN B. MALONEY  
Member of Congress

cc: Vice-President Albert Gore  
Secretary Robert Rubin

Enclosures

# KIDDIE MAC SUMMARY

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**Legislation to be introduced by Rep. Carolyn Maloney (NY)**  
*Status as of 3/20/98*

**GOAL:** *To fill the unmet need for quality, affordable child care, the Children's Development Insurance and Mortgage Corporation ("Kiddie Mac"), will be created as a government sponsored enterprise which will be a catalyst for private-sector construction and development lending.*

## **THE BASIC ELEMENTS:**

1. **The Concept:** The private sector now hesitates to provide loans for construction or operation of child care facilities because it perceives a high risk of borrower liability in running such centers. Kiddie Mac will reduce that perceived risk to lenders, thus encouraging loans for the construction and opening of child care facilities.
2. **The Key: the Secondary Mortgage Market:** Kiddie Mac will do for child care and development what Fannie Mae and Freddie Mac have done for home ownership. Kiddie Mac will purchase mortgages and then sell them to Fannie Mae who will bundle them into the securities they sell on Wall Street. This should allow Kiddie Mac to be able to take advantage of the volume of business done in the mortgage market, which leads to lower interest rates.
3. **Guaranty Insurance = Low-Cost Loans:** Kiddie Mac will offer guaranty insurance to commercial banks for potential child care facility builders and operators. Currently, while the private sector appears to want to do something in this area, the perceived risk is too high. A guaranty should be enough security to spur lending with reasonable terms. In order to prevent the cost of insurance from becoming a barrier for starting a facility, Kiddie Mac will also offer reasonably priced liability insurance to qualifying child care providers.
4. **Start-up Costs and Rent:** Besides actual facilities being built or rehabilitated, often what is needed is money for start-up costs and rent. Kiddie Mac will offer mini-loans to qualifying child care providers for these costs. These loans will also be available for a facility which needs to make certain improvements in order to meet licensing standards.

5. **Foundation:** With the money made from its other activities, Kiddie Mac will establish a foundation that will research issues in early childhood development, fund pilot programs and produce educational materials. It will also provide materials and activities to guide applicants through the Kiddie Mac process.

### **SPECIAL CHARACTERISTICS OF KIDDIE MAC:**

1. Executive salaries will be capped.
2. An annual report to Congress and hearings on activities and performance will be required, similar to the Humphrey-Hawkins hearings the banking committees hold with the Federal Reserve Chairman.
3. Total lending and guaranty activity will be limited to \$2 billion. If a need is found beyond this amount, Congress may increase the ceiling.

# Common Questions about KIDDIE MAC

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## 1. Why is Kiddie Mac Necessary?

**A:** The United States is falling behind in meeting the needs of its children for high-quality care. Other nations understand the critical role that child care plays in early development, but the quality and quantity of child care space in this country are below acceptable levels. While demand is enormous and growing for trustworthy infant and pre-school slots nationwide, the need is not being met.

## 2. Do we really need another government sponsored enterprise to do this?

**A: YES.** Such an enterprise is chartered when private-sector market mechanisms fail for some reason to address a major demand. Child care is an example of a broad demand that profit-seeking firms have been unwilling to meet.

Reasons involve lenders' view that loans to child care facilities carry a high risk because of possible liability claims. Such facilities are also regarded as bad risks because they must be constructed or modified to meet strict safety and facility licensing standards, and are therefore seen as inflexible for conversion to other uses.

The result is that too little space is available; most existing space is too expensive for working parents to afford; and much of what is available is of a quality too low to help much in developing children's potential. Government intervention is needed to overcome the startup barriers and get good child care facilities into operation nationwide.

**3. How would Kiddie Mac work?**

**A:** It would have two main components:

**1. Use of the secondary mortgage market:** In this market, Fannie Mae and Freddie Mac buy mortgages, bundle them and sell them as securities on Wall Street. The transactions create additional capital volume, and the mechanism has served to keep interest rates low and home ownership affordable even during market recessions. Kiddie Mac would do the same for child care facilities, buying mortgages for sale to Fannie Mae. In this way it would produce more low-interest capital for child care facilities.

**2. Guaranty insurance:** Many private lenders want to invest in child care facilities but are uncomfortable with the risks. Kiddie Mac will provide guaranty insurance for mortgages, loans and some other debts, encouraging private lenders to invest in the needs of our children.

**4. Will Kiddie Mac help someone who wants to convert a building to child care, add to existing facilities or bring a center up to licensing standards?**

**A:** Yes. Kiddie Mac will provide small-facilities loans for improvements to existing centers for the purpose of meeting licensing standards, or to improve the quality of care and/or increase the number of children who can take part. A family-run child-care home, for example, could qualify for one of these loans to make the changes needed for licensing.

**5. Who will pay for Kiddie Mac?**

**A:** After a small appropriation to fund its initial incorporation, Kiddie Mac will offer shares for sale to investors. This stock offering will fund Kiddie Mac startup operations, after which it will become self-financing, never costing the taxpayer anything more.

**6. Who will have access to Kiddie Mac?**

**A:** Anyone who is currently licensed or who can demonstrate the ability to be licensed can use Kiddie Mac's services. This includes community organizations, not-for-profit groups, community development financial institutions, for-profit businesses, family-home facilities, churches and other employers.

**7. Will those operations be competing against private businesses?**

**A:** Private businesses which want to develop child care facilities, nursery schools or after-school programs are allowed to access Kiddie Mac just like anyone else. As for private lenders, since the problem in child care has been that the needs are not being met by the open market. Kiddie Mac is needed to fill this role.

**8. How about churches and synagogues? Aren't they banned from taking government money?**

**A:** Kiddie Mac will be a government-sponsored entity, not part of government itself. If a church or synagogue or any other religious body can qualify to be licensed as a child care provider, Kiddie Mac's services are available.

**9. Will Kiddie Mac help in addressing some of the other problems of child care and child development?**

**A:** Yes. Using some of the funds generated by its financial activity, Kiddie Mac will establish a foundation to research problems in child care and child development, fund pilot programs and educational materials, and find ways to make the Kiddie Mac process efficient and accessible to as many people as possible.

THE WHITE HOUSE  
WASHINGTON

June 12, 1998

MEMORANDUM FOR DISTRIBUTION

FROM: NICOLE RABNER  
DOMESTIC POLICY COUNCIL

RE: "Kiddie Mac" Proposal

Per our recent conference call on the "Kiddie Mac" proposal, attached please find information from the Small Business Administration about SBA programs that assist child care businesses. Please circulate as appropriate. We will arrange another conference call or meeting sometime next week. Feel free to call me at 456-7263 with any questions.

DISTRIBUTION:

Jennifer Klein, DPC  
Emil Parker, NEC  
Jennifer Friedman, OMB  
Melissa Benton, OMB  
Gus Faucher, Treasury  
Ed DeMarco, Treasury  
Scott Frame, Treasury  
Penny Rostrow, Treasury  
Maria Pataris, HUD  
Mary Bourdette, HHS  
Joan Lombardi, HHS  
Carmen Nazario, HHS  
Mary Ellen Taylor, SBA



U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, D.C. 20416

MEMORANDUM

DATE: June 12, 1998

TO: Nicole Rabner  
Domestic Policy Council

FROM: John Gray, *205-6657* *John H. Gray*  
Associate Deputy Administrator, Capital Access

SUBJ: H.R. 3637, "Children's Development Commission Act" (Kiddie Mac Bill)

Thank you for giving SBA the opportunity to provide information relative to H.R. 3637, "Children's Development Commission Act" (Kiddie Mac Bill). SBA has a history of providing capital to Child Care Businesses. We have collected data regarding the SBA 7(a) General Business Loan Guaranty Program and the Certified Development Company Loan Program (504 program).

During the ten year period beginning in 1989 and continuing through the present, SBA guaranteed 4,620 loans to child care businesses under the 7(a) loan program. The total amount of 7(a) loans provided is \$1.026 billion.

*for profit*  
*gen bus loans*

During the same ten year period, SBA guaranteed 591 loans to child care businesses under the 504 loan program. The total amount of 504 loans provided is \$144.5 million.

*rec. dev (real estate loans)*

In addition to these two lending programs, SBA has provided loans to child care businesses through the Microloan Program. We have requested data regarding the number and amounts of child care loans made under this program, which began in 1992. However, this data is not available at this time.

*up to 25K per applicants*

In addition to the financial assistance described above, SBA has the capability to increase financial assistance to child care providers and provide industry specific technical assistance through four specific initiatives. These are:

*68 mil to date - microloans \$10,000 69,000 bus.*

- Targeted marketing of 7(a) loans to for-profit child care centers
- Expansion of the Microloan Program in accordance with recently enacted legislation that allows microloans to be made to non-profit child care centers. (This is a unique capability as with all other loan programs there is a prohibition against loans to non-profit businesses.)

*Regs: not for profit allowed for 7(a)*

- Distribution of the "Dollars and Sense: Child Care Business Skills Training," a handbook produced in collaboration with the SBA Women's Business Development Centers to provide viable commercial child care. In addition, SBA is 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.
- Expanded marketing of loans and distribution of printed materials and child care business training through the SBA resource partner network. This network currently includes 69 SBA District Offices, 1,000 Small Business Development Centers, 63 Women's Business Centers, 389 SCORE Chapters, 129 Microloan Program sites, 46 Business Information Centers, and 15 One Stop Capital Shops.

Again, thank you for the opportunity provide information on the level and types of financial assistance the SBA has been providing to the nations small child care businesses for many years.

JUN 12 '98 12:13PM ADA ED

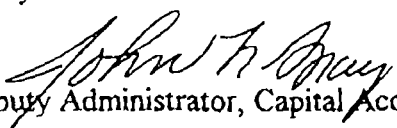


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# KIDDIE MAC CALL

- OMB
  - HHS
  - Treas
  - HUD
  - DPC
  - SBA - John Gray
- leakiness of subsidy
  - lack of targeting
  - more eff → demand side tactics

9.10 mil } 2.5 - Commercial  
              } 7.5 - Microloans  
              } → loan guarantees off supp

9.245 mil / 5 based on default rate.  
Adam - HUD expansion.

Melissa

SBA - Paul Leach

1989-5

7A program - working capital  
50% - self funding

→ 171 mil - av loan size 100-200 K -  
a lot of businesses -

7A delivered more leaders  
can target comen.

↳ Never forgotten

□ Apgar

ec viability -  
Tech HA / Counseling

Maria Pataris, HUD - PDR, FHA - comments -  
all neg -

asks to FHA -  
liability - high

Maloney - 1 hr of his  
WAT - interim resp. - Treas get back

Ten/Nicole/Neena -  
FYI. Any progress  
on this? Elena

4/26 Elena Kozem  
See my Email

# KIDDIE MAC SUMMARY *W/dy*

Legislation introduced by Rep. Carolyn Maloney (NY)  
and Rep. Richard Baker (LA)  
H.R. 3637

**GOAL:** *To fill the unmet need for quality, affordable child care, the Children's Development Commission ("Kiddie Mac"), will be created as a government entity which will be a catalyst for private-sector construction and development lending.*

## THE BASIC ELEMENTS:

1. **The Concept:** The private sector now hesitates to provide loans for construction or operation of child care facilities because it perceives a high risk of borrower liability in running such centers. Kiddie Mac will reduce that perceived risk to lenders, thus encouraging loans for the construction and opening of child care facilities. Using a combination of products, Kiddie Mac will spur private lending to child care providers, give small loans to get facilities up to licensing standards, and provide affordable fire and liability insurance.
2. **Guaranty Insurance = Low-Cost Loans:** Kiddie Mac will, through HUD, offer guaranty insurance to lenders for potential child care facility builders and operators. Currently, while the private sector appears to want to do something in this area, the perceived risk is too high. A guaranty should be enough security to spur lending with reasonable terms. In order to prevent the cost of insurance from becoming a barrier for starting a facility, Kiddie Mac will also offer reasonably priced liability insurance and fire insurance to qualifying child care providers.
3. **Start-up Costs and Rent:** Besides actual facilities being built or rehabilitated, often what is needed is money for start-up costs and rent. Kiddie Mac will offer mini-loans to qualifying child care providers for these costs. These loans will also be available for a facility which needs to make certain improvements in order to meet licensing standards.

4. **Foundation:** With the money made from its other activities, Kiddie Mac will establish a foundation that will research issues in early childhood development, fund pilot programs and produce educational materials. It will also provide materials and activities to guide applicants through the Kiddie Mac process.

### **SPECIAL CHARACTERISTICS OF KIDDIE MAC:**

1. Executive salaries will be capped.
2. An annual report to Congress and hearings on activities and performance will be required, similar to the Humphrey-Hawkins hearings the banking committees hold with the Federal Reserve Chairman.
3. Total lending and guaranty activity will be limited to \$2 billion. If a need is found beyond this amount, Congress may increase the ceiling.

# Common Questions about KIDDIE MAC

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**"Child Development Commission Act"-- H.R. 3637**  
**Introduced by Rep. Carolyn Maloney (NY) and Rep. Richard Baker (LA)**

## **1. Why is Kiddie Mac Necessary?**

**A:** The United States is falling behind in meeting the needs of its children for high-quality care. Other nations understand the critical role that child care plays in early development, but the quality and quantity of child care space in this country are below acceptable levels. While demand is enormous and growing for trustworthy infant and pre-school slots nationwide, the need is not being met.

## **2. Do we really need federal participation to do this?**

**A:** YES. Such a commission is necessary when private-sector market mechanisms fail for some reason to address a major demand. Child care is an example of a broad demand that profit-seeking firms have been unwilling to meet.

Current market conditions discourage private sector investment in child care facility development. Clearly, with the heightened need for care for America's children, and relief for America's working parents, the capital markets need to be encouraged to contribute toward the care and development of our kids.

Lenders have concerns about risk and the threat these risks pose to safety and soundness to their institutions. Like any financial institution or governmental-sponsored corporation, these institutions need the reliability of the federal government backing them up.

**3. How would Kiddie Mac work?**

**A:** Kiddie Mac would certify requests for loans so the Department of Housing and Urban Development (HUD) could then sell *guaranty insurance* to the lenders. Many private lenders want to invest in child care facilities but are uncomfortable with the risks. Kiddie Mac will provide guaranty insurance for mortgages, loans and some other debts, encouraging private lenders to invest in the needs of our children.

**4. Will Kiddie Mac help someone who wants to convert a building to child care, add to existing facilities or bring a center up to licensing standards?**

**A:** Yes. Kiddie Mac will provide small-facilities loans for improvements to existing centers for the purpose of meeting licensing standards, or to improve the quality of care and/or increase the number of children who can take part. A family-run child-care home, for example, could qualify for one of these loans to make the changes needed for licensing.

**5. Who will pay for Kiddie Mac?**

**A:** After a small appropriation to fund its initial incorporation, Kiddie Mac will be funded by the premiums paid by the lenders who purchase the insurance, *never costing the taxpayer anything more.*

**6. Who will have access to Kiddie Mac?**

**A:** Anyone who is currently licensed or who can demonstrate the ability to be licensed can use Kiddie Mac's services. This includes community organizations, not-for-profit groups, community development financial institutions, for-profit businesses, family-home facilities, churches and other employers.

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