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# DISTRICT OF COLUMBIA DEVELOPMENT BANK

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## HEARINGS

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BEFORE THE

SUBCOMMITTEE ON  
BUSINESS, COMMERCE, AND TAXATION

OF THE

COMMITTEE ON  
THE DISTRICT OF COLUMBIA  
HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

SECOND SESSION

ON

**H.R. 7414**

TO ESTABLISH A DISTRICT OF COLUMBIA DEVELOPMENT  
BANK

MAY 14 AND 15, 1974

Serial No. 93-30

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# DISTRICT OF COLUMBIA DEVELOPMENT BANK

TUESDAY, MAY 14, 1974

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON BUSINESS, COMMERCE, AND TAXATION  
OF THE COMMITTEE ON THE DISTRICT OF COLUMBIA,  
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:40 a.m., in Room 1310, the Longworth House Office Building, the Honorable W. S. Stuckey, Jr., Chairman of the Subcommittee, presiding.

Present: Representative Stuckey (presiding).

Also present: James T. Clark, Legislative Counsel; John Hogan, Minority Counsel; Rebecca Moore, Subcommittee Staff Consultant; and Leonard O. Hilder and Ralph Ulmer, Professional Staff.

Mr. STUCKEY. The Subcommittee on Business, Commerce and Taxation will come to order. This morning we are meeting for the purpose of hearing testimony and considering H.R. 7414, a bill to establish a District of Columbia Development Bank. I would like to take time this morning to clear up a misunderstanding concerning this bill, to make clear that the bank proposed in this act is to mobilize the capital and the expertise of the private sector, the private community to provide for an organized approach to the problems of economic development in the District of Columbia, and stress that the bank would be a private corporation, and not an agency of the Federal or District Governments.

[The bill H.R. 7414, follows:]

[H. R. 7414, 93d Cong., 1st sess., by Mr. Diggs on May 2, 1973]

A BILL To establish a District of Columbia Development Bank to mobilize the capital and the expertise of the private community to provide for an organized approach to the problems of economic development in the District of Columbia

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "District of Columbia Development Bank Act of 1973".*

## FINDINGS AND DECLARATION OF PURPOSE

SEC. 2. (a) The Congress finds that it is essential to create a financial institution to focus private resources on the problems of economic development in the District of Columbia because:

(1) substantial economic development of many components of the community is essential to the well-being of the citizens of the District of Columbia;

(2) such economic development will require a concerted effort by all segments of the community, including the private financial institutions;

(3) many worthwhile community development projects have not been undertaken successfully in the District because of the lack of financial and technical skills or initial capital by those citizens interested in such projects;



(4) no institution or organization currently exists to mobilize effectively the available expertise and capital of the District for such development efforts; and

(5) establishment of the proposed new institution would recognize the problems incurred by the District of Columbia due to the unique economic role of the Federal Government in the city.

(b) It is the intent of the Congress that this institution concentrate on assisting economic development projects that have difficulty in obtaining necessary financial resources or other support from customary private or governmental sources. Such projects should include innovative or other uncommon ventures, special risk situations, projects of unusually large scale, and projects that would otherwise be feasible only if financed collectively or fully committed in advance.

(c) It is the further intent of the Congress that in those projects where financing is already available, this institution should help assure necessary technical resources and effective coordination with other efforts to promote economic development within the District of Columbia. Projects should enhance existing or future development plans of the District and should be designed to increase the employment and economic opportunities of District residents.

(d) In the light of these findings and to accomplish these purposes, the Congress hereby declares that it is necessary to enact the provisions hereinafter set forth to establish a new financial institution.

#### CREATION OF BANK

SEC. 3. There is hereby created a body corporate to be known as the District of Columbia Development Bank, which shall have succession until dissolved by Act of Congress and which shall not be an agency of the United States Government. The bank shall maintain such offices as may be necessary or appropriate in the conduct of its business, and shall be exempt from section 6 of the Act of March 4, 1933 (47 Stat. 1567; D.C. Code, sec. 26-107).

#### BOARD OF DIRECTORS

SEC. 4. (a) The bank shall have a board of directors which shall consist of eleven persons, including the Commissioner of the District of Columbia, the Chairman of the City Council of the District of Columbia, three officers or employees of the United States or the District of Columbia who shall be designated by the President, and six directors who shall each be elected by the shareholders of the bank. The elected members of the board shall serve for a term ending upon election and qualification of their successors at the next annual meeting of the common stockholders of the bank.

(b) Each director who is an officer of the United States or officer of the District of Columbia may designate an alternate who shall be an officer or employee of the United States or of the District of Columbia, respectively, to serve as director in his absence. Any elective seat on the board which becomes vacant after the annual election of the directors shall be filled by the board, but only for the unexpired portion of the term. Any director who is full-time officer or employee of the United States or of the District of Columbia shall not receive compensation for his service as director.

(c) The board of directors shall meet at the call of its chairman, who shall require it to meet at least once each month.

(d) One director of the bank shall be elected by the board from among the elected members to serve as chairman of the board of directors. The president of the bank shall be appointed by the board of directors, and shall serve at the pleasure of the board. Subject to the general policies of the board, the management of the bank shall be vested in the president and he shall be the chief executive officer of the bank.

#### INITIAL BOARD OF DIRECTORS

SEC. 5. In addition to the five Federal and District of Columbia officials the six remaining directors shall be initially appointed by the President, by and with the advice and consent of the Senate, for an initial term ending on the date the directors elected at the first meeting of the shareholders shall have qualified and assumed office. The chairman of the initial board shall be elected by and from among the members of the initial board.



## FINANCIAL AND TECHNICAL ASSISTANCE

SEC. 6. (a) The bank is authorized, subject to the provisions of this section, to make commitments to purchase and to purchase, service, or sell, or to guarantee in whole or in part, any debt obligation or participation therein, issued by an obligor to finance any project or activity deemed by the bank to be consistent with the purpose of this Act, and to make commitments to purchase and to purchase, service, or sell, any equity instrument or participation therein, issued by an issuer to finance any project or activity deemed by the bank to be consistent with the purpose of this Act.

(b) The bank is further authorized to provide technical assistance and training in the preparation and implementation of comprehensive development projects and programs, including the formulation of specific project proposals.

(c) Loans and equity investments made by the bank shall be in accordance with sound and prudent development banking principles.

(d) The bank shall develop criteria and procedures to assure that projects assisted by it are consistent with existing or future plans for the economic development of the District of Columbia, and take into account Federal and District programs which utilize Federal assistance for the development of like or similar categories of projects.

(e) The bank shall be operated on a businesslike basis, with the objective of assuring a reasonable return on the funds invested, consistent with achievement of the economic development goals. The bank is authorized to charge and collect such fees as it deems reasonable, including premiums for the guarantee or insurance of mortgages and loans made pursuant to this section. Any loan or guarantee made pursuant to this section may be in an amount not exceeding the total cost of the project to be financed with the loan or guarantee; and shall be secured in such manner and be repaid in such period, as may be determined by the bank; and shall bear interest at a rate determined by the bank.

(f) Assistance authorized under this section shall not be extended (1) for working capital, or (2) to assist establishments relocating from one area to another. The limitation set forth in clause (2) shall not be construed to prohibit assistance for the expansion of an existing business entity through the establishment of a new branch, affiliate, or subsidiary of such entity if the bank finds that the establishment of such branch, affiliate, or subsidiary will not result in an increase in unemployment in the area of original location or in any other area where such entity conducts business operations, unless the bank has reason to believe that such branch, affiliate, or subsidiary is being established with the intention of closing down the operations of the existing business entity in the area of its original location or in any other area where it conducts such operations.

## CAPITAL AND SURPLUS

SEC. 7. (a) The bank shall have common stock, having a par value of not less than \$100 per share. Such common stock may be subscribed for by any private individual, partnership, corporation, foundation, society, association, or other organization, profit or nonprofit. Not less than one-half of the amount subscribed for by any purchaser shall be paid into the bank at the time of subscription; not less than one-half of the remaining amount of each subscription shall be paid into the bank not later than one year after the time of subscription; and the entire amount of each subscription shall be paid into the bank not later than two years after the time of subscription. Any national bank or bank chartered by the District of Columbia or any other bank whose deposits are insured by the Federal Deposit Insurance Corporation shall be authorized to purchase common stock issued by the bank pursuant to this section notwithstanding the provisions of any other statute. Such purchases shall be limited to 10 per centum of the purchasing bank's capital and surplus. Any Federal savings and loan association and any insured institution of the Federal Savings and Loan Insurance Corporation as to which an Act of Congress is competent to confer such authority is hereby authorized without regard to any other provision of law to invest in stock of the bank and in obligations or securities of or issued by the bank or having the benefit of any guaranty or insurance by the bank or of any commitment or agreement therefor, but any such investment may be made only to such extent, and shall be subject to such conditions, restrictions, and prohibi-



tions, as the Federal Home Loan Bank Board may prescribe. Any insurance or public utility company licensed by the District of Columbia is hereby authorized without regard to any other provision of law to invest in stock of the bank and in obligations or securities of or issued by the bank or having the benefit of any guaranty or insurance by the bank or of any commitment or agreement therefor, but the Superintendent of Insurance of the District of Columbia (in the case of insurance companies) and the Public Service Commission of the District of Columbia (in the case of public utility companies) may by regulation or order prescribe limitations upon such investments.

(b) All moneys received by the bank in return for its common stock shall be accumulated in a capital account. All net earnings from the operations of the bank shall annually be transferred to a surplus account. Such dividends as may be declared, but not to exceed 6 per centum per annum on the amount of paid-in capital, shall be paid by the bank to the holders of its common stock and shall be charged against the surplus account and shall be payable out of the net earnings of the bank, for that year. No dividends shall be declared or paid by the bank unless the bank has no outstanding borrowings from the Treasury at the time of such dividend declaration or payment, and the declaration or payment of such dividends will in no way impair the capital account of the bank.

(c) Net earnings and dividends of the bank shall be subject to applicable local, State, and Federal taxes.

#### OBLIGATIONS OF THE BANK

Sec. 8. (a) The bank is authorized, with the approval of the Secretary of the Treasury, to issue and have outstanding obligations having such maturities and bearing such rate or rates of interest as may be determined by the bank. Such obligations may be redeemable at the option of the bank before maturity in such manner as may be stipulated therein. The aggregate amount of obligations of the bank outstanding at any one time under this subsection shall not exceed fifteen times the amount of subscribed capital and surplus of the bank. The bank is authorized to purchase in the open market any of its outstanding obligations. Interest payments of the bank shall be subject to applicable local, State, and Federal taxes.

(b) In addition to the obligations of the bank authorized to be outstanding in subsection (a) of this section, the bank is authorized to issue obligations to the Secretary of the Treasury and the Secretary is authorized to purchase such obligations in amounts specified in appropriation Acts: *Provided*, That no obligations shall be purchased by the Secretary until not less than \$2,000,000 in capital of the bank has been paid in: *Provided further*, That such purchases outstanding shall not exceed the lesser of twice the amount of paid in capital or \$10,000,000. Such obligations shall bear interest at a rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding obligations of the bank with remaining periods to maturity comparable to the average maturities of such obligations issued to the Secretary, but shall not be less than a rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the average maturities of such obligations. There is authorized to be appropriated for use of the Secretary of the Treasury not to exceed \$10,000,000 for purchase of obligations issued to him pursuant to this subsection. Such appropriations may remain available without fiscal year limitation.

(c) Activities of the bank shall be subject to audit by the General Accounting Office during such periods as there are outstanding obligations issued by the bank to the Secretary of the Treasury under section 8(b) of this section.

#### GENERAL POWERS

Sec. 9. The bank shall have power—

(a) to sue and be sued, complain, and defend, in its corporate name and through its own counsel;

(b) to adopt, alter, and use the corporate seal, which shall be judicially noticed;

(c) to adopt, amend, and repeal by its board of directors bylaws, rules, and regulations as may be necessary for the conduct of its business;



(d) to conduct its business, carry on its operations, have offices, and exercise its powers in the District of Columbia and other States as necessary to carry out the purposes of this Act.

(e) to lease, purchase, or otherwise acquire, own, hold, improve, use, or otherwise deal with any property, real, personal, or mixed, or any interest therein, wherever situated;

(f) to accept gifts or donations of services, of property, real, personal, or mixed, tangible or intangible, in aid of any of the purposes of the Bank;

(g) to sell, convey, mortgage, pledge, lease, exchange, and otherwise dispose of its property and assets;

(h) to appoint such officers, attorneys, employees, and agents as may be required, to determine their qualifications, to define their duties, to fix their salaries, require bond for them, and fix the penalty thereof; and

(i) to enter into contracts, to execute instruments, to incur liabilities, and to do all things as are necessary or incidental to the proper management of its affairs and the proper conduct of its business.

#### AUDIT OF FINANCIAL TRANSACTIONS

SEC. 10. The financial transactions of the bank shall be audited annually by an independent auditor. Such audit shall be conducted in accordance with generally accepted auditing standards by independent certified public accountants who are certified by the District of Columbia Board of Accountancy. The audit shall be conducted at the place or places where the accounts are normally kept.

#### AUDIT REPORT TO CONGRESS

SEC. 11. A report of each such annual audit shall be transmitted by the bank to the President and to the Congress not later than six months following the close of the period audited. The report shall include the audit and statement (showing intercorporate relations) of assets and liabilities, capital and surplus or deficit; a statement of surplus or deficit analysis; a statement of income and expenses; a statement of sources and application of funds; and such comments and information as may be deemed necessary to keep Congress and the President informed of the operations and financial condition of the bank.

#### DEFINITIONS

SEC. 12. As used in this Act—

(a) The term "bank" means the District of Columbia Development Bank created by section 3 of this Act.

(b) The term "obligation" means any bond, note, debenture, or other instrument evidencing debt.

#### SEPARABILITY

SEC. 13. If any provision of the Act or the application thereof to any person or circumstance, is held invalid, the validity of the remainder of the Act, and the application of such provisions to other persons or circumstances, shall not be affected.

Mr. STUCKEY. The D.C. Development Bank is not intended to supplant or act as an Urban Development Corporation, which is another proposal which this Subcommittee will address in subsequent hearings, and which also serves a unique and essential purpose. I would hope that this Committee would see fit to establish both entities in the District.

Hopefully this distinction will clear up the misunderstanding and we will have no more confusion between the two bills.

Our first witness this morning is Mr. Edward Schmultz, General Counsel of the Department of the Treasury; we are glad to have you with us this morning, and will you please proceed at this time.



**STATEMENT OF EDWARD SCHMULTS, ESQ., GENERAL COUNSEL,  
TREASURY DEPARTMENT, ACCOMPANIED BY FRANK CAVANAUGH,  
DATA ANALYSIS OFFICE**

Mr. SCHMULTS. Mr. Chairman, my name is Edward Schmults, General Counsel of the Treasury Department. With me today is Frank Cavanaugh from the Treasury's Office Data Analysis.

I am pleased to be here today to express the Administration's strong support of legislation to establish a District of Columbia Development Bank.

H.R. 7414 incorporates legislation proposed by the Administration in the 92nd Congress. The proposal submitted to the 93rd Congress by the Secretary of the Treasury on September 6, 1973 differs from H.R. 7414 only in that language limiting the Bank's assistance solely to projects located within the District of Columbia has been strengthened.

The purpose of this legislation is to establish a new financial institution—the D.C. Development Bank—as a vehicle to mobilize private resources to deal with problems of economic development in the District of Columbia.

The bill would create a private corporation to be known as the District of Columbia Development Bank. The Bank would have a board of directors consisting of eleven persons: The Commissioner of the District of Columbia, the Chairman of the District of Columbia Council, three officers or employees of the United States or the District government designated by the President, and six directors elected by the shareholders of the Bank. One of the elected members would be selected by the board to serve as its chairman. The board would appoint a president of the Bank to serve as the Bank's chief executive officer.

The Bank would assist economic development projects embracing housing, commerce, and industry by mobilizing the capital and expertise of the private sector, serving as a catalyst and lender of last resort.

The Bank would be authorized to provide technical assistance and training in the preparation and implementation of comprehensive development programs, including formulation of specific project proposals.

#### **BANK'S AUTHORITY**

The Bank would be authorized to purchase debt obligations and equity instruments, and to guarantee debt obligations. Loans and equity investments would be made in accordance with sound and prudent development banking principles, and would be made with the objective of assuring a reasonable return on the invested funds, consistent with the achievement of economic development goals.

#### **PROJECTS**

In carrying out its functions the Bank could assist projects which are innovative, which involve special risk situations, which are of unusually large scale, or which would be feasible only if financed collec-



tively or fully committed in advance. All projects receiving Bank assistance would be designed to enhance existing or future development plans of the District and to increase the employment and economic opportunities of District residents.

The Bank would use its capital and borrowed funds as start-up or seed money for development projects, and the Bank would seek to induce other lenders and investors to provide the bulk of the financing necessary for such projects.

The Bank's function, thus, would be to assume the lead role in putting the project "package" together, through assistance in obtaining any necessary Federal and District approvals, infrastructure grants, or other public investment. Then the Bank would help arrange for private financing and equity, and, if necessary, provide Bank loan funds and equity participation.

The Bank would not be in competition with private bankers, developers, businessmen, government agencies or community groups. Rather, it would be a logical and necessary complement to their efforts in obtaining the necessary approvals and financing for projects of difficult implementation.

#### FINANCING

The Bank would be expected to obtain its capital entirely from private sources through the sale of common stock and issuance of debt obligations. At least one-half of the amount of common stock subscriptions would be paid into the Bank at the time of subscription with the remainder to be paid within two years after subscription. The Bank would be authorized to borrow up to 15 times the Bank's capital and surplus.

In addition, the Bank would be authorized to issue obligations to the Treasury after the Bank has at least \$2 million in paid-in capital. This source would be used only as standby support for the Bank's borrowings in the public market. The Treasury's purchases could not exceed the lesser of twice the amount of the Bank's capital, or \$10 million. The interest rate on these issues to the Treasury would be based on the rates paid by the Bank on its other obligations, but not less than the average yield on outstanding Treasury obligations of comparable maturity.

The Bank would be allowed to pay its stockholders dividends in years that it has net earnings and has no outstanding borrowings from the Treasury. The Bank's earnings and dividends and interest on the Bank's obligations would be fully subject to local and Federal taxes.

Frequently in the past proposed solutions for the problems of community economic development were simply proposals to appropriate increasing amounts of Federal funds. Too little thought and attention was given to the availability of private financial resources or to the capacity of the intended recipients of the proposed Federal financial assistance to match such assistance with community development needs. The proposed D.C. Development Bank would seek to fill the gap between needs and available resources, to catalyze local efforts, and to guide local project sponsors through the steps necessary for successful project completion.



## FEDERAL INTEREST

The role of the Federal Government in the Bank would be limited. No appropriations of Federal funds would be authorized. Yet, the Federal charter provided by the enactment of the bill would be indicative of general Federal support, and the modest standby authority for the Bank to borrow from Treasury would help to provide the assurances necessary for the Bank to issue its own obligations in the market. The provisions for possible designation of Federal officers or employees to the board of directors of the Bank would provide a formal means for the Bank to maintain direct contact with the Federal Government.

In conclusion, Mr. Chairman, the D. C. Development Bank is sound and constructive legislation from the standpoint of both the Federal Government and the District of Columbia. This legislation will fill a serious gap in our present delivery system and will further our common efforts to promote the economic development of the District of Columbia.

We will be pleased to answer any questions you may have.

Mr. STUCKEY. Thank you, Mr. Schmuls. First I want to compliment you for using both the front and back of the pages; I hope more government agencies will do that.

Secondly, at this point I would like to submit for the record the letter that we have from the District of Columbia Redevelopment Land Agency, and make it part of the record. There were further statements to be submitted from the District of Columbia Bankers Association; the Metropolitan Washington Planning and Housing Association; Special Advisory Commission on Commercial and Industrial Development; Downtown Progress; Mortgage Bankers of Metropolitan Washington; Washington Board of Realtors; Savings and Loan League; Washington Building Congress; Urban Land Institute, and James J. Muscatello.

Mr. Schmuls, I'm just wondering, wouldn't it be wonderful if you all would be willing to bring on the baseball team, complete the Eisenhower Center, and picking up the Armory bonds for us.

## PURPOSE OF LEGISLATION

Mr. SCHMULS. Well, sir, I think this proposed D.C. Development Bank is really not designed itself to pick up these large projects, as you know. What it's designed to do is really, as you stated in your opening remarks, is to gather together, if you will, the resources of the District of Columbia, the private resources; and really organize them to provide technical expertise, and necessary seed money. Really to organize the efforts to help develop these projects which are so necessary here in the District.

Mr. STUCKEY. Where is this different from, say, SPIC; that provides similar functions, doesn't it?

Mr. SCHMULS. Well, to some extent that is correct. I believe the SPIC loans money to small businesses themselves. I think this bank is really designed to gather others together, as I say, who alone may not be able to finance a project, but in cooperation with others who have the resources to finance a project.



What is needed is somebody, or an organization to provide the leadership, or technical expertise. As we envision it, that would be the role of this bank.

#### INTEREST AND DIVIDENDS

Mr. STUCKEY. You mentioned in here there would be no interest paid. Well, you stated that the bank would be allowed to pay the stockholders dividends in years when it has net earnings and has no outstanding loan with the Treasury. What if they wanted to continue the loan with the Treasury, were still borrowing?

Mr. SCHMULTS. Well, as we envision it, sir, at such time as there is a loan outstanding to the Treasury, it would be inappropriate to pay dividends to the shareholders, while the Government has loans outstanding to the District Development Bank.

Mr. STUCKEY. Even though they are paying interest?

Mr. SCHMULTS. Even though they are paying interest on that loan, yes, sir. It would be unwise at that point in time, while they are relying in part on the Government back-up loan, to pay dividends to the shareholders. And this is I think not unusual, frequently in loan agreements, or other debt arrangements there will be a restriction on the dividend when those arrangements are in effect; and that is really what is provided in this bill. That is not to say they couldn't resume dividends, presumably they could after the Government loan is paid, assuming they have earnings in the year.

Mr. STUCKEY. But, what I am envisioning, I believe it was \$10 million from the Treasury. What I am envisioning, let's just say they take on ten projects, all of them are successful and they obtain the money back. Theoretically they could show a net profit from all these operations, and still owe the Treasury \$10 million.

Mr. SCHMULTS. Yes. That is right, that could happen.

Mr. STUCKEY. I think that might be.

Mr. SCHMULTS. They would therefore not pay dividends.

Mr. STUCKEY. This gives me concern, I don't see what the objection is. In other words, I can see what you are trying to do, you are trying to build up an equity to pay back the Treasury. But it looks like to me, you can have three or four successful years and you still want to continue that loan with the Treasury without paying it off, even if they were small, there might be dividends.

#### TREASURY LOAN

Mr. SCHMULTS. Well, I think the idea is that the Treasury loan would really be a back-up, or a stand-by arrangement. I think if the bank was returning a profit and was successful on its own, in its own right, presumably it could borrow in the market, pay the Treasury back-up loan, and then pay dividends. So, I think what we are proposing, that they could borrow funds from the market and they could resume dividends.

Mr. STUCKEY. So, they would go to the private market sector and pay off—

Mr. SCHMULTS. Yes, sir.

Mr. STUCKEY [continuing]. Pay off the Treasury loan.



Does that give you a great deal of concern? What I'm worried about is really the cash flow situation, it could be showing a very nice profit and still have cash flow problems. I can see where it would be inadvisable to pay off the Treasury loan because of the need for cash flow, even though the profit was there. Do you follow what my concern is?

Mr. SCHMULTS. Yes, sir, I do see your concern and we can give that some further thought. I think we see this Treasury back-up authority as money available to pay off the District of Columbia loans, which occurred in the public market at such times as the bank may not have the cash itself to pay off the loan, they could then resort to the Treasury.

So, I think in the hypothetical you are proposing—as I said, I think the bank would be able to borrow from the market, or indeed would not have any loans outstanding to the Treasury because it had been successful and is making money; and so would be able to borrow on credit in the market.

Mr. STUCKEY. Well, I think for it to be successful it would have to be attractive to the investor, that is what leads us to the question, do you believe that funds will be forthcoming from the private sector?

#### PRIVATE FUNDS

Mr. SCHMULTS. Well, we certainly hope that funds will be available from the private sector. I believe in the hearings in 1972, February 1972, I believe the statements were made, and I hope that you are going to hear statements today and tomorrow from representatives of the private sector that funds will be available. I think there is interest. And we hope the interest—and I think that relates also to your previous question—we hope the interest is not necessarily the return on the investment, although we believe that is important if this is a private corporation it should make some money and pay a reasonable return to the investor.

But we hope and we believe that a large part of the motivation is not just to invest in that particular bank, but will be community and civic spirit, which I believe is held by many large organizations, and banks, and insurance companies and others here in the District. So, I think it will be a combination of that spirit and I hope for a modest return on the investment which will make these private funds available.

Mr. STUCKEY. I live in the District, too, and I don't get carried away too many times in making an investment that I don't think I'm going to have a favorable return on my dollar investment.

Mr. SCHMULTS. Well, we hope that there will be a fair return, sir; but I think this will certainly not be a bonanza to the investor since the dividends are limited to six percent.

Mr. STUCKEY. If this bill is passed, do you perceive that the Treasury will be forthcoming with \$10 million?

#### APPROPRIATION AUTHORIZED

Mr. SCHMULTS. Well, when the bill is passed, and whenever the appropriate time arises we will certainly be willing to request an appropriation so that the \$10 million would be available. This may not



be precisely when the bill is passed, but it will certainly be available when needed.

Mr. STUCKEY. Well, as an investor, for someone that will be investing in this, what happens if the \$10 million doesn't come through?

Mr. SCHMULTS. Well, I think there will be a commitment on the part of the Congress if this bill is enacted.

Mr. STUCKEY. Well, the commitment—

Mr. SCHMULTS. That would lead both branches of the Government to see that this money is in fact available. Of course the need arises only after the bank has \$2 million paid in capital stock.

Mr. STUCKEY. This is my concern. I am saying now the \$2 million is in, and they go to the Treasury, and all of a sudden—what I'm trying to say is, what assurance do we have from the Treasury Department that this money will be forthcoming when the \$2 million is in? We don't have it.

Mr. SCHMULTS. Well, we will have to ask for an appropriation by the Congress to make that \$10 million available when the bank has been established. The Administration certainly intends to ask for that appropriation when the Congress passes this. And I certainly think the money will be available, indeed I hope so, although there is not a hundred percent assurance.

Mr. STUCKEY. There again my concern is the investors putting their money in; and even though there is a public community spirit, I think you might be hampered somewhat as far as getting investors committed without some type of assurance; of course, that might be effected with the bill.

Mr. SCHMULTS. Well, I think any question about the assurance that there will be \$10 million backup authority—and I hope there will not be any question—because the government, the Legislative and Executive Branch will be on record as assuring investors that money will be available.

I think the concern will probably come not with the common stock investors, their money will be in first, and the back-up authority is really not in a sense to secure them, investors who will be loaning money to the D. C. Development Bank. These, presumably, will be large institutions that will be able to evaluate that risk as very small. I think the money would be available from that source because this is not an unusual sort of arrangement to have.

Mr. STUCKEY. Do you think it would be better to have floating bond rates instead—

Mr. SCHMULTS. Sir?

#### 6 PERCENT RETURN

Mr. STUCKEY. I said, do you think it would be better to have a floating bond rate, rather than just the flat six percent?

Mr. SCHMULTS. Well, I think that our view was that six percent was a reasonable rate of return even today, when measured by savings deposits and arrangements like that with commercial banks. It is designed to be a reasonable rate of return, not a large rate of return. The motivation, as I said, for investing in the D. C. Development Bank would be in large part community spirit on the part of the institutions within the District, which will see the need for this kind of organization, and will be willing to put a relatively small part of their funds



in this bank and receive a six percent return on their money. So, we feel that is an appropriate rate.

Mr. STUCKEY. Would you invest your money for a six percent flat return, do you think?

Mr. SCHMULTS. Well, part of my money is in a savings account right now, and I have a return of a lot less than six percent on that. But, you are talking about an individual, and I think there will be institutions.

Mr. STUCKEY. Well, let's start with individuals.

Mr. SCHMULTS. Well, we hope there will be individuals in this as well. I think community-minded individuals will be willing to invest some money in that bank at six percent; we certainly hope so.

Mr. STUCKEY. This is the only fear I have, the incentive is not there, if they will be willing to invest their money at six percent at today's interest rates.

Do you think the bank will compete with the existing Federal programs that the companies have now?

Mr. SCHMULTS. No, sir. As I said in my statement, we don't think that this bank should be in competition with any Federal or District programs, or private banking institutions. The thought here is really to, as I stated, act as catalyst and mobilize private resources. We feel that need is not being met now, therefore there will not be competition to the existing institutions initially.

#### PROJECTS

Mr. STUCKEY. Will the bank's involvement be limited strictly to the District of Columbia, or will it be involved in projects outside of the District?

Mr. SCHMULTS. No, the projects now will have to be located within the District of Columbia, that is a provision that has been added to the bill; and we believe that has been intended all along. Those specific words were added to the proposal last September.

Mr. STUCKEY. Mr. Hogan, do you have any questions?

Mr. HOGAN. Thank you, Mr. Chairman.

I wish to apologize for Mr. Gude, he had a conflict between this meeting and another meeting he had, otherwise he would be here. I do have a couple of questions Mr. Schmults. I seem to recall reading—isn't it this morning—that Secretary Simons made a statement indicating that the national institutions were relying too much on the Federal Government?

Mr. SCHMULTS. That was yesterday.

Mr. HOGAN. Was it yesterday?

Mr. SCHMULTS. He testified on the financial institutions' performance.

Mr. HOGAN. Isn't this something of the same thing here?

#### TREASURY SUPPORT

Mr. SCHMULTS. No, sir. I don't believe there is any excessive reliance on the Federal Government here. The District of Columbia Develop-



ment Bank is a private institution, it raises capital from private resources, both common stock capital and loan capital. There is a relatively modest Treasury back-up which cannot exceed \$10 million in view of the large interest of the Federal Government in the District of Columbia—we feel this is appropriate reliance on the Federal Government.

Mr. HOGAN. What if we went to the Floor and suddenly found ourselves with an amendment on our hands that would provide that kind of assistance to every State, so that each State could establish a development bank with a guarantee for "X" amount of dollars.

I think one of the problems, if we go to the Floor with this kind of a provision people are going to say—my recollection is, wasn't there a proposal of a development bank over in the Banking and Currency Committee in 1971 or 1972 in the House, and it was defeated in the Committee?

Mr. SCHMULTS. I don't recall.

Mr. CAVANAUGH. There have been many development banks proposed, nation-wide; this one is just for D.C.

#### FEDERAL INTEREST

Mr. SCHMULTS. I think the distinction here is the Federal Government's role in the District of Columbia's affairs and its presence here, the problems of the District of Columbia, and the establishment of the District of Columbia Development Bank.

Mr. HOGAN. I understand that, I just wonder how that will be received by the other Congressmen, especially following on the heels of the Home Rule. I might be viewed now by other Congressmen as some type of subsidy of the District which is denied their own districts.

Mr. SCHMULTS. Well, that is certainly possible; but we hope they will accept the distinction we are attempting to make.

Mr. HOGAN. Would you advocate this kind of an institution for other States; would the Treasury be willing to go along with development banks in each State, if the State wanted to establish a State Development Bank. Would they be willing to match the capital that would be raised in a State Development Bank along this line?

Mr. SCHMULTS. No, we would not. We think that the States and local communities can establish these banks if they wish at a State level. There would be no need for federal assistance in this regard.

Mr. HOGAN. Now, I will be interested to see what the testimony is here as contrasted with the testimony as it was in 1971, or early 1972. Hasn't the financial situation in borrowing and lending, the rates, financial condition, hasn't it changed substantially between now and 1971; isn't there an entirely different atmosphere in the banking community and financial community generally, not only here in the District, but nationally.

Mr. SCHMULTS. Well, that may be true, but we hope it will be the sentiment of the private institutions here in the District to participate in this sort of institution.

The rates may have changed, but the problems are still here and have to be dealt with. And we hope that the private sector with the help of



the District of Columbia Development Bank will be mobilized to develop projects which are needed here in the District.

Mr. HOGAN. Well, like the Congressman, I'm concerned for the Minority Members here, advising them, on the capital stock sale for instance. The suggestion was made in the bill itself that any insurance or public utility company is authorized to invest in the stock of the bank. My recollection is, from what I read in the papers, that Conn-Edison in New York is on the verge of bankruptcy because of some of the requirements laid on them for capital, their own capital.

And my understanding here locally, with the utilities, more particularly the electric utilities, their problems in raising their own funding, I wonder if they are going to be in a position to assist as part of the private sector in purchasing stock in the Development Bank when their own financial situation is so bad.

I don't mean this now in criticism, and I am not suggesting they are in the same situation as Conn-Edison, but you know, all the environmental problems that these people are facing. My understanding is that some of these companies are putting "scrubbers" in their plants, and they are going to have to increase their capital investment something near 75 percent, or 100 percent over the next few years.

#### INVESTING

Mr. SCHMULTS. Well, there is no question about that, the utilities themselves will have huge capital investments to make in the future, but I think there are—first of all, each institution has to evaluate for itself the desirability of investing in this proposed D.C. Development Bank; and presumably the board of directors of each institution will not authorize an investment if it were improved, in terms of that institution's standpoint resources.

Secondly, the bill itself does provide or authorize such investments by banks, savings and loan, public utilities and insurance companies; but it also includes restrictions on those investments, for example, savings and loans could be made only by the Federal Home Loan Bank Board. There are prescribed cases, on insurance companies and utilities, it's the Superintendent of Insurance of the District of Columbia. In the case of public utilities it's the Public Service Commission; so that there are appropriate restrictions so that the institutions themselves are not over-extended. And we would hope that a number of institutions may make relatively large investments in this bank, and it can be capitalized.

Mr. HOGAN. Well, I think the question still is, is this the time to do it, you know, the Prime Rate is now 11 and-a-quarter, isn't it?

Mr. SCHMULTS. Yes, somewhere in that neighborhood.

Mr. HOGAN. Eleven and-a-quarter, and maybe, since it's 10 o'clock now, it may have gone up, and in Philadelphia or New York it may be eleven and-a-half, or twelve.

But, you know, the banks downtown, for instance I'm sure are paying first of all the amount they can borrow on their reserves, the Federal Reserve Regulations, have cut back substantially: the money that they are paying for what they borrow from other banks, I don't know what they are paying here in town, but it's somewhere around ten percent, or maybe higher.



Now, if they use that money to purchase stock in a bank like this, and there is little likelihood of them receiving any dividends on that for some years, I wonder if this is the time of setting forth on such a venture. Now, in 1971 the money market was certainly better than it is in 1974. I will be very interested to see what the testimony is from the people that testified in 1971 as opposed to what it is now, especially those who might use their money to invest in that kind of project. I wonder, given the financial situation as a whole, whether this is a particularly pervious time for going forward with this venture.

#### NEED FOR BANK

Mr. SCHMULTS. Well, I think it can be argued that those conditions which you cited make it all the more important to proceed with this particular Development Bank. I think money is hard to get, and you are going to have to work harder to get it. I believe the District at this time can use the talent and the expertise which this bank will bring to bear on gathering the private resources to develop the projects in this case. It is probably more difficult to do that now, and therefore the need is greater to have an institution like that. As far as the private institutions are concerned, we would hope that they take the long-range view of things.

True, interest rates are high, but I think this cannot be looked upon as a short-term project, but as a long-term project. It is certainly in the interest of the private institutions of the District of Columbia to build up the economic base, to improve the income of the citizens of the District, and living conditions here in the District because that is where these private institutions operate.

So, therefore I think it can be argued it is to their interest to participate in the District of Columbia Development Bank because as the District prospers, so do the institutions.

#### PROJECTS

Mr. HOGAN. Let me turn for a moment to your statement on page 3 where you indicate the bank could assist projects which are innovative, and which involve special risk situations.

Do you mean there that all the money will be invested in what is commonly known as "soft loans"?

Mr. SCHMULTS. No, not really. I think what we are talking about there is that in these situations—first of all, most of the money that will be put into these projects will come from private sources. It may be necessary in special risk situations for the District of Columbia Development Bank to put in some seed money or starter money that will get the project going, which will finance the engineering studies and the preliminary development work so it can be brought to a stage that private lenders and others can see the project is viable and it can be developed on a successful basis.

The bank itself will not have the resources to put in the bulk of the money in the special risk situations, only to bring expertise, talent, and possibly seed money to bear, so that private institutions can see that the project can be developed successfully.



Mr. HOGAN. Now, by expertise and talent, do you mean they will have a staff that will put together the project, the development project and go out and obtain, or put together the funding for it; and get back in a large sense to what the Small Business Administration does now, and then act also as a small business investment company?

Mr. SCHMULTS. Well, I suppose that is possible, although my own view of it would be that I would think the projects would be brought to the bank, or to private lenders who will then bring the bank in; and the bank would have the resources and the staff—I don't think it would be a large staff—would have the staff to review the feasibility of the project. I think that is more how the staff would function. It would have technical expertise in applying for Government grants, where money was available from private and public sources to assist the project; and not really go out in a large scale throughout the District and develop projects on its own, although that is possible in individual cases.

#### GRANTS

Mr. HOGAN. Now, then, turning to page 4, you are talking about infrastructure grants. Would the bank obtain grants from the Federal Government or private institutions, the Mellon Foundation, or Rockefeller Foundation?

Mr. SCHMULTS. Yes, that is what we are talking about. In other words, the bank would have the staff that would know where this sort of money is available; they would know where the project could apply for money, yes.

That is part of the "package concept" mentioned earlier on that page. The bank would go to private lenders, Government agencies, and would in effect organize, or mobilize these various institutions and groups and gather together the necessary resources that make the project viable.

#### LOAN AUTHORITY

Mr. HOGAN. And then, turning to page 6, you indicate that the role of the Federal Government in the bank would be limited, no appropriations or Federal funds would be authorized.

There is an authorization in the bill for \$10 million.

Mr. SCHMULTS. Yes, that is borrowed, but there will be no Federal money put in by way of capital, or grants, or anything like this; that is borrowed money.

Mr. HOGAN. Well, now, turning back to the infrastructure, couldn't there be grants from the Federal Government?

Mr. SCHMULTS. Well, when I say no Federal money available I mean to the bank itself. The bank as an institution could assist the project, the developer, and apply for a Federal grant, or District grant, or money from any foundation. But, the money would not go into the bank itself.

#### BOARD OF DIRECTORS

Mr. HOGAN. Now, normally, as you know, the board of directors is in large part responsible for the actions of the private banks, they can be sued for any—in effect, by and large for just an investment



policy of the bank which is viewed to have been careless, or what have you.

Would the individuals—there are three appointed by the President here, aren't there?

Mr. SCHMULTS. That is correct.

Mr. HOGAN. Would they be liable, as directors of private banks, for their actions; or would they be immune from liability?

Mr. SCHMULTS. Well, the bank is a private institution, the proposed bank is a private institution. I believe the directors of the bank would be liable, as the directors of any other private institution in the District of Columbia.

Mr. HOGAN. Now, since they are also employees of the Federal Government, would the Federal Government possibly be liable for any of the actions of the directors taken on behalf of the Federal Government serving on the board; and therefore there is the possibility here of some liability of the Government attached to the stockholders of the institution by reason of that; although you say the role of the Federal Government is limited. Is it that limited that it shields it from liability of the directors, or the Federal Government itself?

Mr. SCHMULTS. Well, that is a question that might stand some further legal research, although the directors—three of them appointed by the President—are serving in an individual capacity, and therefore would be liable individually.

#### CAPITAL

Mr. HOGAN. And finally, what do you believe this bank would have to raise in the way of capital before it would be a viable development bank; would they have to have a million dollars, or a million and-a-half in capital before the Treasury would consider they are a going project? You would loan the bank—

Mr. SCHMULTS. If they had \$2 million in capital, yes. Although, somewhat short of that, I would think that would certainly be an amount of capital which would be adequate to start operation in the bank, and they might then borrow some money in the private market; and again, with the hope that the capital in the bank would build up over a period of time.

But, the important role is not the amount of money which it has itself to invest in the project, although that is significant. I think the most important role is to mobilize the private resources in the District. If it is under way and has obtained subscriptions to common stock, made borrowings itself, and has capital, I think it could be a relatively modest amount, and the bank could function in a very important way in these other areas, mobilizing the capital of the private resources in the District.

Mr. HOGAN. It would be helpful, Mr. Chairman, I think if you could examine what you believe the Federal Government's liability would be in these circumstances for the Committee.

Mr. SCHMULTS. I will be happy to do that.

Mr. HOGAN. Whether or not you feel the directors would be liable, or more importantly, whether the Federal Government would be re-



liable based on representation on the board, the actions they would take.

Mr. SCHMULTS. Yes, I will check that. But I would think it would be individually, the government could not be sued and would have no liability.

Mr. HOGAN. I can appreciate your concern, you know, the bank's exemplary role in the community; I just wonder if at this particular time, given the financial situation, whether this is the time to embark on this venture. I think this is a question that all the Minority Members will have to be addressing themselves to before they go on the Floor.

Thank you, Mr. Chairman.

Mr. STUCKEY. Thank you very much Mr. Schmults, for your testimony this morning.

Mr. SCHMULTS. Thank you.

Mr. STUCKEY. Our next witness scheduled for this morning is Mrs. Antoinette Ford of the District of Columbia City Council. If she is not here, her statement may be filed for the record.

Thomas H. Countee, Jr., president of Model Cities Economic Development Corporation; we will be delighted to hear your testimony, Mr. Countee.

#### STATEMENT OF THOMAS H. COUNTEE, JR., PRESIDENT, DISTRICT OF COLUMBIA MODEL CITIES ECONOMIC DEVELOPMENT CORPORATION

Mr. COUNTEE. My name is Thomas H. Countee, Jr., and I am the president of District of Columbia Model Cities Economic Development Corporation (EDC); its wholly-owned subsidiary, MODEDCO Investment Company, a Minority Enterprise Small Business Investment Corporation (MESBIC); and its affiliate, Inner City Local Development Corporation (LDC), which operates under the Small Business Administration's 502 Loan program. I am grateful to you for the opportunity to express the support of my organization for the District of Columbia Development Bank.

#### NEED FOR DEVELOPMENT BANK

As head of Model Cities Economic Development Corporation, a Model Cities-funded venture capital corporation which provides financial and technical assistance to minority-owned small businesses in the District's inner-city, and as a native Washingtonian, I feel that there is a clearly definable need for the District of Columbia Development Bank to stimulate and aid economic development efforts in the Nations' Capitol. In the two and one-half years of the existence of EDC, LDC and the MESBIC, during which time we have worked closely with federal and local agencies involved in minority economic development, including the Small Business Administration (SBA) and the Office of Minority Business Enterprise (OMBE), and also with local business development organizations, we have identified a critical need for a large, well-financed development institution which would serve as a catalyst to package, finance and monitor large-scale economic development projects in the District.



The Model Cities Economic Development Corporation is the only such institution operating in the District and despite our record of achievement, as reflected in the attached Annual Reports, which I can point to with some pride, I will be the first to admit that our financial resources have been, are and will remain insufficient to meet the existing challenge. Thus, as far as we have been able to determine, the Development Bank would not be in competition with EDC, LDC or the MESBIC or for that matter with other private, business, governmental or community minority development institutions. Rather, the Bank would be "a logical and necessary complement", as Mr. Danzansky stated in his 1972 testimony, to our efforts to obtain the necessary financing and approval for large-scale projects of difficult implementation.

SPECIAL ADVISORY COMMISSION ON INDUSTRIAL AND COMMERCIAL  
DEVELOPMENT

A view of the economic development problem in the District of Columbia, the plans for development and the likely solutions were examined recently by the District of Columbia City Council Special Advisory Commission on Industrial and Commercial Development of which I was a member and Chairman of the Industrial Subcommittee. This special advisory commission was composed of many leading businessmen, educators, and civic leaders of the District of Columbia. The Commission isolated four reasons for the need to pursue economic development in the Nation's Capitol:

(1) The District has a substantial problem of unemployment and underemployment concealed by an average unemployment rate which appears low. Studies conducted by the D.C. Manpower Administration and the Washington Center for Metropolitan Studies indicate that one out of three persons in the labor force in the District of Columbia earned less than \$4,000 in the year preceding the 1970 census, and there are at least 49,000 District residents not in the civilian labor force at all, thus excluding them from unemployment figures. Of the District's 163,727 black male residents over 16 years of age, about 36 percent were unemployed, part-time workers, or not in the labor force. These are but a few of the indications of the need for employment opportunities in the District.

(2) The District's tax base is not growing fast enough to keep up with the cost of needed public services, and federal funds cannot be counted on to fill the gap. In the past ten years, D.C. Government expenditures have increased several times faster than the assessed value of taxable property. The development of new businesses is essential in combating this situation.

(3) The District has needlessly lost many valuable businesses. More will be lost if action is not taken. Although the area has experienced a boom in economic growth, the District's economy has remained stable or declined in the last fifteen years. Many businesses are leaving the District, or choosing not to locate here, which results in a loss of jobs, taxes and stimulation to the local economy.

(4) The District lags behind neighboring jurisdictions and other cities in organized efforts to promote economic development and



stimulate commercial and industrial development. In the 1974 budget, the District of Columbia had no funds allocated for general business development. To some extent the District budget for fiscal year 1975 has corrected this lamentable oversight by providing \$100,000 for this purpose.

#### COMPARISON WITH OTHER STATES

However, in comparison the State of Maryland's Department of Community and Economic Development has a budget of one million dollars. The department also includes the Industrial Development Authority which guarantees mortgages made by private lenders up to 90 percent of the value of land and buildings, and 70 percent of equipment financing with an individual limit of four million dollars. The Maryland Industrial Land Act provides six million dollars to Maryland communities for financing of land acquisition if private resources are not available. In short, information on the economic development efforts in other cities, such as Chicago, Baltimore, St. Louis, New York, Milwaukee, Seattle, Boston, and Cleveland, indicates that the District of Columbia is far behind the nation's cities in promoting a concerted economic development effort.

#### PRESENT LIMITATIONS

In order to solve the economic development problems of the District of Columbia, encourage industrial development, stem commercial decline, and provide the tax base and jobs for a healthy economy, the proposed District of Columbia Development Bank is as essential as cheese is to pizza. In my position as President of EDC, its MESBIC subsidiary which is licensed by SBA and its LDC affiliate which also operates under the auspices of SBA, I come into daily contact with many financially feasible and worth-while minority business projects and deserving minority entrepreneurs whom we are unable to assist with the necessary financing, management, and technical assistance.

Due to the geographical limitations imposed by HUD, which confine us to an area of approximately 800 acres of the District's inner-city, we could not assist many promising ventures outside our Model Neighborhood Area. Further, due to our limited capital resources many sizable, and profitable, investments were undoubtedly excluded from consideration. The proposed District of Columbia Development Bank could implement on a large-scale the projects we were prevented from realizing, thus further enhancing and promoting economic growth and development in this city.

#### RECOMMENDATIONS

In summation, we at EDC, LDC and MESBIC have had two and-a-half years of intensive "on-line" experience in financing minority businesses and providing management and technical assistance. Our experience together with our continuing in-depth analysis of the status of economic development in the District convinces us that the Development Bank can realize innovative and uncommon ventures, special risk projects, projects of unusually large scale, and



projects that would otherwise be feasible only if financed collectively by the District financial community or fully committed in advance.

The Bank would not be in competition with existing private, commercial and/or community financial institutions. The Bank should coordinate with the general development plans of the District and Federal Government.

Finally, the Development Bank should have an abundant financial capability in order to effectively pursue and combat the District's economic development problems and achieve a healthy business and economic environment in the city.

For these reasons and many others, which have already been stated during your exhaustive hearings on this proposed legislation, the Model Cities Economic Development Corporation wholeheartedly endorses H.R. 7414 and the District of Columbia Development Bank. We urge its speedy passage.

Mr. STUCKEY. Thank you, Mr. Countee.

#### DISTRICT LOSING TO SUBURBS

You mentioned in your testimony that the city had grown in the past 15 years, and yet the tax base had not kept up with the needs and expenses of the city. I happen to live in the District and it seems to me that the tax structure has continued to go up. What's the big problem, then? don't think the taxes can go up much higher, and yet you say the taxes have not kept up with the growth of the city. Are that many businesses leaving the District of Columbia?

Mr. COUNTREE. Yes, sir; they have. I don't have the specific number of businesses that have left; but I think the financial pages of the Washington Post and Star News would indicate on a monthly basis that businesses are continuing to leave for several different reasons.

One is the cost of land in the District which, as you know, is extremely high. Businesses will not locate where they are going to have to pay \$5 or \$7 a square foot, when in the neighboring jurisdictions, Prince George's and Fairfax County they are \$1, \$1.50 a square foot.

Secondly, the minimum wage problem in the District is a key constraint in the location of business here. As you probably know, we have one of the highest minimum wages in the country, certainly higher than in the surrounding jurisdictions.

For those reasons many businesses are leaving and going to the suburbs, and are failing to locate here. We have participated in two acquisitions, one of which was a large employer of inner-city residents, Manhattan Laundry; they were going out of business last July, and we stepped in and assisted a minority group to acquire that business. The old management was considering relocating for the simple reason that labor costs were extremely high and he was losing business to laundries and dry-cleaners as far away at Petersburg and Baltimore.

So, there is no question about the fact that the businesses are leaving the District and moving further out to neighboring suburbs.

#### ROLE OF BANK

Mr. STUCKEY. Well, if the financial sector has not been able to make a financial go of it up to now, do you think that the Development Bank



will be able to make a go of it. For example, you used the laundry service, would the group that has taken it over, will they be able to make a go of it?

Mr. COUNTEE. Well, I think that they were able to make a go of it because we were there; we assisted in the financing by way of a long-term loan in the acquisition of Manhattan. The answer to your question is probably, no, given our limited resources, and given the fact that the proposed Development Bank would not be in existence.

The answer would be, yes, there is much more of a chance because the Development Bank will have approximately 20 times our capital, if it were to be an institution that would be doing the same kind of financing that we are doing. As I said, there are currently no such institutions in the District. But I think we can certainly use an institution such as this Development Bank, which would complement, and not compete with us.

Mr. STUCKEY. Well, I certainly support what you are doing and I certainly support this bill. I think my biggest concern at this time is not that the investors get a reasonably fair return on their investment; my concern is just exactly what you are saying, if this trend continues, is it really going to be feasible to operate a business in the District of Columbia.

I understand what the problems are, and why they are there; maybe this bill will help in that direction. From the testimony that we have heard from the Treasury Department I think they are probably a little bit more optimistic than I am, you know, that people will put their money into this because they see the need the District has, have community spirit, and that kind of thing. I just question how many investors are really going to be that civic-minded; they might be looking ahead and say, well, it is not economically feasible to operate in the District of Columbia.

#### DISTRICT'S FUTURE

I guess my question is, what are the answers to where we can make it economically feasible and attractive for the industries to stay here, reverse the trend and have them locate here.

Mr. COUNTEE. I think there are two possible answers to your question, which are more in the nature of recent indications of improvement in this area, rather than specific answers to which I can point.

One is the action of the Board of Trade in the District, which about 3 or 4 months ago began a program to attract businesses, large businesses like IBM, et cetera, to locate facilities in the District. I am not talking about the Washington Metropolitan Area now, I am talking about in the District of Columbia.

Mr. STUCKEY. That is limited to the District?

Mr. COUNTEE. That's correct. They brought about a hundred vice presidents, executive vice presidents of large businesses to the city for a 2-day visit. They visited the Urban Renewal Areas, they visited New York Avenue where the railroads have excessive land that they are interested in disposing of; they visited various areas in Southeast, all with a view toward finding out exactly what the District was about; exactly what opportunities there were to locate here.



The indications are from the Board of Trade that that was successful, that since that visit there have been inquiries on the part of many businesses who plan to locate in the city here.

Secondly, as you know, the District is moving towards Home Rule; and the City Council has expanded power now. And part of the study done by the Advisory Commission on commercial and industrial development was, how can the City Council establish a healthier climate for businesses in the District.

I think that the result of our study will go a long ways toward mapping out strategy that the City Council can follow. And I think we can get the City Council to perhaps be more responsive to the needs of not only the citizens, but also the businesses in the District. So, while these are not specific answers to your questions, I think they ought to help towards a healthier business climate in the District.

Mr. STUCKEY. I just hope that the answers won't be higher taxes because I think you will agree with me that we can't stand a higher tax base than we have now; I think that would only compound the problem we have now.

Mr. COUNTEE. I agree with you.

Mr. STUCKEY. That is what causes people to move out of the District. Thank you very much.

Counsel?

Mr. HOGAN. Thank you, Mr. Chairman.

#### MODEL CITY ECONOMIC DEVELOPMENT CORPORATION

Mr. Countee, I was glancing at your report; that is a report, I gather for the MESBIC.

Mr. COUNTEE. That is a report for the entire organization, the parent company—

Mr. HOGAN. Model City Corporation?

Mr. COUNTEE. That's right, the MESBIC subsidiary, and the LDC affiliate, which is the Inner City Development Company. That report is good as of September, 1973.

Mr. HOGAN. It certainly would be very helpful to me if you could indicate a little bit to us what is the funding for the Model City Economic Development Corporation?

Mr. COUNTEE. Dollar amount?

Mr. HOGAN. Yes, sir.

Mr. COUNTEE. The current funding was approximately—that is for the year ending May 31st, when our contract with the District terminated—approximately \$290,000 in administrative funds; and approximately \$1 million in capital, \$500,000 of which was paid in capital for the MESBIC.

Mr. HOGAN. I mean the Model City Economic Development Corporation doesn't have capital of its own, does it?

Mr. COUNTEE. Yes, it does.

Mr. HOGAN. It does have its own capital?

Mr. COUNTEE. It does have a venture capital fund of its own, that is correct.

Mr. HOGAN. How much does it have?



Mr. COUNTEE. It currently has about \$100,000 in uncommitted funds remaining; and about \$700,000 of funds that have been disbursed in the form of long-term loans in minority businesses.

Mr. HOGAN. So, this Model City Economic Development Corporation statement of investment on the other side here is the Model City risk investment, then.

Mr. COUNTEE. That is a consolidated statement, I believe of the Model City and the parent company, and MESBIC.

Mr. HOGAN. But you have about \$700,000 in risk capital?

Mr. COUNTEE. That is approximately correct. Let me make it a little clearer. The parent company has its own venture capital fund, which is unrestricted by SPA or other regulations. That venture capital fund consists now of about \$100,000 in uncommitted funds; and about \$700,000 in funds which have been disbursed in the form, as I said, long-term loan directly to minority businesses.

The MESBIC subsidiary has a paid-in capital of half a million dollars. In addition it has drawn now its first volume of so-called leverage funds from SPA; thus it has about \$1 million in lendable funds. Now of those lendable funds about \$300,000 have been disbursed—no, I'm sorry, about \$450,000 have been disbursed, so that there remain about \$550,000 in funds that can be lent.

Mr. HOGAN. And about five hundred of the \$550,000, they are recent—

Mr. COUNTEE. That's correct.

Mr. HOGAN. Now, then going to the Model City Economic Development Corporation, do you live off your investments, or do you get additional funding from the Department of Labor for certain projects?

Mr. COUNTEE. No, we get no funding from the Department of Labor; all of our funding through the District of Columbia's Model City Program from HUD. The answer, specific answer to your question is, no, we do not "live" off our investment. It was intended that we have a profit orientation, although our corporate structure of the parent company is non-profit; that is to say, the profits that are made from our investments in the form of interest, or depreciation on the equity investment goes back into a revolving fund, that is then re-loaned, or reinvested in other minority businesses.

Mr. HOGAN. So, I assume then you have a staff that is paid then primarily from the Model City fund.

Mr. COUNTEE. Exactly.

Mr. HOGAN. How many staff do you have?

Mr. COUNTEE. Currently we have a staff of 14.

Mr. HOGAN. Fourteen.

Mr. COUNTEE. Yes, about four of those are secretarial; two trainees, and the remaining professional.

Mr. HOGAN. About eight professionals.

Mr. COUNTEE. That's right.

Mr. HOGAN. And what would you say your overhead on that is? In other words, you use that staff, I gather, to operate the Development Corporation.

Mr. COUNTEE. That's correct. The overhead is approximately \$290,000 a year, which includes a considerable amount of consulting money; about \$70,000 is consulting.



Mr. HOGAN. \$70,000?

Mr. COUNTEE. \$70,000.

Mr. HOGAN. That's what you contract out.

Mr. COUNTEE. That's correct.

Mr. HOGAN. And what you do, you help the businesses get started and counsel them after they get started?

Mr. COUNTEE. That's correct.

Mr. HOGAN. Now, does MESBIC have its own staff?

Mr. COUNTEE. No, we are the staff of the MESBIC and for the Model Cities Economic Development Corporation.

Mr. HOGAN. And does MESBIC pay for consulting services?

Mr. COUNTEE. No, it does not.

Mr. HOGAN. You just do that for MESBIC.

Mr. COUNTEE. That's correct. I might say, part of the reason that it operates that way is because we knew we would have a limited amount of funds; and we wanted to use the MESBIC funds only for venture capital purposes and not administrative purposes. Obviously, when the staff gets already paid by Model City, there was no need to hire another staff.

#### LOANS

Mr. HOGAN. Now, the local development corporation, do they have loans out then, also?

Mr. COUNTEE. We currently have no loans out, although we are just about to commit for two loans: one involves a supermarket in the District's inner-city; and the other involves the renovation and re-opening of the Howard Theater.

Mr. HOGAN. Now, looking at the Model Cities Corporation, the MESBIC, and the LDC, what would you say are the primary differences between the three as far as lending money to private investors?

Mr. COUNTEE. Well, there is a difference in the way they operate. What we do, the MESBIC and the LDC, primarily financing and leveraging tools, and they were established for that purpose. That is to say, we can leverage our investment dollars three to one through the MESBIC. For every dollar paid in capital we get \$3 in matching capital in the form of long-term debentures from SPA.

In terms of the LDC, for every dollar that we get in venture capital, or equity investment, SPA loans \$9. We use these two entities as financing and leveraging vehicles to assist the development of projects.

Mr. HOGAN. Now, the MESBIC has how many shares outstanding at this time?

Mr. COUNTEE. They have outstanding two hundred shares, all of which are wholly owned by us, by the Model Cities Economic Development Corporation.

Mr. HOGAN. I see, Model Cities bought—

Mr. COUNTEE. That's correct.

Mr. HOGAN [continuing]. And established the MESBIC under the SPA regulations.

Mr. COUNTEE. That's correct; that is a so-called 301-d corporation.

Mr. HOGAN. Now, then, turning to your interest income. Is the income you have listed here from all your investments, or is that just for MESBIC?



Mr. COUNTEE. No, that was from all of the investments, as of September, 1973.

Mr. HOGAN. And is that for a year?

Mr. COUNTEE. That's for a year.

Mr. HOGAN. So, \$8,800 for \$1 million, or what would you say?

Mr. COUNTEE. No, at that point in time our investment was only approximately \$450,000; and most of that was equity investment.

Mr. HOGAN. You mean stock?

Mr. COUNTEE. That's correct.

#### ROLE OF DEVELOPMENT BANK

Mr. HOGAN. Well, then, turning to this business of the Development Bank, I think you will agree that there is a time for investing in certain things; and a time perhaps—they call it venture capital, they agree to “venturism”, let's say.

I wonder whether this is a particularly good time to go out to the community and sell stock in a company like this. I gather what they will have to do, based on the statement of General Counsel of the Treasury, is do to a large extent what you do through your Model Cities Corporation; and then loan money, as you do through your MESBIC. They will be doing it also through the one entity, the D.C. Development Bank, which lays a large responsibility, it seems to me on one entity where they have to go out in the public and say, we want to borrow money from you; and we hope to pay you dividends, but we don't know what the dividend situation is going to be, especially if we borrow money from the Treasury, we can't pay dividends as long as the money is outstanding from the Treasury.

How do you view the situation on that, getting investment from the general public here in the District of Columbia. Do you think that will be easy to do?

Mr. COUNTEE. No. I think I would be less than honest if I told you that it would be easy. I think it can be done. My understanding—I listened to the comments of the Treasury Department counsel with some interest—my understanding is that most of the stock is subscribed by business institutions in the District, and I think that is as it should be. I think that the stock subscriptions would have a much greater chance of success if that was the target, rather than by citizens, although that should not be excluded.

I don't think that is going to be an easy task, but I think it can be done for many of the reasons I cited earlier. Namely, I think there is an increasing amount of realization on the part of the people in the District, especially business institutions, that their future is here; that they have a part and role to play in terms of economic development efforts in the city.

I think they will be willing to support the Development Bank by way of stock subscriptions.

Mr. HOGAN. Now, in the State of Maryland they have the Department of Community Economic Development, and part of their budget is to bring in development business, this kind of thing.

Mr. COUNTEE. That's correct.



Mr. HOGAN. Isn't it quite a responsibility to lay on the newly developed bank to have them in effect go out and do this kind of work that the General Counsel of the Treasury said they are going to do. How it is going to do this.

How many businesses, or let's say, how many banks come to you and say, you've got a MESBIC, we have someone here who needs some venture capital and risk capital; we can't hack it, but maybe you can; maybe we can work together, you take three quarters and we'll take one. Do ou have any banks doing that?

Mr. COUNTTEE. Most of the banks in the District do that.

Mr. HOGAN. Do they come to the MESBIC?

Mr. COUNTTEE. They come to us basically because we are the only such institution in the District. Our most recent financing, as a matter of fact, involved a bank that came to us with such a proposal.

Mr. HOGAN. Did the bank undertake any of that at all?

Mr. COUNTTEE. Well, the bank was already committed for a sizable loan to this venture; but they were considering granting of a moratorium for this business because it happened to be severely affected by the energy crisis. It asked if we would be willing to inject some venture capital to assist at this point in time. We did, and we viewed that as our role, to come in behind the bank with a subordinated long-term loan that we have in that kind of situation.

So, to answer your question, yes, we have been involved in several deals where the bank or bank and the business have both come to us and asked us to take a subordinated position.

Mr. HOGAN. In that particular case they didn't take a part of the additional risk, they felt they were over-extended on this loan apparently as it was.

Mr. COUNTTEE. To some degree.

Mr. HOGAN. And they asked you to pick up whatever it is, the financing.

Mr. COUNTTEE. That's right.

Now, I don't envision that the Development Bank would operate in precisely that fashion. I think there is a difference between the way they would operate, and the way we operate. I don't view the Development Bank as operating strictly in the area of minority venture capital, which is our role. I was just giving an answer to your question.

Mr. HOGAN. Yes. Thank you very much, Mr. Countee; I appreciate it. Thank you, Mr. Chairman.

Mr. STUCKEY. Thank you very much, Mr. Countee, we appreciate your testimony.

Mr. COUNTTEE. I appreciate the opportunity.

Mr. STUCKEY. I hate to have to stop in the middle of the hearing, but I have to vote on the Interstate and Foreign Commerce Committee. The other witnesses that are to testify here this morning, if it would be acceptable to you so we can go ahead with the record—the main thing we are trying to do is build up the hearing record so it will be available to the rest of the members of the Subcommittee.

If it's all right with you, I would be delighted for you to give your testimony, or you can just go ahead and submit it.

Mr. HILL. Mr. Chairman, I'll just go ahead and submit it.



Mr. STUCKEY. Well, gentlemen, I do have a few questions, and Mr. Hogan might have some to build up the record on the Republican side. So, even though I am not here, it is quite acceptable to me if you could just go ahead and let's build up the record with your testimony.

Mr. CLARK. Our next witness this morning is Mr. Darryl A. Hill, Executive Director, Metropolitan Washington Business Resources Center.

#### STATEMENT OF DARRYL A. HILL, EXECUTIVE DIRECTOR, BUSINESS RESOURCE CENTER

Mr. HILL. Mr. Chairman and members of the committee, my name is Darryl A. Hill and I am the Executive Director of the Metropolitan Washington Business Resource Center, an affiliate agency of the Metropolitan Washington Board of Trade, which is primarily concerned with the development of small business enterprise and minority economic development in the District of Columbia and environs.

Let me start by saying that I've been in the field of economic development for nine years. During the course of this work, I was fortunate to have had the opportunity of cooperating with the Mayor's Economic Development Committee in the development of the early D.C. Development Bank proposals which, of course, have culminated in H.R. 11501.

#### NEED FOR BANK

The Development Bank is an idea whose time has come. It recognizes that economic development in the District of Columbia cannot depend completely and indefinitely on government subsidies, and that a vehicle must be designed to increase the private sector involved. This vehicle is the D.C. Development Bank.

At this point, I would like to depart a bit from the general trend of testimony on the bill and direct my attention to a specific area with which my organization is concerned, and that is the development and re-development of the impacted, impoverished and riot-torn areas of the District. It is our feeling that the Development Bank, as proposed, holds the key to solving a problem—physical revitalization—with which all of us from the Mayor on down have been grappling for some six years now.

#### NEED FOR DEVELOPMENT CAPITAL

The D.C. City Council Special Advisory Commission on Commercial and Industrial Development, of which I am a member, recently cited in its report the dearth of development capital—both investment and debt—as the major stop gap to continued commercial viability in certain sections of the City. The current economic situation notwithstanding, there has been a pointed lack of interest on the part of private investors in dealing in Washington, D.C. The causes of this disinterest or hesitancy are many and varied, but the fact still remains that Washington is in dire need of some mechanism or mechanisms to serve as stimuli for commercial and industrial development if there is to be any positive economic growth here in the Nation's Capital. Of course government, both local and Federal, can and should play a key



role in such a process, but the private sector must actively join the team if we hope to achieve any semblance of success.

This is where the Development Bank comes in. It will both directly and indirectly serve as the much-needed catalyst to get private capital moving again and working as it should.

#### DISTRICT LOSES TO SUBURBS

A dichotomy currently exists in Washington, as we have an active and lucrative marketplace, yet the business community is shrinking daily. The eastern part of the city has been particularly hard hit by this outflow of businesses. The residents of this section are currently beset with shortages of life-supporting goods and services such as food, drugs and shelter, primarily due to the lack of adequate commercial facilities and, to quote from the Commission report:

This current lack of necessary convenience facilities constitutes a serious hardship to residents of the eastern part of the city and adversely impacts their quality of life and handicaps the city's efforts to create an adequate living environment for all its citizens.

Again, our studies at the BRC of this problem have pointed to a definite need for a moving force, an organized developer, and most importantly, source of commercial development capital to initiate a rekindling of interest in the city within the private sector. Gentlemen, as we see it, the Development Bank more than adequately fills all of those slots.

During my years as a Federal contractee concerned with regional and local economic development, it has become increasingly evident that there is a limit to the Federal sector's effectiveness in the area or generation of economic growth and prosperity. The private sector, as you may well appreciate, holds the cards and must participate.

#### BUSINESS RESOURCE CENTER

The Business Resource Center was organized by the Washington business community with that precept in mind, and was charged with the mission of enjoining the private business sector in the effort to stimulate sound small business enterprise and minority business enterprise here in Washington. While starting with some reservation, I must say that the Washington business community has met the challenge in an overwhelming fashion. They have provided the resources, both financial and otherwise, and have shown a total willingness to take whatever steps are necessary to assist in the building of a strong local economy. Based on these experiences, I have all the reason to believe that our local business community will support the Development Bank both financially and technically, and will insure that it reaches its proper position in the scheme of Washington's economic future.

#### RECOMMENDATIONS

In conclusion, I'd like to state that it would appear that the Development Bank is designed to play a key role in the economic development



of our town that is highly complementary to that of the Business Development Organizations, MESBIC's, of one of which I am the vice president, also, and other existing sources of management and technical assistance.

In fact, in my capacity as staff director of the Business Resource Center and vice president of Minority Investments, Inc., a local MESBIC, I can say that we look forward with great optimism to the opportunities that a Development Bank could open up for these types of organizations and increase their impact on minority business development.

I would, therefore, respectfully urge your support of H.R. 11501 for, among others, the reasons I have outlined. This bill is cheap, in that the Federal commitment it requires is minimal. The institution it will establish, however, is invaluable—indeed essential—to the continued economic development of our community.

Thank you very much.

Mr. CLARK. Thank you, Mr. Hill. The Chairman has requested me to ask you a question for the record.

What do you anticipate will be the relationship between this Development Bank and the Minority Enterprise Small Business Investment Corporation?

Mr. HILL. I think these two enterprises have to interface in a certain manner. I think that the MESBIC role seems to fit in better with direct business financing. And frankly, I am looking to the Development Bank to organize some of the large-venture scale, that we are moving towards in town, for something to happen in this area, as opposed to being a financing source for smaller commercial enterprises.

#### PROJECTS

I would like to see the Development Bank get involved in such processes as the Anacostia-Bowling site development; revitalization of the 14th Street Corridor; the H Street Corridor; and some of the large ventures which have been proposed. Particularly, I think the problem that has happened, there is a total lack of interest of private-domestic investment capital in the city that caused the physical blight in the commercial areas; and I think the Development Bank is going to have to serve as a stimulus, or can serve as a stimulus, and get the private investment capital back in. And then MESBIC will come behind and provide direct working capital type of assistance to business enterprises.

That is the way I envision it.

Mr. CLARK. Thank you, Mr. Hill. Mr. Hogan?

Mr. HOGAN. Thank you.

You are president of MESBIC, I thought Mr. Countee said there was only one, obviously there are two.

Mr. HILL. There are two, yes.

Mr. HOGAN. You are the president of one.

Mr. HILL. Vice president.

Mr. HOGAN. How large is that?

Mr. HILL. This is a very small one, we have about \$200,000, \$250,000 paid in capital.



Mr. HOGAN. Is this private capital, or is this, again, from another—

Mr. HILL. Well, this is an interesting exercise, and I think has some relation to the Development Bank. Minority Investment, Inc., is a publicly held MESBIC, the only one of its type in the country. We went through regulations, and the Security and Exchange Commission made full registration for public offering. The initial stock was sold to the banking community; the majority of the stock is held by 14 banks in the District of Columbia. We have not gone out with our second issue, which will be directed towards the business community at large.

While most of this MESBIC stock is held by the banking community, essentially the corporate community, the voting control of MESBIC is controlled by the minority community at large; it is an interesting combination, two classes of stock.

Mr. HOGAN. What is your investment, how much do you have invested?

Mr. HILL. We don't have anything invested at the present moment. We have committed \$75,000 in one instance, and \$100,000 in another instance; but we have not actually disbursed the funds, we are in the process of drawing up the legal documents, et cetera. So, we have no portfolio.

#### ROLE OF BANK

Mr. HOGAN. Well, the other thing that is interesting, I think, is that this Development Bank is perceived differently by different people; even the people who testified this morning perceive it differently.

If I understand you correctly, you envision the Development Bank as an institution with a tremendous amount of money. You are talking about development over in Anacostia, and the 14th Street Corridor, that is going into substantial amounts of money. How much do you guess they will have to have available to underwrite projects such as that?

Mr. HILL. Well, I don't envision the Development Bank as completely underwriting projects such as those. I think that the Development Bank has to provide that inch of leverage to get the private sector back in to underwrite it itself.

I do see the Development Bank similar to the Development Bank for example in South America, which is working in the development of under-developed nations. That is the way I see it, as a larger leverage institution, as opposed to a small institution and concentrating on funding of individual business enterprises.

I am looking to the Development Bank as being an organizer that can pull together private sector capital, that can provide some guarantee, leverage-money guarantee fashion and base equity fashion; and move some of the larger more meaningful projects of the District off the ground. Many of these projects only need a little push, a very small push; and we have been looking for that push for a long time.

#### FINANCING

Mr. HOGAN. You know, the guarantee they have will have to be based because it's a private institution, any guarantee they have would have



to be based on their own balance sheet. And if I understand correctly, we are talking initially about getting \$2 million together, that is private capital. If they do that, then they can borrow a certain amount of money from the Treasury. Of course they can borrow money from anyone they could, but I assume they would go to the source where they would get the lowest rate, which obviously will be the Treasury.

Assuming for purposes of argument that they got \$2 million from private subscriptions; and assuming again that they go to the Treasury and got a \$10 million loan, you have \$12 million. You know, by and large that is probably less than all the money made available through the combination of the Model Cities Economic Development Corporation, MESBIC, and the Development Corporation. There is a limit to how much they can do.

In other words, they could go on, but I don't think they could underwrite, could guarantee a loan, they couldn't guarantee a project that would amount to \$50 million, or something like that, without eating up all of their capital means.

Mr. HILL. That is correct.

Mr. HOGAN. And again, turning to testimony of the General Counsel of the Treasury, it sounded to me like he would like to see the bank establish a staff of experts, and what have you; and Mr. Countee, who is the president of the Model Cities Economic Development Corporation testified that their budget alone amounted to about \$290,000 a year.

If the Development Bank has a budget anywhere near that amount, they are going to have to make some money some place; they are going to have to make a lot of money, a high rate of interest, or it isn't going to be a viable project.

I am concerned that the community might view this thing as being a panacea for all the problems they have in the 14th Street Corridor; all the problems they have in Northeast; all the problems they have out on New York Avenue and that, you know, their expectations will be extremely high and from what I see, based on the testimony so far, I wonder—I don't see this institution being able to perform this kind of miracle; it isn't going to have that kind of funding.

#### FUNDING

Mr. HILL. I don't think, Mr. Hogan, that the institution is going to be able to perform any miracles and solve all the problems we are facing. I do hope it will be a little larger than the \$2 million initial funding level. I think we are going to be looking for at least \$10 million to start.

Mr. HOGAN. This is stock subscription, is it not?

Mr. HILL. Yes.

Mr. HOGAN. Well, where would you get most of that?

Mr. HILL. From the business community, I think, almost totally. The community at large, as Mr. Countee mentioned, should not be restrained, from applying or subscribing. I think the District community will have to pick up the bulk. It's a bad time to do that, I agree with that statement.



But having the ten, and then the ten, and the institution having setting itself up as a strong technical force within the private investment and development circles—I think that is important—under the guarantee that they can give the leverage money three, or four to one.

Here again, I don't think it would have to underwrite an entire project to get a project off dead center. I think sometimes investors are just looking for some level of company in certain of these areas, and once you get that, you get the ball moving; then they can step back, or sell out, or be covered.

Mr. HOGAN. But the problem here, of course, you are not going to have the Small Business Administration behind this bank, you know. The bank is going to be on its own. It's going to be a private institution like Riggs, or American Security, or something else. The only ones that guarantee Riggs and American Security are the stockholders.

You know, it's a commendable little project, and there were a large number of the Minority Members of this Committee who supported the project in 1971. But I wonder, given the financial climate today, whether it is the project it was three years ago. I don't know, I'm just asking.

Mr. HILL. I am hoping this Committee doesn't view this bill in the light of the current financial situation, or economic situation.

Mr. HOGAN. But it's important to get it off on the right foot, so to speak. We don't want a situation like—and this came up a couple of days ago—seven years ago we were talking about the Fort Lincoln Project, and it came back here last week where we talked of the Fort Lincoln Project again. It moved a few inches, not as much as the Committee would have liked seen it move.

Mr. HILL. I understand. I am hoping this is not a situation and I am sure you are also—or we will back off very rapidly. But I don't think if the bill was put into law that the organizer, the bank, doesn't necessarily move right away the next morning because the bill was put into law. I think they would have to pick their time to do it properly.

But my understanding of these processes is, it would certainly be beneficial to have the process start.

Mr. HOGAN. So that it would be in place.

Mr. HILL. That's right.

Mr. HOGAN. Thank you.

Mr. CLARK. Thank you, Mr. Hill.

Any statements of witnesses who were not able to be here today will be made a part of the record at this point.

By direction of the Chairman, the meeting will stand adjourned; and the hearing will be resumed tomorrow morning at 9:30.

[Whereupon, at 11:30 a.m., the subcommittee stood adjourned until 9:30 a.m., Wednesday, May 15, 1974.]



But having the fact and then the two main directions being setting itself up as a strong technical force within the private sector and development circles—I think that is important—within the guarantee that they can give the business community, or even to their firms, I don't think it would be to understand the project to get a project off head and shoulders. I think the main reason for looking for some level of company is to ensure that the project will not be a one-off, but a long-term movement that can be a part of the national development.

Mr. Hines: From the position here, of course, you are not going to have the small business community, which is the heart of the economy. The fact is going to be that the small business community is going to be the main force in the development of the country. I think that is the main reason for looking for some level of company is to ensure that the project will not be a one-off, but a long-term movement that can be a part of the national development.

Mr. Hines: I am hoping this is a project that is going to be a part of the current financial situation of business and industry. Mr. Hines: But it's important to see it as a part of the national development. I don't think it's a project that is going to be a part of the national development. I think it's a project that is going to be a part of the national development. I think it's a project that is going to be a part of the national development.

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## DISTRICT OF COLUMBIA DEVELOPMENT BANK

WEDNESDAY, MAY 15, 1974

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON BUSINESS, COMMERCE, AND TAXATION  
OF THE COMMITTEE ON THE DISTRICT OF COLUMBIA,  
*Washington, D.C.*

The Subcommittee met, pursuant to notice, at 9:45 a.m., in room 1310, the Longworth House Office Building, the Honorable Fortney H. Stark, Chairman of the Subcommittee, presiding.

Present: Representatives Stark (presiding), Harsha, Broyhill and Gude.

Also present: James T. Clark, Legislative Counsel; John Hogan, Minority Counsel; Rebecca Moore, Subcommittee Staff Consultant; and Leonard O. Hilder and Ralph Ulmer, Professional Staff.

Mr. STARK. I will call the meeting together. Our first witness this morning on H.R. 7414 is Mr. C. Francis Murphy, Corporation Counsel, District of Columbia.

### STATEMENT OF C. FRANCIS MURPHY, CORPORATION COUNSEL, DISTRICT OF COLUMBIA GOVERNMENT, ACCOMPANIED BY MR. ROBINSON

Mr. MURPHY. Good morning, Mr. Chairman. I have with me Mr. Robinson from our office.

Mr. STARK. I am looking through here to see if I have a prepared statement.

Mr. MURPHY. There is a prepared statement, Mr. Stark.

Mr. STARK. Would you like to read it into the record?

Mr. MURPHY. With your permission we would submit it for the record.

[The prepared statement follows:]

C. FRANCIS MURPHY, CORPORATION COUNSEL, PRESENTING STATEMENT OF JULIAN DUGAS, DIRECTOR, DEPARTMENT OF ECONOMIC DEVELOPMENT

MAY 14, 1974.

Mr. Chairman and Members of the Committee, I am pleased to appear this morning on behalf of Mayor Washington to express the strong support of the District Government for the enactment of H.R. 7414. This bill would create a Development Bank for the purpose of mobilizing the capital and expertise of the private community.

#### NEED FOR BANK

The District Government continues to view the need for greatly expanded economic growth in this city as one of the most pressing and difficult problems confronting us. Economic growth is vital not only to the District and its citizens,



but to the Washington Metropolitan Area as a whole. We must actively and vigorously encourage economic expansion in the District if the city is to remain the center for employment, commercial, and related activities in the Metropolitan Area. Anything less than a healthy and growing economic center will ultimately adversely affect the entire metropolitan region.

The legislation before you today is specifically concerned with the need for economic growth in the District. The bill would establish a private institution—the District of Columbia Development Bank—to provide much needed financial and technical assistance for community development projects. The Bank is designed to mobilize both private capital and private expertise in order to approach economic development problems in the city in an orderly and efficient manner, with maximum impact not only on particular development projects, but on the economy as a whole. The result will be increased employment, a broadened tax base, and a more diverse economy for the city.

#### ROLE OF BANK

The proposed Bank created by the bill is appropriately designed to complement rather than compete with existing Federal and District programs for economic development in the city. It is the belief of the District Government that there is not enough capital available for new development projects and the creation of a Development Bank would meet this need through expanded private capital resources.

The proposed Development Bank would concentrate on assisting economic development projects that have difficulty in obtaining necessary financial resources or other support from customary private or governmental sources. This is important. The bill specifies that such projects should include innovative or other uncommon ventures, special risk situations, projects of unusually large scale, and projects that would otherwise be feasible only if financed collectively or fully committed in advance. It is just these types of projects which can offer the potential for an expanded employment base while at the same time providing services or products needed by the community.

#### BANK BOARD

The proposed legislative provides for an eleven-member Board of Directors of the Bank, including the District's Commissioner and the Chairman of the City Council, three officers or employees of the Federal or District Governments who would be designated by the President, and eight directors to be elected by the shareholders of the bank. This Board appropriately provides representation for both the public interest and the private stockholders whose investments, of course, will be the initial impetus for the Bank and the continuing stimulus to the Bank's expansion.

#### BANK STOCK

We favor the provision of the bill which sets the par value of the common stock to be issued by the Bank at \$100 per share. This will allow purchase of the stock by any private individual, partnership, corporation, foundation, society, association or other organization, profit or nonprofit. While the Bank's major stockholders will be large-scale investors, I think there are a lot of people and groups in this city who would want to "invest" in the future of their city, even if that investment is only \$100. These are the people and organizations who believe in this city and want to make it a success in every respect. The proposed Development Bank, those who invest in the Bank, and those who use its resources for new development in the city, will contribute to that success.

Mr. Chairman, I request that the Mayor's report to Chairman Diggs on H.R. 7414 be made a part of the record of this hearing.

Thank you for this opportunity to testify.

Mr. STARK. I might apologize to the witnesses this morning. Members have a caucus and from time to time we may have to interrupt. I would also like at this point to make part of the record a letter addressed to Mr. Diggs from the Mayor-Commissioner Walter E. Washington and I make his communication a part of the record.

[The letter referred to follows:]



DISTRICT OF COLUMBIA,  
MAYOR-COMMISSIONER,  
Washington, D.C., May 13, 1974.

HON. CHARLES C. DIGGS, JR.,  
*Chairman, Committee on the District of Columbia, House of Representatives,*  
Washington, DC.

DEAR MR. CHAIRMAN: The Government of the District of Columbia has for report H.R. 7414, a bill "To establish a District of Columbia Development Bank to mobilize the capital and the expertise of the private community to provide for an organized approach to the problems of economic development in the District of Columbia."

H.R. 7414 would establish a private financial institution in the District of Columbia to provide financial resources and technical assistance for economic development projects. The proposed Development Bank is appropriately designed to complement rather than compete with existing Federal and District programs for economic development in the District of Columbia. There is clearly a vacuum in the District in terms of adequate private capital for development projects and the creation of a Development Bank would appear to at least partially meet that need.

Section 2 of the bill sets out Congressional findings and a declaration of purpose. Of particular importance is section 2(b) which makes clear that the Development Bank is to concentrate on assisting economic development projects that have difficulty in obtaining necessary financial resources or other support from customary private or governmental sources. The section further specifies that such projects should include innovative or other uncommon ventures, special risk situations, projects of unusually large scale and projects that would otherwise be feasible only if financed collectively or fully committed in advance. These higher-risk kind of projects are often those most likely to be rejected by conventional private financial institutions, although such projects may have the greatest impact in terms of community development and need. Another function which could be appropriately included among the purposes of this section is that the bank should take positive steps to encourage the development of businesses owned and operated by individuals who have traditionally not been involved in entrepreneurial activities, such as members of minority groups.

Section 3 creates a body corporate to be known as the "District of Columbia Development Bank", and specifies that it shall not be an agency of the United States Government. This section also exempts the Development Bank from section 26-107 of the D.C. Code, thus enabling use of the word "Bank" in its name and title.

Section 4 of H.R. 7414 establishes an eleven-member board of directors for the bank comprised of five government officials, including the Commissioner of the District of Columbia and the Chairman of the District of Columbia Council, and six persons elected by the shareholders of the bank. The composition of the board appropriately provides representation for both the public interest and the private stockholders whose investments will constitute the initial impetus for the bank and the continuing stimulus to the bank's expansion. Section 4 also provides that government officials shall receive no compensation for their service as directors, but is silent with respect to the compensation to be paid the non-government directors of the board.

Section 7(c) provides that net earnings and dividends of the bank shall be subject to applicable local, State, and Federal taxes. Since the bank will not have individual checking, savings, or other accounts, the bank would not be subject to the District's gross receipts tax imposed on commercial banks.

The District Government urges favorable consideration and early enactment of H.R. 7414. The District Government will cooperate with the proposed District of Columbia Development Bank in whatever way possible to insure its success as we firmly believe that enactment of this legislation will greatly enhance the economic growth and development of this city.

The enactment of H.R. 7414 will result in no additional costs to the District Government.



The Office of Management and Budget has advised that, from the standpoint of the Administration's program, there is no objection to the submission of this report to the Congress.

Sincerely yours,

WALTER E. WASHINGTON,  
*Mayor-Commissioner.*

### D.C. SUPPORT PROPOSED BANK

Mr. MURPHY. The District supports H.R. 7414. We view the proposed Development Bank as a mechanism which would compliment the financial system in the city and would make available a tool to get at certain development projects which would not be handled in normal financial situations.

We recognize to an extent this is experimental, but we believe that the Development Bank would be a positive influencing factor in the overall economical situation in the city where certain projects could be started by this means, whereas, otherwise they would not be able to get underway.

### ROLE OF BANK

Mr. STARK. Mr. Murphy, I would ask a couple of questions. First of all, could you give me an example of the kind of project that you envision being financed by the proposed Development Bank? This, of course, would not have available to it funds from other sources.

Mr. MURPHY. I think, Mr. Chairman, perhaps in certain areas of the city a certain types, for example, commercial development must be such a major that an ordinary financial institution would hesitate.

Mr. STARK. Why?

Mr. MURPHY. Probably just based on their expectations as to whether or not the loan would be a prudent loan under normal banking circumstances.

Mr. STARK. And the only reason for not making the loan would be the question of the payment of a loan and what would there be in additional capital and this projected real estate development that would make it more likely to repay.

Mr. MURPHY. That is a difficult question to answer absent a very concrete set of facts.

We recognize that this is experimental, Mr. Chairman, but there is a strong feeling that it would serve a very useful purpose and there would be those projects that would be assisted through this mechanism.

### BOARD OF DIRECTORS

Mr. STARK. Mr. Murphy, one other question: Don't you agree or would you agree that if this corporation came into being that the members of the board of directors and the employees should need the residents of the District of Columbia?

Mr. MURPHY. In one sense, I could see imposing such a condition. On the other hand, if the corporation was to attract money from outside the District, since the shareholders would have the right to elect the non-official or non-public members of the board, it would seem that I don't think such a residential restriction should be imposed.



## INVESTING

Mr. STARK. Can you think of any reason why a responsible corporate executive or board would invest money in this corporation when they would not invest it in a project?

Mr. MURPHY. I think the reason I would put forth would be that corporations today are becoming more and more aware that in addition to their operations as a corporation and profit-making activity, there is a social obligation to some.

Many corporations can contribute to one corporation and in effect perhaps not discharge that social obligation, but at least approach it in this way: All these corporations can contribute to something that anyone standing alone would not be able to do.

Mr. STARK. I agree. Don't you agree that it is a fact that this corporation as proposed could be organized without any government help under existing regulations except that it is asking for \$10 million and that in the absence of these fair-minded corporations to do anything over the past 10 years, to indicate that they have any social conscience that it might be a good idea for them to get together to get their money and give us an example of what they are doing before they ask the government to put in \$10 million?

Mr. MURPHY. Some demonstration of willingness?

Mr. STARK. Or ability to perform. I have no other questions.

Mr. Murphy.

Mr. HOGAN. Mr. Murphy, do you know of any Federal banking regulation that would prohibit the banks from giving some indication for financial institutions which would be savings and loan association or other organizations that are regulated by the Federal Banking or Financial Institution Regulatory agencies to prevent that kind of thing, prevent an indication of intention to invest?

Mr. MURPHY. I don't know of any. I don't profess to be that familiar with the banking regulations.

Mr. HOGAN. Looking ahead at the organization, I gather that the Mayor has an economic development committee which addresses this issue. How big do they anticipate this bank would become, let us say, within 5 years? Have they projected any kind of a size or funding that would be available to the Bank within the next 5 years?

Mr. MURPHY. I am not familiar with any such projections as of now. I can check.

Mr. STARK. I would be glad to make anything you wish to submit part of the record.

Mr. Murphy, do you have any further statements that I could entertain at this point, and if not, I would be happy to excuse you at this point.

Thank you very much for taking the time to be with us this morning.

The next witness is Joseph W. Barr, Chairman of the Board, American Security and Trust Company. Good morning, Mr. Barr. You have a prepared statement which you were kind enough to submit to us and I will be glad to have you summarize it and make it part of the record or have you read it if you prefer.



**STATEMENT OF JOSEPH W. BARR, CHAIRMAN OF THE BOARD,  
AMERICAN SECURITY AND TRUST COMPANY**

Mr. BARR. Thank you, Mr. Chairman. If I may, I would like to submit my statement for the record and summarize it.

Mr. STARKE. Without objection, it will be carried in the record at this point.

[The statement referred to follows:]

PREPARED STATEMENT OF JOSEPH W. BARR, CHAIRMAN OF THE BOARD, AMERICAN SECURITY AND TRUST COMPANY; AND CHAIRMAN, DEVELOPMENT SUBCOMMITTEE, MAYOR'S ECONOMIC DEVELOPMENT COMMITTEE

Mr. Chairman: On February 23, 1972, I submitted my last statement to the Committee on the District of Columbia of the United States Senate in support of the creation of a District Development Bank. In reviewing that statement I find that I can not improve upon the statement or the arguments. I thought this Bank was a good idea as long ago as 1969. My arguments have not changed . . . so I am herewith resubmitting my 1972 statement.

My name is Joseph W. Barr and I am Chairman of the American Security and Trust Company. I also serve as Chairman of the Development Bank Subcommittee of the Mayor's Economic Development Committee. I very much appreciate this opportunity to appear before you in support of H.R. 7414 providing for the establishment of a District of Columbia Development Bank.

**BACKGROUND**

My vision of a development bank for the District of Columbia goes back several years. If you will forgive a personal reference, when I had the honor of serving as Secretary of the Treasury, I was also the United States Governor in all of the international financial institutions of which the United States was a member. During my years as Under Secretary, I had primary responsibility for looking after United States interests in the international development banks to which our Country belongs, including the World Bank and its affiliates, the International Development Association and the International Finance Corporation (IFC). The IFC is of particular interest to us in our concern today with a development bank for the District of Columbia. The main function of the IFC is to "stimulate and encourage the flow of private capital (both foreign and domestic) into productive investments" in the less developed member countries. Together with private investors, it finances enterprises "which will contribute to development where sufficient private capital is not available on reasonable terms".

After observing the operations of this organization for a time, I found myself wondering (as I am sure others have) if such a successful mechanism had to be confined to the less developed countries. Why could we not apply the same concept and techniques in a developed country where there are pockets of underdevelopment and unexploited investment opportunities? I gave this question a good deal of thought and concluded that there are no good reasons why we should neglect to use these time-tested tools and techniques for our own domestic purposes.

On leaving the Federal Government and becoming a local banker, I was invited to be a member of the Mayor's Economic Development Committee. There I was delighted to find that this Committee had been encouraging the adoption of the concept of a development bank for the District of Columbia since late 1968. Since joining the Committee I have been pleased and privileged to lend my efforts to the implementation of this project.

After becoming a banker in Washington, my experience has confirmed my view that there is a tremendous need and scope for a development bank in the District of Columbia. Our major objectives in the District of Columbia are the provision of adequate employment opportunities for all our citizens and a tax base that grows at a rate which, in real terms, yields the revenue required to provide essential community services. I do not need to tell this distinguished Committee that we are having difficulty achieving these two objectives and that long-term trends are not encouraging.



## NEED FOR DEVELOPMENT BANK

Recent estimates indicate that unemployment in the District of Columbia is around 5 percent in contrast with substantially lower rates in the suburban Metropolitan Washington Area. Moreover, with movement of businesses, new investment, and therefore, jobs, out of the Central City, the District of Columbia tax base has been growing only slightly in monetary terms and probably has been declining in real terms. Thus, there is a dire need to stimulate new investment and encourage the flow of capital into the Central City. A development bank in the District of Columbia could be of great assistance in doing this. The private sector effort would be aided significantly by the creation of a disinterested, prestigious and responsible financial institution having sufficient resources and expertise to translate plans into profit-generating projects.

## ROLE OF BANK

The development bank would act as a catalyst in bringing together the various elements necessary to get a development project "off the ground"—the sponsors, promoters, or "developers", the economic financial and technical analysts, the bankers or other financial groups or agencies. In doing so, it would make possible the implementation of projects which would not have been otherwise identified as feasible investment opportunities. Such projects would normally be innovative in character, involve special risk situations or require unorthodox funding combinations.

## LACK OF DEVELOPMENT BANK

The question may arise: Why cannot established banks or other financial institutions do the same thing? The answer in part is that as commercial banks, we are "highly regulated" and operate within fairly rigid legal constraints. Moreover, as financial institutions we tend to specialize. We cannot do everything equally well so we tend to do what we can do best. Normally, we do not have in-house expertise to evaluate the feasibility of specialized development projects and we are not in a position to invest our time, effort and depositor's money to check out the feasibility of an unusual project (the kind of thing we normally would not touch anyway). Furthermore, after all the effort of investigation, the proposal may not prove out. In short, the financial community is fragmented and specialized. There are several different kinds of financial institutions, but there are no development banks.

A development bank is an institution designed to be a means of mobilizing resources and skills with the aim of channeling them into undertakings deemed likely to have a beneficial effect on economic development. Unlike an investment bank, a development bank tends to be the "prime mover" rather than simply a financial intermediary. A development bank would normally perform a variety of functions such as: identifying promising projects, appraising the economic, financial and technical feasibility of projects; bringing potential participants together; putting a "package" together; obtaining the necessary approvals; firming up the financing arrangements of participants; providing technical assistance to the sponsors; providing a portion of the loan and equity capital in the combination required and issuing guarantees where necessary.

## PROJECTS

So far as I know, there are no banks in the United States that are able to perform all these functions at the present time. The financial institutions which are most closely akin to a development, I suppose, are the Small Business Investment Corporations (SBIC) and, more recently, the Minority Enterprise Small Business Investment Corporation (MESBIC). But, while these institutions are empowered to provide equity as well as loan funds, they are created primarily to assist small individual businesses. A development bank, on the other hand, is established to promote the economic development of an area and provides an efficient mechanism for participation of private businesses in the process. Indeed, the D.C. Development Bank Bill before you provides that to be eligible for bank assistance, a project or activity must enhance the District's existing or future development plans embracing housing, commerce and industry. While eligibility criteria for SBIC assistance include ceilings on the size of the first



assisted, size is not a criterion of eligibility for Bank assistance. Indeed, very large-scale ventures having great impact on the local economy may receive Bank assistance. Without the approval of the Small Business Administration, a SBIC may not invest more than 20% of its combined paid-in capital and surplus in any single enterprise.

The Development Bank would not be so limited. SBIC's may not guarantee loans made by others unless such a guarantee is made in conjunction with their own long-term financing, and even so the guarantee liability together with its financing must come within the aforementioned 20% ceiling. The Bank may guarantee in whole or in part any debt obligation, so long as the action is consistent with the Bank's purposes. The test for the Bank is the extent to which the project promotes economic development.

Like SBIC's the District of Columbia Development Bank would be privately owned, but the Bank's profit objective is limited to a 6% return. By contrast, the return of SBIC's having \$45 million capital averaged 31.3% in F.Y. 1969. Thus, the control and ownership of SBIC's generally rests with venture capital institutions interested in maximizing profits. However, in order to insure consideration of the public interest, control of the District of Columbia Development Bank would be mixed public and private.

There are a number of potentially feasible projects which, if sponsored, "packaged" and implemented by the Development Bank, could make significant contributions to the economic development of Washington. Let me give some examples. We believe there is a great need for conveniently located shopping centers in the inner city which will provide a quality of service to residents comparable to that available in the suburbs. Similarly, a systematic approach to stimulating and developing tourist facilities would be helpful. The coming of the METRO will bring with it opportunities for commercial development around subway stops—opportunities which need to be carefully appraised both from the point of view of their short- and long-term effects.

In the Nation's capital, there are at any time a number of projects and programs designed to increase the efficiency and social responsibility with which government and government-related agencies carry on their work. For example, the President recently issued an Executive Order relating to the planning, acquisition and management of Federal space (E.O. 11512).

Among other things, the Administrator of the General Services Administration is called upon, in the selection of sites for Federal facilities, to give consideration "to the need for development and redevelopment of areas and the development of new communities". This Executive Order, together with the announced policy of the General Services Administrator "to keep Government operations located in the Washington, D.C. area housed in facilities located within the District, particularly where the low income employees of the occupying agency or agencies live primarily within the District" would appear to imply that there could be a very special role to be played by an institution such as the proposed Development Bank. The bank would be in an excellent position to bring together all of the participants who are capable and willing to make their resources available to achieve a specified development goal.

I have outlined but a few of the possible activities of a District of Columbia Development Bank but there are obviously many additional opportunities. I do not depict the Development Bank as a panacea for all of the economic development problems of the District of Columbia, but I do see it as a major step in the right direction. I have the strong feeling that we are about to start something and I am immensely pleased to give my warm support to this bold new initiative.

Thank you.

Mr. BARR. I have been informed that my colleague, Mr. Danzansky, can not be here today and he would like his statement submitted for the record also.

Mr. STARK. His statement will be entered in the record following your testimony.

#### BACKGROUND

Mr. BARR. If I may be permitted, the bank goes back a bit into my history. I served as the statement indicates as Undersecretary and



Secretary of the Treasury under President Johnson and in that capacity, I also served as Governor to the United States for the World Bank.

With these international institutions, I developed a pattern in many developing areas of the world—South America, Asia and the Middle East—in creating a development bank, a bank which in essence was organized to facilitate private and government capital to attack the problems they encountered in these developing nations.

I was quite intrigued by the success of these banks in Bolivia, Turkey, Peru and Korea. They had stood the test of time.

I asked myself why the same concept that had been successful in international development could not be applied with equal success to certain pockets of underdevelopment in the United States of America.

When I left the government and began a private banking career, I was gratified to learn that other people were thinking along the same lines.

They appointed me chairman back in 1969 to a Subcommittee to examine the proposal. I worked it out with the cooperation of the Treasury and Bureau of the Budget and we got it in the President's Budget Message in 1971 and it has been in every Message since.

#### PROJECTS

If I may speak to some of the questions you were addressing to the previous witnesses, I believe that this Bank is not designed to take on uneconomic projects. In other words, a project that would not meet the test of a private banking institution would not fit this program.

We are designed to take on projects by themselves, complexity of involvement in different facets of the community and just can't be worked out by the private sector.

Mr. STARK. Are you saying that you would envision in what I think you and I might agree are banker's terminology that the projects that you anticipate this corporation undertaking would, except for their size or complexity be bankable projects?

Mr. BARR. Yes, sir. The only experience we have here is in the international area. This has been the experience with the development banks I have mentioned.

When they enter a project, they expect to be retained perhaps not as quickly as some of the commercial projects, but they expect to be paid at the commercial rates. That is the assumption.

Two projects which I have been associated with would be the Eisenhower site—we couldn't seem to get that concept sold to the Congress and it was extremely difficult to get it going in the private sector.

This would have been a project which would have fit, I think the development bank concept.

Another one which I have been involved in has been the attempt to develop Fort Lincoln as a new community.

This is a concept that is too large for any one institution. It is complex and involved in a lot of legal complexities.



## ROLE OF DEVELOPMENT BANK

These are two concepts I think would fit in the development bank concept. Basically, that is the approach, Mr. Chairman. It is this development bank, if it operates the way they do internationally—bring it capital, expertise—it will provide a consortia approach for problems that are too difficult for us on a single basis.

Mr. STARK. I commend your idea and, as a former banker, myself, and a member of the Banking Committee, I have had the opportunity to watch the various institutions which you are associated with in world banking and you are quite right.

They do perform an excellent service. One thing that bothers me, first of all, the basic question is why us, the District Committee or Congress? The answer in the Bill as near as I can tell, is \$10 million in the Treasury but for that there is absolutely no need to have any federal law.

This kind of development bank could be developed right out of the box without federal help. Secondly, if these programs are bankable—and as for the Eisenhower Center, I have never been convinced, having one similar type convention center in my District which is going broke.

I question that, but that is the sort of thing reasonable people can disagree on. It seems to me that if these corporations and banks were really willing to stand up and pledge this kind of money, there are many cities in the country where consortiums of savings and loan and banks have put together a variety of feed cattle of some substantial size.

In the city of San Francisco, about a billion dollars has been pledged, which is somewhat larger than anticipated by this bill and, to my knowledge, the District of Columbia's financial institutions have nothing to speak of.

## FINANCING

While I can't understand, unless we get down to \$10 million that will come through the Treasury to help business people in the District of Columbia, and that is what I suspect it is.

If that is the case, I think I would like to get it into the line of priorities that I think are important to the District. For example, it seems that the deteriorating area in your testimony, you talk about General Services Administration. I think they have been very cavalierly located the Federal Bank Building across from the White House.

The Federal Home Loan Bank Board could have located in the redevelopment area creating a 2-4-1 use of our federal dollar. I have very little confidence in the present Administration's willingness to do anything for the residents of the District.

The private sector, it seems, has shown their willingness, I am afraid, and I would like your comment, that this is merely a request that is going around the Banking and Currency Committee to get \$10 million from the Treasury to be used by the large commercial establishments in the District of Columbia for a rather vague set-up purposes, large investments being one, and if they are bankable, I think



you and I are familiar enough with what is the corresponding banking which all the large banks have with their large cousins to finance these projects.

We will call a spade a spade and say this is a request for \$10 million. If we can agree on that, I think we might agree on the guidelines of the priorities helping the District, but in the absence of evidence of the kind of projects which I think the people voting on this would want, it looks to me like a pure handout to the business community, and I am sure that there are many of us in Congress who would like that same kind of handout for our own community.

I am sure you would like to comment on that, and I am sure the Counsel for the Minority has questions that he would like to ask in establishing a record here, so I will let you proceed to answer that lengthy statement however you see fit and the distinguished Counsel for the Minority will have some questions.

#### FEDERAL GOVERNMENT INVOLVEMENT

Mr. BARR. The Chairman addressed himself to the question of whether or not this is a \$10 million raid on the Treasury. The Bill, as you know, is so constituted that the Treasury—really, there is no appropriation. The only authority and legislation is up to \$10 million.

It doesn't become operative until the District or community has paid \$10 million of its own funds. This is the same sort of put that Fanny Mae has and the same sort of put that the Federal Home Loan Bank has. It is not an appropriation of funds.

Secondly, the reason we could—and the Chairman addressed himself to the question of why not do it on our own. I believe that the involvement of the federal government in a financial institution with the business community is imperative. That involvement, in my opinion, is as important as the put to the Treasury because the federal government is the largest employer here.

Unless you have the closest sort of cooperation between a private business community and the people comprising the federal government, we would have problems. That is my answer to those two questions.

Mr. HOGAN. Mr. Barr, you liken the Bank to the SPIC in some regards and unlike them in others. It seems to me, you indicate the Bank would have the guarantee authority which obviously the SPIC does not have, but what value would that be if it didn't have the capital to back that guarantee up?

It can, in effect, have the leverage that a federal institution could have, could it not?

Mr. BARR. That is one reason for the put. The \$10 million, the authority to sell your obligations to the Treasury, gives the Bank this kind of leverage.

#### EQUITY CAPITAL

I say we could raise \$5 million in equity capital if we could sell that much stock to the banks, savings and loans and newspapers and employers in the private community in the District of Columbia.



Then you could go into the market and sell your own bonds with the capital, the equity capital as a base, and also the provision that you could put to the Treasury up to \$10 million of the obligation or twice the \$5 million capital.

That would provide the financial backing for any guarantee which you would offer. You would start off then. The first thing you have is the equity capital. Secondly, the authority to sell bonds to the Treasury and thirdly, with that authority, you could sell your bonds in the private market. That would be the three sources of capital.

Mr. HOGAN. And they would start off in the order in which you put them? The first of August, you would have to get the capital. Once you got the capital, then you would go to the Treasury?

Mr. BARR. Hopefully, you would not have to go to the Treasury. The Treasury would be in reserve just as the other financial institutions, but you could go into the market and the market would know if this bank got in trouble there is authority to go back to the Treasury for \$10 million.

#### TREASURY LOAN

Mr. HOGAN. What kind of trouble would it be that you would have to go to the Treasury for?

Mr. BARR. They would make that loans.

Mr. HOGAN. And what is the likelihood of the Treasury recovering its loans?

Mr. BARR. The Treasury's record has been excellent up to today on all resources going back to RFC and loan banks. Hopefully, this bank would not be so imprudent as to make a bad loan. That is reasonable.

For instance, the Federal National Mortgage Association has a put of \$2 billion on the Treasury. It is there to reassure the private investors that the directors of the Federal Mortgage Association gets into difficulty the Treasury is there to back up the bad judgment.

The same is true of the Federal Home Loan Bank Board. All these instances, the backup of the United States was there to reassure shareholders and purchasers of the bonds of the organization that in case the organization got into trouble, the United States was there to back them up.

Mr. HOGAN. Comparing it with the small business investment companies, there is a history with the small business investment companies of something between \$50 hundred million and 100 million in bad loans during a period of about six years, about 1965 through about 1968.

If the government were in a position of guaranteed loans and they had the history of the SPIC, wouldn't that in effect fall on the general taxpayer, if they could not recover those loans?

Mr. BARR. The SPIC has been a risky financial institution. It has been an equity capital of common stock purchasers. It is usually a minor position, a very minor position that they loan property.

Mr. HOGAN. I understand that, but by and large, that was supposed to be the position of the SPIC.

Mr. BARR. I believe they were designed to provide equity capital, seed money to get companies started. That is the real purpose of the small business investment companies.



It is difficult for small business to get the equity capital they need. The SPIC was designed to get equity capital into the small business institutions.

It is a risky operation. It always has been. It would be, in my opinion, a minor part of any development bank activity.

#### CAPITAL SOURCES

Mr. HOGAN. Turning to the raising of the capital. One of the recommendations made in the testimony here is that the public utilities would be a prime source for obtaining investment capital.

In reading the financial pages, the public utilities are in extremely bad shape. I would wonder whether the public utilities would be the best source for selling stock since they have their own problems these days.

Mr. BARR. I think the problems for raising capital is very grave. When this legislation was introduced, there was language written specifically to make it possible for public utilities to acquire stock in this bank.

Today I would think the electric and gas utilities are hard-pressed to meet their own needs. The telephone company, I am not so certain.

Mr. HOGAN. I don't know about the newspapers and television.

Mr. BARR. They are very profitable.

Mr. HOGAN. Maybe they will come forth.

Mr. BARR. I think your main source of capital will have to be from banks, savings and loans and then from other large employers.

Printing, I believe, is the largest industry in this area. It is the publication and newspaper groups. Next, there is retailing, wholesaling and insurance.

Mr. HOGAN. But most of the printing that is done here by the newspapers is done in the suburbs, is it not?

Mr. BARR. It used to be done in the District I am not certain. I believe you are correct.

Mr. HOGAN. My understanding is that of all the large printing companies in the District of Columbia, I think there is only one of any size that is left in the District of Columbia, and I am not sure whether they are still here.

There is a move by one of them within the last couple of years. Is there any banking and national banking regulation that would prevent the banks from indicating that their commitment would be towards the project?

Mr. BARR. None of which I am aware. Specifically, written into the Bill itself that this would be a legal investment. S & L is a public utility.

#### LEGISLATION SPONSORSHIP

The legislation was drafted carefully by the Treasury of the Bureau of the Budget. All these technical features were written in this so that not withstanding any other laws or regulations, this Bill has been so drafted that all forms of enterprise could invest in it.

Mr. HOGAN. What I am questioning, is there any federal national bank regulation which prevents the bank from giving some indication



that prior formation of this bank that given some commitment to purchase—

Mr. BARR. None that I am aware of.

Mr. HOGAN. I asked the Subcommittee Counsel this morning whether we have received any correspondence from the D.C. Banking Association. You don't know whether there is any commitment?

Mr. BARR. No, I do not. I am going to be like the Chairman, I intend to retire from the banking profession at the end of this month.

Mr. HOGAN. He is a very successful retiree from all accounts. I might add that I had some experience in the Chairman's area with SPIC throwing them into receivership.

Mr. BARR. I would hope that this bank would have a better experience than the SPIC.

Mr. HOGAN. As far as timing of this particular proposal here, is this a particularly good time? Do you think the financial community and financial institutions find themselves in a good atmosphere with this proposal at this time?

Mr. BARR. I would have to say that I would think you would have to give us a year, a year and a half to raise the capital.

The condition in the money market now is so tight that it would be extremely difficult to raise \$2 million or \$3 million worth of capital.

With short term money going at 11 percent, I would be less than sanguine about raising these funds. I think you have to ride over the tide and let the money get down to normal and traditional terms before anybody else could sell that much equity capital.

Mr. HOGAN. How many levels are there?

Mr. BARR. It used to be 5 or 6%. I am not sure where they are now. It is difficult to say, but I do know that this current feeling of 10, 11 or 12% would be extremely difficult to raise.

Mr. STARK. It has occurred to me that you could make this kind of comparison in Mr. Danzansky's statement and yours in saying that a bank or food corporation might invest large amounts of money and could justify it to their shareholders or they could not justify it in a direct investment. You could make allocations that if the return of the bank is limited to 6% and any of these corporations could get 11 or 12 in a short term market today, they are in effect giving away 6% of their shareholders' money or if you are talking about the banking community coming up with \$5 million or \$6 million you might make their contributions to the United Crusade Fund and say has the group put that number into the corporate fund?

I think those would be incorrect if you would agree with me that the 6% figure in this Bill presupposes a time when the prime rate was also somewhere in that neighborhood and did not anticipate the divergence in the market.

Mr. BARR. This 6% figure was arrived at—that is the figure that the Federal Reserve Bank pays on its stock.

#### COMMUNITY COMMITMENTS

Mr. STARK. Counsel and I have touched on an issue here this morning that there is nothing illegal. Does there exist now any written



pledges and if there are not any written pledges from business or banks, would there be any reason that that could not be a condition or that that might not help your case to go out and get written pledges from those businesses who would be inclined under whatever conditions you might anticipate, would that not be possible?

Mr. BARR. I am quite certain. When the bill was drafted, you will notice that the Treasury's responsibilities to this legislation do not arise until \$2 million in equity capital has been raised from business.

Mr. HOGAN. There isn't one bank, is there, in the District of Columbia, that has the capital of \$2 million? The smallest bank has capital of over \$2 million.

Mr. BARR. Oh, yes.

Mr. HOGAN. A \$2 million bank would not be able to do a great deal, would it?

Mr. BARR. The purpose of this package is not to advance funds. It is a package fund. The typical development bank expertise——

Mr. HOGAN. The problem I have is that Mr. Conte was here and he works with the MESBIC and he also works with Model Cities Economic Development Corporation and Land Development Corporation and by and large they have investments running about seven figures taken in their totality.

He indicates that by and large the cost of operating what the Treasury Counsel indicated would have to be done, which would be a small staff with considerable expertise going out and obtaining funding from or obtaining information from individuals, to them for loans either referred by banks or on their own or going out and putting together some kind of a package that they were spending currently about \$290,000 in their own staff plus \$30,000 in consulting fees.

If you have that kind of overhead with something over \$1 million, I assume you would have a certain amount more for a \$2 million, \$3 million or \$5 million project.

With the MESBIC concept and some of the small business concept, you would have some of this consulting. You would also have this funding for putting things together through the Small Business Administration and there appropriated funds. However, if I understand the concept here, all of this funding packaging and expertise would have to come from the operating funds of the bank itself which lays a considerable overhead on the operation of the bank immediately.

You talk about 6% return on the money. That is a ceiling and if I understand you correctly, there is no floor. The floor is bankruptcy, if it were totally unsuccessful, but I think the concept is by and large good and the committee endorsed the concept 3 years ago.

I don't know whether they are willing to endorse it at this time with the financial climate considerably different from 3 years ago——

Mr. BARR. It would be speculation if I said it would change.

Mr. HOGAN. But I think you would admit that there is going to be a large overhead.

Mr. BARR. No question. The very shortage of money is going to intensify the need for this bank. I think that you are going to find that the problems of developing areas are going to intensify as the pressure and capital increase.



In times such as this, General Motors were paying their money at 11%. Jersey will get their money at 11%. What are the developing parts of the District of Columbia that are disadvantaged compared to the suburban areas?

The disadvantaged will increase the stiffer the money rates become. I agree with you.

It is going to be maybe impossible to sell this equity capital. I am saying, however, that I think it is much more important if we could get such an organization going and it would be when there is plenty of cattle and money would tend to flow beyond the marginal loans.

I think the World Bank faces a terrible problem. I can't miss this opportunity to lobby the distinguished Chairman for replenishing the funds of the International Development Association.

There is going to be starvation in the world. There is going to be starvation unless we can move some of these resources. There are going to be problems in the District of Columbia. The District isn't going to fail, but in times of tight money, the disadvantaged areas of the economy are the ones that suffer most.

Mr. HOGAN. Then this is the minimum, but the problem is the testimony yesterday varied considerably and people perceive this differently. Some individuals saw the Bank as helping with the redevelopment of the 14th Street Corridor and Seventh Street Corridor and that is a lot of money. One wonders how much the Bank can help.

Mr. STARK. I might point out a question, Mr. Barr, this precedes whatever money—Treasury or private money.

#### REDEVELOPMENT IN THE DISTRICT

Two illustrations come to mind that we discussed in the District of Columbia form. One is the Southwest Redevelopment area where, heaven knows, a lot of money has been spent and certainly an ambitious project created and yet with a beautiful mall, I would assume somewhat similar to what is envisioned in the testimony of the past two days.

The people in Southwest are unable to get tenants and certainly we can witness what was put into that development in the form of land. There is no question.

In another case, talking about the redevelopment, there is a case in point involving Federal homeowners who have no problem raising money and were, in effect, offered free land in the redevelopment area that met every criteria that they put up except prestige.

Yet, when we had a public institution—and I believe it is your testimony that you refer to this Executive order which the Federal Home Bank Board is going to a great extent to get out from under. There is something else that I don't see in the testimony of the bill—a kind of catalyst. My own feeling is that it is more people with money in their pockets as a result of those who cannot get jobs. That is outside the scope of this. I think, Mr. Barr, you are right. I would go a step further. I would say the concept of the Marshall Plan in the cities has been brought forth.

Yours is more moderate and less costly in approach. I think that aid is necessary to the extent that the District could become a laboratory



and could put aside my parochial views and say that we would be second in line but I do find something missing.

I am sensing that from the Minority side, that I think there is a kind of uniform feeling that development is necessary and jobs are necessary, housing is necessary and that the private sector has the expertise, yet whether it is just because of the scarcity of money today or whether it is the inability to appoint those projects. If, in fact, that would create hundreds of jobs and attract other business, I think that we could get that money direct and the banks could indeed finance that kind of a project based on the cities being willing to sign a lease. I really think that the private sector has to contact and show Congress that they can do it even if they start in a small way.

I think the government sector has to show their commitment to the District in terms of our Federal buildings. I think it is more lip service than your idea is and it is admirable. It seems lacking in specifics and I would welcome further work on it and I would suggest funding to find out how this could be studied in more detail and come up with a plan.

I would further suggest that we might match funds with the interested institutions in the District and the federal funds to do a more detailed study.

I think there is no question that this type of program could be a forerunner for things to be used in many of the urban centers. While I am not hearing ground swell support, and I don't think there would be, I do think it should not drop any efforts and I would be willing to talk with my Chairman to see if we could not pursue it along that line.

I would like to acknowledge the presence of my good colleague, Mr. Gude, who, I am sure, would like to participate in this. If we could recess and give him a chance to catch up. We will go off the record.

[Discussion off the record.]

Mr. BARR. Mr. Chairman, as you say, this is an amorphous project. It is hard to pin it down. When I was advancing it, the idea I had is that this community, the District of Columbia, is so short on institutions.

Our institution has been the federal government and the commissioners. Now we are moving into a new type of government. It is going to be an experience for a lot of citizens in this District as they struggle towards the political life that you and I who have not lived in the District of Columbia have taken for granted. It is going to be something completely new. They are poorly prepared in the way of institutions.

One of the reasons this thing stuck together the way it did was that there would be a place where responsible members of the federal government and responsible members of the financial and business community could meet not for frivolous discussions or exploratory discussions, but meet and act on specific economic problems in the District of Columbia.

That was one of the crucial things we had in mind. It is hard to pin it down. I can only agree that the concept is vague and the only place I can be specific is in pointing to you the experience of countries I have mentioned—Turkey, Peru, Bolivia and Korea where this has worked



and to some of the more recent experiences of the housing authorities of the State of New York.

Mr. STARK. Do you have any comments, Mr. Gude?

Mr. GUDE. Not at the moment, except that it would seem to me to approach the other members of Congress, we would have to indicate more than just a paper partnership between government and the private sector to launch such an endeavor.

What credentials do we have besides paper?

#### TREASURY GUARANTEE

Mr. BARR. First of all, we are not asking for an appropriation. The Bill specifies, and whether that is necessary or not, I am not certain. The Treasury would provide up to \$10 million as a backup guarantee for the bonds that would be sold to this bank.

Hopefully, the guarantee would never be exercised. The bonds would be adequate. That is number one.

We are not asking the Congress for an appropriation. We are asking for a partnership. In other words, the business community puts up \$5 million.

The Treasury would guarantee up to \$10 million. That is basically the partnership we are looking for. When you get into the projects, it gets hard, but it would work on the rebuilding of Seventh Street and 14th Street.

For the Lincoln—and I mentioned the Eisenhower Center—it will work in projects that are too large and diverse for the private community.

Mr. HOGAN. It isn't the Home Loan Bank Board? I can only point out that it is interesting to note that the International Monetary Fund and the World Bank are located in the furthest reaches of Northwest Washington, and substantially financed by U.S. funds. They are not located in the development areas of the city and they are up in the financial section of the city by and large. I think that the problem may be right now.

Again, we are going to the overall thrust of establishing a bank at this time and it comes to a period where the local banking community made a substantial contribution to study and by and large I think the Minority thought it was.

They contributed to a study that gave a pretty good underpinning for the establishment for the Eisenhower Center. I imagine the banking community has suffered a loss and will suffer a loss.

Mr. BARR. \$606,000.

#### NEED FOR STUDY

Mr. HOGAN. And that will be the problem. The Chairman was suggesting that there is a need for this kind of a study and I think, as I said, that helped the Minority members of this Committee to examine the Eisenhower Center proposal and it gave a good foundation for it.

I do think that kind of a study has not been done here. The problem is, and I know you say there is no appropriation and by and large there isn't, but there will be members on the Floor who will read one sentence in the Bill and it says authorized to be appropriated for the



use of the Secretary of the Treasury not to exceed \$10 million for the purpose of obligations issued to him pursuant to the submission.

Such appropriations may remain available without fiscal year limitations. On the Floor, they will point out that there is a dispute going on over the debt limitation and that the Congress doesn't want to increase the debt limitation.

This would contribute to increasing the debt limitation to \$10 million. These are the things added to the escalating cost of the Metro and the input of federal dollars into the District of Columbia which will have considerable controversy on the Floor when this bill gets there.

If you can tell the Minority members how to meet these arguments, I will pass them on.

Mr. BARR. I sold it to them on the concept that this was a sort of minor experiment in an approach in meeting financial problems of the cities. Secretary Schultz is a hard man and he is not accustomed to throwing his money away. But that is the way I told it to him. This is a good place to try a concept that seemed to merit it.

Mr. HOGAN. This is 1974. This is not 1971. There are literally hundreds of arguments that you can raise now that you couldn't raise in 1971.

The financial climate is considerably different. The arguments that will be raised on the Floor such as the testimony, quite frankly, of the Secretary of the Treasury, saying that banks should stand more on their own and they should be more self-reliant and looking less to the federal government to handle their problems. These are all things that would be difficult for the Minority members in going out on the Floor.

Mr. STARK. Mr. Barr, Mr. Schultz is probably one of the finest economic minds of the 19th century and he might find some interest in helping the city, but let me suggest one thing: if it appears to you as an observer of the legislative scene that this Bill may not get anywhere prior to the summer recess, that the Administration would consider the prospect of a study.

There are some programs in other areas of the country. There are consortiums of savings and loans and some cities have agreed to commit a loan funds to an individual group where each savings and loans contributes an executive to find a way to make loans that might not otherwise be made.

I think there are a lot of examples. I think that the possibility of suggesting that we experiment in the District of Columbia and getting prior commitments from businesses and financial institutions within the District and coming back would have at least a broader appeal than what appears to stand out so glaringly as a \$10 million appropriation.

I would be happy to see that proposal carried here because I think it is indeed something we should not drop. I think if you are willing to spend more time with it, I for one would appreciate not seeing it dropped.

Mr. BARR. As a taxpayer and resident of the District of Columbia, may I say we have been studied to death. There are studies and studies and studies and nothing happens.



It is an extraordinary community. I have never seen a community in my life where it is so hard to move anything. It would move so fast in Oakland or Chicago but to move anything in the District of Columbia is extremely difficult.

I would say certainly I would support your concept not with much enthusiasm, but it ought to be voted up or down. It is not that crucial one way or the other. It is an approach. When I came in and left the government and I came into the private community, one had an obligation to bring knowledge or experience to try to improve the lot of the people in this District.

There are a lot of people who are disadvantaged. This is the best I could do. It is the best the United States could do through the Treasury and the Bureau of the Budget and HEW.

I think is up to you gentlemen if it is worth a gamble and I don't believe it will indicate much. You have to look at it as a gamble and if it is worth it. I understand your problem.

I spent 7 years in the United States Treasury. Don't try to correct finances through the debt limit.

Mr. STARK. I appreciate your being here with us.

Mr. BARR. Thank you.

[The prepared statement of Mr. Danzansky, submitted for the record, follows:]

#### STATEMENT OF MR. JOSEPH B. DANZANSKY

My name is Joseph B. Danzansky, I am a past President and now a member of the Board Directors of the Metropolitan Board of Trade, the President of Giant Foods, Inc. and Chairman of the Mayor's Economic Development Committee and of the Metropolitan Washington Business Resource Center. I want to thank you for this opportunity to express support for the District of Columbia Development Bank.

#### BACKGROUND

Let me start by giving you some background information. The idea of a development bank for the District of Columbia dates back to the fall of 1968, when the District of Columbia's Overall Economic Development Program was being prepared by the Mayor's Economic Development Committee (which we refer to as "MEDCO") under an Economic Development Administration grant. The idea attracted a great deal of enthusiasm, even in its early stages, and a proposal to create a District of Columbia Development Bank became one of the key recommendations of the Overall Economic Development Program.

In January 1970, Mayor Washington appointed the Honorable Joseph Barr, formerly the Secretary of the Treasury, to MEDCO. MEDCO promptly made Mr. Barr the Chairman of its Development Bank Subcommittee. From this time, development of the proposal proceeded rapidly, with assistance from the Bureau of the Budget, the Treasury Department, and the Department of Commerce. Meanwhile, informal soundings of the local financial and business community led to assurances of financial support for the Bank. In February 1970, Mayor Washington assigned the Bank's creation to MEDCO as a top priority project. In his Budget Message of January 1971 and again in April in his message on the District of Columbia, President Nixon stated his intention to present a bill to Congress providing for the creation of a Development Bank for the District of Columbia. In June, then Secretary of Treasury Connally, on behalf of the Administration, forwarded to Congress a bill H.R. 11501, essentially the same as H.R. 7414 which you are now considering.

#### NEED FOR DEVELOPMENT BANK

The District of Columbia Development Bank is not seen by any of its supporters as a panacea for the gamut of ills besetting the residents of this city. The purpose



of the Bank is to stimulate economic development, and by doing so, to create jobs and expand the tax base of the city.

Like most sizable urban areas, the Nation's Capital has large pockets of intense poverty with the attendant miseries of poor housing, inferior education, unemployment and crime. Whole city blocks of gutted homes and shops still stand, wholly unreconstructed reminders of the "civil disorders" of 1968. Washington school children, on the average, rank among the nation's poorest readers. Many of their parents must journey to the far corners of the city and often into suburbs for salaries that rate among the lowest in any large American city.

Unlike other urban areas, the "Federal City" serves a singular purpose—as the seat of American government. As such, the city's problems are vastly compounded. Tax-exempt agencies, foreign governments, associations and other institutions own or occupy over half of the city's 40,000 acres. There is little real industry to form a solid tax base. Yet the city must rely on its own tax revenues to fund about 80 percent of its general operating budget. A host of public and private efforts to deal with the city's problems have been undertaken since the nation officially declared a "war on poverty" in 1964. But for want of funds, and other causes, none has succeeded to any significant degree.

The reasons for the private sector's limited participation in local development efforts are numerous and complex. In many instances, businesses are unable to pull together the various elements required for project implementation—capital, loans, grants, public investment, technical expertise, financial expertise, and so forth.

#### BANK'S ROLE

Frequently this blocks projects that clearly are both economically viable and beneficial to the public. In other cases, projects are feasible only if jointly financed or if funding is fully committed in advance. Plans for development projects may never be implemented simply for lack of coordination among potential investors and available expertise.

The Bank's function, therefore, would be to assume the lead role in putting the "package" together, obtaining the necessary approvals, capital, loans, grants, infrastructure, and public investment. Then the Bank would combine them with available private financing, and cement the entire operation with Bank equity and loan funds as necessary. The Bank also could provide reimbursable technical project supervision and could negotiate occupancy leases.

The Bank's funds would be used so as to optimize their leverages and to induce the maximum private investment and financing in return for the minimum amount of Bank financing. In this way, the Bank would maximize its positive impact on the economic development of the region.

In addition to assisting in the financing of development projects, the Bank would provide whatever technical assistance and manpower training that is required to ensure the project's economic viability. Assistance of this nature would include packaging, feasibility studies, and development of project proposals.

#### PROJECT

Priority would be given to urgently needed, economically viable and potentially profitable undertakings that would increase employment in the city, broaden its tax base, and generally improve the condition and quality of life in the Nation's Capital. The primary attention of the Bank would be directed toward commercial construction, including shopping centers, small business establishments, commercial development near subway stops, and construction of office buildings and apartments. The Bank also would aim at developing industrial parks for labor-intensive, light industry, such as the manufacture or assembly of electronic components and equipment.

In return for its efforts and investment, the Bank would receive interest on its loans and dividends on its equity investments. Equity investments could be sold for capital gains or held to generate continuing income.

To mobilize the maximum amount of third party money possible, the Bank would project itself as the local lender of last resort, willing to provide the missing money and technical assistance needed to implement a project that, without the Bank, probably would not become a viable reality.



## FINANCING

The Bank would not be in competition with private bankers, developers, businessmen, government agencies or community groups. Rather, it would be a logical and necessary complement to their efforts to obtain the necessary financing and approval for projects of difficult implementation.

Speaking as a member of the business community, I can tell you that interest runs high in finding some way to contribute to the development of our city. Most business executives have become aware of the link between the future of their corporations and the city's growth and prosperity. Businesses have not, however, contributed as they might for want of an appropriate mechanism.

Businesses are, of course, limited by corporate policy as to the manner in which corporate funds can be allocated. Management is reluctant to commit funds at a total sacrifice of profits and would find it difficult to justify to stockholders any allocation not designed to increase corporate revenues. Management, in investing corporate funds, must remain responsive to shareholders, whose concern is with larger dividends. There is, then, no generally satisfactory vehicle by which business can invest in the city's future.

From the management viewpoint, investment in a limited-profit rather than non-profit enterprise is a different matter. Businesses could look to the possibility of entering joint ventures with a limited-profit financial institution in order to promote the economic development of the surrounding community. Investment of corporate funds in such an institution would constitute an allocation of funds to which even the most hard-headed of shareholders would find it difficult to object. Thus it is that we can expect the Development Bank to enjoy full participation on the part of the financial and business community.

In summary, the District of Columbia Development Bank would provide a practical and urgently needed vehicle for mobilizing available public and private resources to improve economic and social conditions in the Nation's Capital.

The concept for this approach to the problems of economic development in the District has been developed over the past several years by interested government agencies and private groups. It is their firm belief that the creation of the Development Bank would enable the private sector, with encouragement and limited assistance from Congress, to take some major steps forward in the economic development of the District of Columbia.

Thank you very much.

**Mr. STARK.** Mr. Tydings, representing the Economic Development Bureau, Metropolitan Washington Board of Trade.

Do you have a prepared statement?

**Mr. TYDINGS.** I have a prepared statement, Mr. Chairman. I would like to read the statement. I have an additional item I would like to submit based on some of the questions that Mr. Hogan had regarding the SPIC and if there are any questions to be addressed to those.

#### STATEMENT OF JOHN R. TYDINGS, MANAGER, ECONOMIC DEVELOPMENT BUREAU, METROPOLITAN WASHINGTON BOARD OF TRADE

**Mr. TYDINGS.** Good morning. My name is John R. Tydings, and I am manager of the Economic Development Bureau of the Metropolitan Washington Board of Trade.

The Subcommittee should know that the Board of Trade is an area-wide organization similar to a chamber of commerce. Our business and professional membership is comprised of over 4,000 individuals representing major organizations throughout the Washington region. We appreciate the opportunity to come before this Subcommittee and offer some comments regarding H.R. 7414.



## NEED FOR DEVELOPMENT BANK

Since 1968, when the first draft proposal of a Development Bank was prepared, the Board of Trade has viewed it as an important vehicle to assist in the overall economic development program for this city. We come before the Subcommittee today to continue that support and to say—more than ever—the city of Washington needs the D.C. Development Bank.

## ROLE OF BANK

It is important to understand that this bank represents an approach by the total business community to commit funds, through the purchase of bank stock, for financial assistance to high risk, innovative or very large development oriented projects for the city.

By encouraging a wide range of business and professional commitment to the bank, the risk usually associated with new, innovative or large scale projects can be shared. No longer will such endeavors need to seek public funds or be turned away from a local institution because of the risk involved.

It is important for the Subcommittee to understand that this bank is just that—it is a type of bank.

It is not a developer, but it is development oriented.

It is not a planner, but it follows the city's established goals.

It is not a private entrepreneur but seeks to foster private entrepreneurship.

It is not a method to utilize government funds, but to mobilize local private resources.

These differences are significant from a Community Development Corporation which is directly involved with brick and mortar development. The Development Corporation should not be totally in the business of making equity or working capital loans, in order not to tie up its own capital. In a true context, a community development corporation performs the developer function where private initiative is absent or where private initiative needs stimulation.

## AMENDMENT PROPOSED

Mr. Chairman, we do have one suggestion for modification of the bill, H.R. 7414. The recently approved home rule bill—Public Law 93-198—conveys new authority to the Mayor and City Council in the area of finance. So as to avoid confusion, since there is no similar bank in existence, we suggest language be included to indicate that local regulations passed by the council apply to the Development Bank as to other financial institutions.

I would like to make one suggestion regarding the particular bill. Since the Home Rule Bill does convey new authority to the Mayor and the City Council in the area of financial responsibilities, in order to avoid any confusion that may or may not occur, there may be a necessity to add some language in this bill which would indicate in the area



of local regulation which the City Council now has that would also apply to the development banks that are housed in the city of Washington.

We appreciate the opportunity to come before you this morning; and encourage your approval of the D.C. Development Bank bill.

Mr. HOGAN. Mr. Barr takes the position that this is mainly a development bank and not an equity bank and the testimony of Mr. Barr was that he perceived this as providing equity financing also.

I gather that your position is similar. It can be used for equity financing as well as for development.

Mr. TYDINGS. It can be.

#### Cost

Mr. HOGAN. Do you have any idea based on your studies with the Board of Trade what the overhead cost would be of putting together these development proposals?

Mr. TYDINGS. I do not, Mr. Hogan, I was interested in sitting in the back of the room and listening to your comments. Mr. Barr is in that business and he has a better feel than I do.

Mr. HOGAN. Thank you.

Mr. STARK. Thank you, Mr. Tydings. I would like to add for the record—and I don't know if it has been submitted or not—an analysis between the nature differences of a development bank and an SDIC. If we may submit this for the record.

[The material referred to was not received in time to be included in the record:]

#### FINANCING

Mr. GUDE. Looking at the type of projects and objectives in this development bank, do you think you got to the point where there is \$5 million raised by the private sector and this would be matched by \$10 million of the Federal guarantee, do you think this is an adequate or realistic amount to make this a working proposition?

Mr. TYDINGS. It certainly would not be adequate. It certainly, for openers, is better than zero, but the dimension of the job to be done certainly it is not totally adequate.

Mr. GUDE. Is this legislation aiming too low?

Mr. TYDINGS. If you look at what I understand the total figure that would be involved, you would have the ability to go to 15 times the capital and surplus a total of \$150 million for the bank.

If you are looking in terms of that magnitude, certainly you are putting a better perspective to the approaching problem.

Mr. GUDE. I wonder if the \$2 million were raised and the development bank started off, then there were additional funds forthcoming and you would end up with something that never got off the ground and would be in a sense worse than not starting at all.

Mr. TYDINGS. Certainly, from the standpoint of the function of the banks, there are a number of ways and I think Mr. Barr outlined a couple of them.

It certainly has the ability to utilize other financial institutions from the city from the standpoint of the guarantee or joint venture arrangement. There are other methods by which, in addition to just a



flat out authorization or grant of money or be it for whatever the needs are to get a project going.

Mr. GUDE. In the opinion of the Board of Trade, the amounts that were set forth in this legislation are adequate to get this started and make a going enterprise?

Mr. TYDINGS. In terms of getting started, the answer is yes.

Mr. STARK. You would be willing to poll a few members and submit to us for the record an indication of how much they would be willing to invest if the bank were started?

Mr. TYDINGS. That is an interesting challenge. I would take it before a board to get its intent and certainly convey its intent back to the Chairman.

Mr. STARK. It would be most helpful. Thank you very much.

[The information subsequently submitted follows:]

METROPOLITAN WASHINGTON BOARD OF TRADE,  
Washington, D.C., June 11, 1974.

Subject: District of Columbia Development Bank, H.R. 7414.

Hon. W. S. STUCKEY,

*Chairman, Subcommittee on Business, Commerce and Taxation Committee on the District of Columbia, House of Representatives, Washington, D.C.*

DEAR MR. STUCKEY: At the hearing of your Subcommittee on Business, Commerce and Taxation, May 15, concerning the above bill Congressman Stark requested that the Board of Trade survey its membership as to their level of interest in purchasing stock in the proposed D.C. Development Bank.

This request was transmitted to our Board of Directors. Since our membership covers a wide variety of business and professional firms on a regional basis, we felt that it would be more appropriate to discuss this with our key leaders, who comprise our Board of Directors.

The general consensus of the Board of Directors was that it was an inopportune time to purchase stock with a return on investment set at 6%. The tight money market, the continued drain on savings and loans, a fluctuating prime rate, plus continuing rate problems by area utilities, all are factors which make this decision somewhat obvious in view of the 6% return.

There continues to be agreement that the Development Bank as a mechanism can have a positive influence on the city's economic development. It was suggested that it may be appropriate to amend the legislation to allow the board of directors of the bank the opportunity to adjust the return so that it more nearly parallels market conditions.

We appreciate the opportunity to provide you these additional comments. I look forward to supplying you with further information, if necessary.

Cordially,

E. K. HOFFMAN,

Mr. GUDE. Are you a member of the Mayor's Economic Development Committee?

Mr. TYDINGS. I am not, but our organization is.

Mr. HOGAN. Do you know if they have done a study as to where this project would be 5 years from now?

Mr. TYDINGS. My information is that they have not.

Mr. HOGAN. Again, I think the committee members would tend to endorse the concept. They have to sell it to 435 members and the general concept of the development bank is a national project and was defeated by the Banking and Currency Committee about 3 or 4 years ago and given the financial climate today, the question is, how did they sell it?



One of the questions they are going to be asked is the support. What is the expectation for the capital funding of the project? Is there a chance that it will get up to \$5 million in 5 years?

Normally before an application with SEC, you have some subscription so that you know what the company is going to do and what the minimum subscription is going to be.

Mr. TYDINGS. I would have to address that to ICBO. I am not familiar with the five year projections.

Mr. STARK. Thank you, Mr. Tydings.

Mr. Horning, from the District of Columbia Builders Association. Good morning, Mr. Horning. Do you have a prepared statement?

Mr. HORNING. No, I don't. My comments and, hopefully, to the point.

#### STATEMENT OF JOSEPH HORNING, PRESIDENT, DISTRICT OF COLUMBIA BUILDERS ASSOCIATION

Mr. HORNING. I am President of the District of Columbia Builders Association. It is the local affiliate of that association of home builders and we are the representative group for all types of housing regulations in the city.

#### SUPPORT DEVELOPMENT BANK

We are an organization that is vitally interested in housing and we are in support of establishing a development bank for the District of Columbia.

We see the Bill as creating new opportunities for housing, both in restoration and construction. One of the stated intent, in the Bill is that it would assist the development projects that are special risk situations and I could use a specific example.

#### PROJECTS

There is a site which has been under study by the federal and City east of the river in the Southeast area.

This particular site was occupied by some housing urban development programs which went in the fog. The city, with the cooperation of the federal government, had the buildings leveled. The site has been put on the market for sale. It has had difficulty in being marketed because it is in a basically unexplored area as far as housing is concerned.

The market is there. The project is in question, but it is the type thing that I think, with the proper guidance—there are certain people who are willing to undertake it, but they are lacking the guarantees and with those guarantees, I think would come the mortgage money that would be essential. I see this as a vehicle for that type of market. I would say that from this, it becomes a catalyst which will produce other developments which is only the beginning and once you have cracked the ice, the conventional financing market would then provide enough money to produce other types of housing and it would have a snowballing effect.

Mr. STARK. Mr. Horning, could you identify the area in Southeast?

Mr. HORNING. Right at the District line. Wheeler Road is the street frontage and it would be in two blocks at the Cafritz Hospital.



You could go into the Shaw area where the housing is well maintained and stable and because it would be for the first time a bank would rule it out.

Mr. STARK. If the money market conditions were somewhat different from what they are now with FHA providing guarantees for land development loans and variety of other projects—235 and 236—assuming investors purchased this paper, would this development bank be as necessary to your industry if indeed there were the adequacies of mortgage funds that we have in the period of 1965 to 1969?

Mr. HORNING. As a preface to that, we are developers in the 236 programs and involved in some 8th Street Corridor work proposals have to be submitted by July 31 for obvious reasons. I look on this as being a step more into the conventional market. As Mr. Barr referred, this isn't quite the type of risk as the 236 where we are right in with the guts areas of our riot corridors.

We still have some risk, but it would be in a conventional sense not needed for the type funding as the 236 or 233.

Mr. STARK. Risk capitalization. You would say the upper, lower to middle income market?

Mr. HORNING. That is right. That market because of the inflation has become enormous.

Mr. STARK. Mr. Gude.

Mr. GUDE. No questions.

Mr. STARK. Mr. Hogan.

Mr. HOGAN. No questions.

Mr. STARK. There were a group of gentlemen who were to have testified yesterday. If they would care to come to the witness table and identify themselves, we would be glad to have their testimony now.

Would you tell us who you are?

Mr. WALLACH. Michael Wallach, President of the Washington Business Development Center.

Mr. JAMESON. William C. Jameson, with the Interracial Council for Business Opportunity of Greater Washington.

Mr. STARK. I will allow you to proceed, Mr. Wallach. We will make your written statement part of the record.

[The statement referred to follows:]

JOINT STATEMENT OF INTERRACIAL COUNCIL FOR BUSINESS OPPORTUNITY OF  
GREATER WASHINGTON BUSINESS DEVELOPMENT CENTER, INCORPORATED

Mr. Chairman and Members of the Committee, this statement is presented for the record in the proceedings before the Committee on the District of Columbia regarding the enactment of the "District of Columbia Development Bank Bill #HR-7414" by the Senate and the House of Representatives of the United States of America. We present it as a joint statement in that the goals, objectives and functions of our respective organizations are similar. Therefore, our position concerning this pending legislation is one of a common nature.

BACKGROUND

ICBO and WBDC have differences in origin, structure and techniques, but we are also similar in many ways. Each of our organizations is private and non-profit, each receives funding from the Office of Minority Business Enterprise of the U.S. Department of Commerce, and, most important, each has the same general overriding purpose—to develop a strong system of minority business enterprise in the Washington area by providing financial and technical assistance to both existing and prospective minority entrepreneurs. In exercising this



charge, we have been instrumental in obtaining over six million dollars in debt and equity capital for our clients.

Through our experiences as Business Development Organizations, we have learned and are constantly learning, the real needs of developing business in the District of Columbia and the physical, sociological and economic conditions which impact on them.

However, before getting into our testimony, Mr. Chairman, we wish to express our thanks to you and the Committee Members for inviting us to testify on this most important issue. We feel that we will be greatly affected by the final outcome on this bill. Our objective for delivering this testimony is to support the Bill HR-7414 and to propose for your consideration our thoughts on how the bank could and should impact the Washington, D.C. community.

#### SUPPORT DEVELOPMENT BANK

WBDC and ICBO are clearly in favor of the establishment of any mechanism that will catalyze business development in the District. The proposed Development Bank is such a mechanism. We have witnessed, here in the District, fragmented efforts in both planning and implementation of many of the most needed projects. The salient examples of this haphazard project coordination can be seen in the ineptitude with which the revival of the three major corridors, "H" Street, N.E., 14th Street and Seventh Street, N.W., was conducted along with seemingly inability to develop the industrial park on New York Avenue.

#### BANK'S REQUIREMENTS

The proposed Development Bank must consider the total business development process. It must not concentrate its efforts on only one segment of this process. In other words, if the Development Bank determines that there is a need for a project, then it should be the Bank's responsibility to get the project off the ground. If the Development Bank cannot locate a suitable developer then the Bank should take it upon itself to become the developer. With a Development Bank in town, feasible projects should not be allowed to die.

The Development Bank must not be just another bureaucratic entity. Presently, we have 14 conservative banks in this city. We do not want to go on record as supporting that type of organization. We expect that the Development Bank will be something better.

The proposed Development Bank must consider the needs of both the large and small developers of the District. Washington, D.C. is a unique place. It is not a corporate city. Most of the land that would have been eligible for development belongs to either the U.S. Government and the District of Columbia Government (RLA). For this reason, we believe that it is the responsibility of the Development Bank to provide the necessary seed capital to develop and implement feasible projects.

The Development Bank must not function only as a lending institution for established developers who are having difficulties in obtaining funding in a specific downtown location. Instead, it must function as a lending institution to any developer, large or small, who has a feasible idea but cannot obtain funds through the traditional lending institutions.

#### FINANCING

Our organizations are concerned about how financial assistance will be made available to the small and medium-sized entrepreneurs who will have businesses within many of the major development projects and the proposed bank underwrites. As was stated above, ICBO and WBDC, realize that the Development Bank's primary interest is with developing large scale projects. However, within these projects, there will invariably be small businesses.

Will these businesses qualify for financing through the Development Bank? or Does the Development Bank expect these entrepreneurs to gain financing through the traditional avenues? We are suggesting that the Development Bank include, within each of its anticipated projects, consideration for financing these small businesses. We feel that such an act will alleviate many of the problems in future projects which have plagued past complexes like the Waterside Mall in S.W. Washington. Of course, the availability of financing must be contingent upon the fulfilling of certain established criteria.



## INTEREST RATE

We are also concerned with the rate of interest that the Development Bank will be charging. On May 11, 1974 the prime rate rose to 11¼%. From our experiences in Business Development, we have become extremely cognizant of the burdens related to borrowing at a high rate of interest. Will the Development Bank have any provisions for lending money at a lower rate? The D.C. Development Bank's rate of interest, (be it the same, higher, or lower, than other institutions), will depend upon many factors. One of the determinants of the bank's lending policy will rest in the hands of the bank's Board of Directors. This brings us to our final point of dissent.

Being consistent with the mood in the District, as was shown in the recent Home Rule referendum, we consider it inconsistent to maintain that the U.S. President and not the D.C. Mayor should be in the position to appoint the Board of Directors. Subsequently, we are suggesting that the Board of Directors of the District of Columbia Development Bank include the Mayor of the District of Columbia, the Chairman of the City Council of the District of Columbia, three officers or employees of the District of Columbia who shall be appointed by the Mayor, and six Directors who shall each be elected by the shareholders of the bank. Initially, these six Directors will be appointed by the Mayor, with the advice and consent of the D.C. Council.

Mr. Chairman and Members of the Committee, the District of Columbia needs a Development Bank. The proposed legislation, and we hope eventual approval, will enhance business development in the District. We suggest, however, that the bill which is finally approved will enable creativity and not just conformity to prevail throughout the bank's plans, goals and objectives.

We thank the Committee for the opportunity to present our position on this important issue.

WILLIAM C. JAMESON,  
*Executive Director,*  
*Interracial Council for Business*  
*Opportunity of Greater Washington.*

MICHAEL D. WALLACH,  
*President,*  
*Washington Business Development Center, Incorporated.*

Mr. WALLACH. I can summarize.

**STATEMENT OF MICHAEL D. WALLACH, PRESIDENT, WASHINGTON BUSINESS DEVELOPMENT CENTER, INC., ACCOMPANIED BY WILLIAM C. JAMESON, EXECUTIVE DIRECTOR, INTERRACIAL COUNCIL FOR BUSINESS OPPORTUNITY OF GREATER WASHINGTON**

Mr. WALLACH. I apologize for not being here yesterday. Our statement is a joint statement and deals with the support of the pending legislation.

Talking for myself, I have been in the field of economic development for approximately nine years, and six of those here in Washington, D.C. Three of those, I might add, with the Mayor's Economic Development Committee.

What I have seen in the District over the past six years is that anything that requires a collective effort, either on the part of the banks or on the part of the District or on the part of some group or organization, never seems to work out. I think, as Mr. Barr so aptly stated, the District has been studied to death. We are for the legislation that is pending; however, we do have certain reservations about the legislation.



## FINANCING

We want to see major development as a stimulus to further economic development in the District; however, too often the smaller and middle-sized entrepreneurs and businessmen get hurt because the void in getting financing still remains a problem even after the major developments take place.

I think, Mr. Chairman, you were at the informal hearing regarding the waterside mall. That is an example I would fight where the major development was done as a joint effort with RLA and a private developer funding and financing was arranged, yet, small businessmen in the center had to go elsewhere for their financing and are currently in serious trouble because of a lack of coordination and cooperation between the entities.

We would like to see the development bank not only provide funds for major development, but provide needed funds to fill up the funds.

If we could have retail sources in there to make the guarantees and the financing available, and in addition we would like to see the development bank be creative and certainly not bureaucratic.

Further, we would like to see them not let a feasible project die for lack of a sponsor and if they allow the development bank to be the developer as well as the financier.

Thank you, Mr. Chairman.

Mr. STARK. Mr. Jameson, would you like to submit a statement?

Mr. JAMESON. As Mr. Wallach pointed out, this is a joint statement. The thing that we are both concerned about is that the process for the developing bank being such that it does make itself available as a catalyst to assist in the development of the Washington area.

## PROJECTS

We have had several different projects and for various reasons have not been able to get them off the ground. One is the industrial park. We are looking at situations where the present interest rate being what it is, even before that, the ability to attract that kind of money was not here in the District.

Mr. STARK. Would you expand on that?

This is the first example that we have had that would fit. Could you expand on the industrial park, size and dollars involved?

Mr. JAMESON. The sites that we have been looking at has been first New York Avenue around the train station. The exact size and dollars I have forgotten. It is included in the recent industrial and economic committee study that was done for the District of Columbia. We have been trying to attract light industry and assembly plants which could provide employment opportunities and enhance the tax base of the District.

The lack of capital has been one of the primary reasons why it hasn't, along with some zoning problems, but it is these kinds of things which we have been trying to put together and in fact, in Washington, that has been not durable primarily because we are sorely lacking in the kind of leverage that the development bank could provide.

Mr. STARK. Earlier today in his testimony, Mr. Barr indicated that any project that this new development bank would undertake would



be bankable by banking standards with the possible exception that it might be too complex or too large.

Would it be the understanding of both you gentlemen that the types of projects that you are envisioning are otherwise qualified for bank loans? The only problem is that they are too large or too complex for the banks?

Mr. JAMESON. That is not my understanding for the necessity of developing the bank. Certainly my interpretations, looking at the initial proposal for the development bank, was that this fund would be looked at from the standpoint that it would be a project which could be paid and did have all the economics to it, but the banks themselves could not do it.

So as far as whether it is bankable, it would be bankable in the terms that it would fit the requirement of the development bank. I don't think it would fit the requirements of the present 14 banks we have in Washington. That is basically the concern that we have and we endorse the proposed bill and hope that it is passed.

Mr. STARK. As the bill is presently drawn, there are no restrictions as to who serves or no guidelines for who would serve except that the President would point a majority. Further, there are no restrictions on how this money, if it is raised, and the Treasury contributes its share representing both the Interracial Council and the minority business community, would either of you or both of you feel comfortable with those limitations as they now stand or would you feel that we should be more specific in identifying where this money would go?

Mr. WALLACH. I think, Mr. Chairman, it would be difficult and possibly self-defeating to identify specific areas to a degree. I would like to get back to your question about what Mr. Barr said. I don't share that belief.

I think that everything will certainly be bankable and feasible for repayment. I do not think there will be projects too large or complex for a bank to understand. I can't picture the banking community not having the expertise to understand the financing.

I think that they do it rather well. What I do see is the difference the package and project presentation would be in that the developer might not have the equity and the development bank would come in in support of the program and put together the necessary equity that would make it bankable under normal circumstances.

Otherwise, a feasible project, a creative project might go begging because the individual or developer is too small or does not have the expertise.

Mr. STARK. I would be inclined to agree. When the banks or insurance companies want to be creative such as the San Diego National, they can be creative as all get out and when they want to find a way to land money, they can indeed.

It would seem that the community development corporations and the banks being able to take equities or with mortgage corporations that are willing to insure everything that isn't running backwards, it is difficult to find a situation that has any promise of financial success that could not now be done in the District if there was willingness to proceed and do it and that is why I think we kind of have the cart before the horse and I think what is missing is perhaps not the \$10



million but the willingness of the business community to show us that they have not the expertise, not the money, but somehow it is that commitment to help the minority entrepreneurs and the rundown sections of the District have their fair share of participation.

I have heard no evidence or testimony, at least today and written testimony of yesterday, that this would exist.

Mr. WALLACH. My fear, speaking for myself, would be for the business or banking community to give this money to the bill as a donation and write it off and go back to doing what they have been doing for the last 100 years.

This, I fear, would happen unless, at the outset, there is cooperation on the part of the banking community and the development bank. If we are talking about the development bank, taking over the function of the financing of larger projects with the other banks getting out, I am sure you are concerned and I don't think they will raise the money and not sufficient money at that.

If the banks are not going to participate to the fullest extent that they can, I think the legislation shall be just that. A bank will be created, a staff will be hired, and not a damn thing will happen.

Mr. STARK. I concur. Mr. Gude.

#### INVESTING

Mr. GUDE. What you have said, Mr. Chairman, is very true, I am afraid. It is interesting to see how people perceive the bank. Mr. Barr indicated that the bank would not, in his view, get into equity financing.

Yesterday we had both views. One view was looking at it as a development lending institution and another one as a lending institution. Yesterday, Mr. Conte, who has been active in this business for some time is in the risk loan business and they have over \$1 million now apparently lendable funds, but as of June 1973 they have possibly according to his testimony \$450,000 invested in loans to businesses and it is basically and some of it is loaned, but a lot of it is equity financing.

As of the end of fiscal year 1973, their income was \$8,840 on a \$450,000 investment.

We have a provision in this bill that limits the return on an investment to 6 percent and I think that is one of the most optimistic statements in the entire bill unless they get something that is a lot better than this.

Mr. Barr, when he terminated his testimony, said that he hoped the Committee would vote this up or down or bite the bullet, as it were.

I wonder if the District government under the Home Rule bill doesn't have the authority to establish something of the development bank itself under the provisions of the Home Rule Act. Do you have any thought on that?

Mr. WALLACH. I think my appreciation of it is that they will have certain new bonding or debentures or development bonds that they can enter into. I am not completely sure about that. In terms of Mr. Conte's figures, I think two things: one, they are under a hardship in terms of fragmented kinds of loans.

They are constrained to serve in a certain area which is not to be the best area in town.



Mr. GUDE. MESBIC is limited?

Mr. WALLACH. Yes, to the model city areas. There are some built-in handicaps. The terms of equity of the thing that has been missing in all the projects in the District is the equity.

If the bank is not going to make equity loans as envisioned by Mr. Barr and possibly other bankers, I think what you have is a vehicle for the large developer as another resource for him to get that capital while a smaller developer who does not have the equity is no further ahead.

The impact on the community becomes again a matter of suburban builders, or what have you, coming into the District and finding a new source and maybe getting cheaper, and meanwhile the developers and the people within the District don't really get the advantages and they cannot get the advantages unless there are provisions for equity.

Mr. JAMESON. I concur on the necessity for the equity end of it. As far as the District of Columbia under the Home Rule Act will have provision for creating his own, I am not certain.

One of the things that made this bill attractive was the put from the Treasury which would give some stability, you might say, towards the bankers investing their money into the development bank.

Hopefully, it could be done at a reasonable rate of interest. The necessity as envisioned, it would be primarily also from the area of leveraging funds as opposed to loaning them \$10 million and waiting for the return on the investment. You can get a better put from making money available where equity was available for those ventures. The banks as presently constituted will not do that.

#### ACTION NOW

Mr. GUDE. Assuming for purposes of argument—and I would have to go back and read the provisions of Home Rule Act to see if that authority rests with the Government—but, assuming for the purposes of argument the local government did have this authority and looking to the problems that the individual Congressmen would have in possibly supporting a bill like this on the Floor, would you endorse the concept of letting an elective Home Rule government address this issue next January?

Mr. WALLACH. I think that the full fate in the District of Columbia government is not a tried and tested thing at this point and until the development of a development bank by the elected officials could come about, it might be a few years.

#### MODEL CITY-HOWARD THEATER PROJECT

Mr. STARK. Are either of you gentlemen familiar with the local development companies, Section 502 loans, and are there any of those operating in the District of Columbia?

Mr. JAMESON. Yes. Model City that Mr. Conte is operating.

Mr. STARK. Are there any signatures?

Mr. JAMESON. Yes, one is to be signed. I think it is signed by now. I think it would be the Howard Theater project. It is a combination.



What is happening to that deal is that the MESBIC has invested money and borrowed capital from SPA.

Mr. STARK. Can you give the size of that package?

Mr. JAMESON. About \$500,000.

Mr. STARK. As seed money?

Mr. JAMESON. Right. And some is equity.

Mr. STARK. Would not more of activity adequately suit the constituency that you gentlemen represent in having those types of funds more readily available? A half million dollar equity covers a fairly broad middle range of business these days.

Mr. WALLACH. Of course the funds are restricted in their use. They can be only used for certain things.

Mr. STARK. Industrial parks and guaranteed loans for merchants?

Mr. WALLACH. The limit on it is \$350,000 that they will guarantee.

Mr. STARK. I don't believe that it is true of the development corporations.

Mr. Hogan.

Mr. HOGAN. I think the land development corporations' guarantees are larger. The business community and bankers have funded MESBIC and have this back up consulting authority.

Mr. JAMESON. That is the primary function of all the organizations, such as Mr. Wallach's and mine. The only problem with MESBIC is that its paying capital is \$200,000 and they can only lend 20 percent of their paid in capital on one venture.

Mr. HOGAN. But like banks they can participate. Two or three or four could, for that matter, participate with banks. There is nothing to prevent them from participating with a combination of banks.

Mr. STARK. If each of the 14 banks had their own MESBIC and could put \$250,000 in capital, then they could lend \$50,000 which would be \$700,000 if the 14 banks went together in equity. It is not hard to conceive 14 banks with good will and good will and good intentions getting together with a small amount of money and doing this with present types or organizations that are available.

It might be interesting to get information from MESBIC as to how many large loans they have turned down or would qualify.

Mr. WALLACH. A MESBIC has been in existence for three years and has made one loan.

Mr. STARK. Do you suppose that is a lack of applicants or lack of expertise?

Mr. WALLACH. The bankers are on the finance committee. They are on the approval committee, and I think it speaks for itself. If they approach it at MESBIC how can they turn it down at the bank?

Mr. HOGAN. According to Mr. Barr, they just lost \$666,000 on the Eisenhower Center, so their good will has probably eroded a little in the last few months.

Mr. STARK. I want to thank both you gentlemen for taking time to appear here this morning. There are no additional comments, you are excused.

Is there anyone else in the audience who has a statement to submit or any other information, and if not, we will leave the record open without objection for a week for additional comments.



Mr. GUDE. The Treasury Department is sending us an opinion as to whether there is any further liability of the government based on their reputations on the Board of Directors.

Mr. STARK. Without objection, we will make that part of the record. [The document referred to follows:]

GENERAL COUNSEL OF THE TREASURY,  
Washington, D.C., July 3, 1974.

HON. W. S. (BILL) STUCKEY,  
*Chairman, Subcommittee on Business, Commerce, and Taxation of the Committee on the District of Columbia, House of Representatives, Washington, D.C.*

Dear Mr. Chairman, on May 14, 1974, I testified before your Subcommittee in support of legislation to establish a District of Columbia Development Bank.

At that time two questions were raised by Minority Counsel: (1) whether Federal employees appointed by the President to serve on the Bank's board of directors would be liable for their actions on the same basis as the directors of a purely private bank, and (2) whether the Federal Government would be liable for such directors' actions. As requested, I am submitting this statement to the Subcommittee in response to these questions.

Further study of this matter confirms the view I expressed before the Subcommittee—that the Federal employee directors appointed by the President to the Bank's board of directors would be personally liable for their actions, but that the Federal Government would not be held accountable for such directors' actions. My reasoning follows.

# I

Section 4(a) of the bill provides that three officers or employees of the United States or the District of Columbia be designated by the President to serve on the Bank's board of directors. Section 4(b) would allow a director appointed by the President to designate an alternate to serve as a director in his absence. (Section 4(b) also provides that any director who is a full time officer or employee of the Federal Government shall not be paid for his service as a director.) Section 4(d) provides, in effect, that a director appointed by the President may not serve as chairman of the board of directors.

Normally, of course, shareholders elect the board members to act on their behalf, and such actions, at a minimum, require attendance at the meetings of the board of directors. The provisions of section 4 of the bill thus are a departure from the usual corporate board of directors arrangement.

Apart from the above, the bill draws no distinction between those directors elected by the shareholders, and those directors appointed by the President. Such differences as there are between the status of directors elected by the shareholders, and those appointed by the President, would not be sufficient to infer any intent by the Congress to immunize them from liability for their actions. To take an example, were a director, who was appointed by the President, to benefit from self-dealing, it would hardly be an answer to a suit by the corporation, or a derivative action by the shareholders, to say that he was immune from liability because he was not elected by the shareholders.

Those directors appointed by the President who are Federal employees will presumably bring a "public interest" viewpoint to meetings of the board, and can serve as a sort of liaison between the Federal Government and the Bank. But this role of the appointed director does not change his duty to act in the same degree of good faith and fair dealing in all transactions involving the management of the business affairs of the Bank as the elected directors. Presidentially appointed directors are not nonvoting official observers, but corporate directors with full voting rights.

These views are reinforced by reference to the status of the three directors on the board of the Communications Satellite Corporation appointed by the President pursuant to section 303(a) of the Communications Satellite Act of 1962, P. Law 87-624, 76 Stat. 419, 423 (47 U.S.C. § 733). Section 8.04 of the Articles of Incorporation of that Corporation (reprinted in *Hearings on Nominations of the Incorporators of the Communications Satellite Corporation Before the Senate Committee on Commerce*, 88th Cong. 39, 45 (1963) provides that "each director, regardless of the method of his appointment or election, shall have the same fiduciary duty to the Corporation and its shareholders."



This view that a director appointed by the President should discharge his directorship responsibility as if he were an ordinary director elected by the shareholders had been expressed at the Hearings on the Communications Satellite Act of 1962 before the Senate Committee on Foreign Relations, 87th Cong., 353-54 (1962). See also Schwartz, *Governmentally Appointed Directors in a Private Corporation—The Communications Satellite Act of 1962*, 79 Harv. L. Rev. 350, 361-62 (1965).

There are differences, of course, between the organizational framework of the Communications Satellite Corporation and the proposed District of Columbia Development Bank. However, the situations are similar insofar as the Presidentially appointed directors are concerned.

In light of the considerations discussed above, I can find no adequate basis for the view that there exists some special obligation to the public on the part of the Bank's Presidentially appointed directors which supersedes the normal primary fiduciary duty of corporate directors to shareholders. Absent such a special obligation or statutory immunity—and the proposed legislation specifies neither—there seems no reason for inferring any special powers or limited liability of the Bank's directors appointed by the President.

## II

While those directors of the Bank appointed by the President who are Federal officers or employees would be liable for their actions, I find no basis for holding the Federal Government derivatively liable for their actions. Such directors do not represent the interests of the Federal Government, as such, and are not subject to Federal control in the actions they take as directors of the Bank. The absence of any intent to exercise Federal control through the appointment of Federal employees to the Bank's board of directors is indicated by section 4(a) of the draft bill which authorizes the appointment of three officers or employees of the United States or the District of Columbia. The absence of Federal control is also reflected in the section 3 provision which states that the Bank "shall not be an agency of the United States Government." Moreover, even if an appointed Federal employee director of the Bank took some action considered adverse by some of the Bank's shareholders and the latter argued that such action should be considered within the scope of his Federal employment under 18 U.S.C. § 1346(b), the Federal Government would appear immune from suit. 18 U.S.C. § 2680 provides:

The provisions of this chapter [Tort Claims Procedure] and section 1346(b) of this title shall not apply to—

(a) Any claim \* \* \* based upon the exercise or performance or the failure to exercise or perform a discretionary function or duty on the part of a federal agency or an employee of the Government, whether or not the discretion involved be abused.

Sincerely yours,

EDWARD C. SCHMULTS,  
*General Counsel.*

Mr. STARK. The hearing is adjourned.

[Whereupon, at 11:25 a.m., the hearing was adjourned subject to the call of the Chair.]

[Subsequently the following material was submitted for the record:]

WASHINGTON BOARD OF REALTORS, INC.,  
*Washington, D.C., May 17, 1974.*

Re: H.R. 7414.

Hon. CHARLES C. DIGGS, Jr.,  
*Chairman, House District Committee,*  
*U.S. House of Representatives, Washington, D.C.*

MY DEAR MR. DIGGS: With respect to the above Bill on which hearings were held May 14 and 15, I understand that the Washington Board of Realtors has been asked to comment. We did not have this request or a copy of the Bill in time to comment at the hearings. We did, however, forward copies of the Bill to cer-



tain of our members and in particular to the members of our Legislative Committee.

Our Legislative Committee met this morning with three officers of the Board and myself and we have the following observation: We agree with the concept of a District of Columbia Development Bank. However, we do not feel that we have the expertise to comment specifically on the provisions of the Bill. We are aware, of course, that you have had comments from experts in the banking field.

We appreciate being asked to comment and stand ready to be of assistance to the House District Committee on any matters which come before you that the Committee feels we could make a contribution.

Respectfully yours,

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WILLIAM C. STUART, III, *President.*

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URBAN LAND INSTITUTE,  
*Washington, D.C., May 16, 1974.*

HON. W. S. STUCKEY, JR.,

*Chairman, Subcommittee on Business, Commerce and Taxation,  
Washington, D.C.*

DEAR CONGRESSMAN STUCKEY: Time did not permit us to adequately prepare to comment on H.R. 7414. We appreciate your invitation to appear and regret that we were unable to do so as we fundamentally support the creation of a District of Columbia Development Bank as outlined in the bill.

Sincerely,

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DAVID E. STAHL, *Executive Vice President.*

#### STATEMENT OF METROPOLITAN WASHINGTON PLANNING AND HOUSING ASSOCIATION

#### A BILL TO ESTABLISH A DISTRICT OF COLUMBIA DEVELOPMENT BANK (H.R. 7414)

In addressing the question of a Development Bank for the city of Washington, the MWPFA concurs with the bill on the following propositions:

(1) substantial economic development of many components of the community is essential to the well-being of the citizens of the District of Columbia;

(2) such economic development will require a concerted effort by all segments of the community, including private financial institutions;

(3) many worthwhile community development projects have not been undertaken successfully in the District because of a lack of financial and technical skills or initial capital by those citizens interested in such projects; and

(4) no institution or organization currently exists to mobilize effectively the available expertise and capital of the District for such development efforts.

At this juncture the MWPFA recognizes that the D.C. Home Rule Charter, overwhelmingly supported in the recent citizen referendum, has conveyed the essential powers to the city required to engage in development management and project execution.

The city's bonding capacity, eminent domain powers, and internal control of the planning and zoning process could bring substantial forces to bear on the propositions stated above. The Association feels that the District's elected government should utilize its own resources and powers to institute development management programs.

While it is essential that there be cooperation between local and Federal government, it is equally crucial that the District Government provide the initiative in development efforts of the nature proposed in H.R. 7414. The present D.C. City Council has already taken steps in this direction. In January of this year, the Council released the *Report to the District of Columbia City Council from the City Council Special Advisory Commission on Industrial and Commercial Development*. The Commission, comprised of members representing diverse segments of the Washington community, clearly recognizes the economic development problems that plague the District, particularly in the core and eastern areas of the city, and its recommendations reflect an effort to comprehensively approach the question. In addition to stressing the need for a strong internal capacity of the District to promote and manage development, the report identifies tax reform, improved manpower programs, and greater priority to economic development in the executive branch as requisite elements of future government activity.

The report cited above has also recommended the establishment of a executive



Office of Business and Economic Development (OBED), and a Council of Economic Advisors to the Mayor and City Council. MWPFA has generally endorsed the concept of an OBED, whose functions would include; (1) Business Retention and Attraction; (2) Business Promotion; (3) Minority Business Development; (4) Coordination of Technical Assistance, and; (5) Liaison with pertinent Federal Agencies; and but has suggested that further analysis be done to more clearly define the activities, capabilities, and limits of such a department.

Programs to provide adequate levels of funding for projects developed through an OBED and a Council of Economic Advisors would be most critical, but can best be structured to implement *approved* city mandates—mandates which are admittedly in their formative stages. A development bank for the District must conform to carefully structured city policy, and would be most effective as a *result* of such policy determination.

Approval of a Development Bank at this time, to implement future city policy, would be precipitous. The MWPFA recognizes the necessity for such a mechanism, and generally endorses the concept, but questions the timing of the current Federal action.

The Committee is of course aware of proposals that have been promoted in recent years with regards to an Urban Development Corporation for the District of Columbia. There is speculation that the city's urban renewal authority, the Redevelopment Land Agency will become an urban development mechanism when it is merged into the District government June 30, 1974. In addition, there will soon be legislation before District of Columbia City Council which would establish an agency to finance the construction and rehabilitation of moderate income housing through the issuance of revenue bonds.

Within the context of these alternatives, initiated at the local level, and yet to be fully discussed, there is little room for further proliferation by the Federal establishment at this time. It is imperative that city programs and activities evolve through: 1) local initiative, and 2) logical progression, and it is the considered opinion of the Association that enactment of H.R. 7414 would at present neither clarify the many policy issues currently faced by the city or fully advance the spirit of Home Rule for the District of Columbia.

THE METROPOLITAN WASHINGTON BOARD OF TRADE,

July 22, 1974.

Hon. CHARLES C. DIGGS, Jr.,

*Chairman, Committee on the District of Columbia, U.S. House of Representatives, Washington, D.C.*

DEAR MR. DIGGS: Again, I want to congratulate you for your leadership in getting the D.C. Development Bank Bill (HR 7414) prepared for House action. As indicated, the Board of Trade, for over three years, has supported the development bank concept. In an earlier letter dated June 11, 1974 to Congressman Stuckey, Chairman of the Subcommittee on Business, Commerce, and Taxation, we restated that support. That letter indicated the difficulty which the Bank may face in being capitalized with a 6% return on the stock.

We appreciate your Committee's response to this problem by eliminating this 6% section and allowing the Board of Directors to set a return commensurate with market conditions, yet in line with the Bank's community objectives. We feel this change will make an improvement in the Bill, thereby increasing the potential for capitalization in these economically difficult times.

It has long been our position that the D.C. Development Bank Bill offers a compatible financial approach to community development objectives not duplicated by other organizations. We continue to favor such a bill and hope that soon we can realize the potential of the D.C. Development Bank.

Cordially,

EDWIN K. HOFFMAN.