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Responding to NAFTA: North American Development Bank Helps Hardest Hit Communities

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Winners and losers are the inevitable outcome of government policy that effects change in the marketplace. The North American Free Trade Agreement (NAFTA), enacted in 1994, offers little exception to this principle, though it has not had the devastating impact feared by so many in the early 90's. NAFTA has, however, had a significant impact on a number of American communities and the business and employment conditions within them. Thousands of low-skilled jobs have been moved offshore to cheaper labor markets, exacerbating a labor trend that has existed since the end of World War II. Unfortunately, not many of the displaced workers were in the right place or had the necessary skills to take advantage of new job opportunities created by increased trade with Mexico. Although NAFTA proponents had hoped for a significant gain in employment opportunity, experts now estimate that there has been no net change in the number of U.S.-based jobs due to NAFTA. What has occurred is a shift in the type and location of jobs which has created substantial economic hardship in some communities.

When the consequences of a particular policy can be anticipated, governments are able to take steps to reduce negative impacts. Following the passage of NAFTA, the North American Development Bank (NADBank) was created by the U.S. and Mexican governments in response to concerns

about the environment and the potential for employment loss in both countries. While similar in mission and structure to other international development banks (e.g. the World Bank and Inter-American Development Bank), the NADBank has several unique elements. One key difference is that NADBank can finance projects located in the United States. Furthermore, it can provide financing to private as well as public-sector entities.

The Environmental Window

The bank's total capitalization of \$3 billion in cash and pledges (jointly funded by the U.S. and Mexican governments) allows it to focus its financing efforts in two areas. The first, referred to as the "Environmental Window," addresses environmental needs along the United States and Mexican border. Since 1994, \$105.5 million in financial support has been made available to public agencies and private companies to address environmental infrastructure needs along the border. For loans originated through the Environmental Window, the NADBank is restricted to activities located within 100 kilometers (62 miles) of the U.S./Mexican border, running from the Pacific Ocean to the Gulf of Mexico. Although direct loans have been made for environmental projects, NADBank prefers to participate as a co-lender or guarantor. Border-state lenders who are interested in the Environmental Window program should contact Annie Alvarado in NADBank's San Antonio office, (210) 231-8000.

The Domestic Window

NADBank's other principal product, the Community Adjustment and Investment Program (CAIP) is sometimes referred to as the "Domestic Window," primarily because it serves the business-credit needs of U.S. communities. Ten percent of the U.S. government's \$1.5 billion investment in NADBank was set aside to fund the CAIP, for a total capitalization of \$150 million. The program's mission is to support U.S. communities that have suffered significant job losses as a result of NAFTA. It also seeks to preserve

existing jobs in businesses at risk due to adjusted trade patterns with Canada and Mexico.

CAIP Eligibility Guidelines

The program’s current eligibility standards call for an area unemployment rate greater than 6.5 percent for the 12-months preceding the application date, and job losses exceeding 500 in urban areas and 300 in rural areas. Using these guidelines, there are currently 136 counties in 26 states that are eligible for the program. The first table shows specific areas within states that are currently eligible, as well as the CAIP loan activity for the first year.

Eligible States in the 12th District

State	Eligible Communities	CAIP Loan Activity
Alaska	Ketchikan Gateway Borough	\$10,447,000
California	Monterey County Pacoima - Los Angeles County Santa Ana - Orange County Watsonville - San Benito and portions of Santa Cruz Counties	\$ 5,465,000
Idaho	Benewah, Bonner, Kootenai, Minidoka and Shoshone Counties	\$ 7,767,000
Washington	Benton, Franklin, Thurston, Walla Walla, and portions of Cowlitz and Lewis Counties	\$ 750,000

Note: Areas are reviewed for eligibility each quarter or whenever a specific request for consideration is received.

It is important to note that CAIP is designed to work with existing programs and resources, particularly government-sponsored loan guarantee programs such as SBA’s 7(a) Loan Guaranty or USDA’s Business and Industry (B&I)

program. The table below provides a brief overview of how the credit-enhancement feature of the CAIP works:

CAIP Enhancements to Federal Guarantee Programs

	Small Business Administration’s 7(a) Loan Guarantee Program	U.S. Department of Agriculture’s Business & Industry Loan Program
Geographic Eligibility Guidelines	CAIP eligible community; SBA program serves both urban and rural communities.	CAIP eligible community; B & I program serves rural communities only.
Government Program Guarantee Limits	Generally 75% of loan amount or \$750,000, whichever is smaller.	Will guarantee maximum loan amounts of \$25 million; percentage guaranteed declines from 80-60% as loan size increases.
CAIP Benefits to The Lending Institution	CAIP will cover the full amount of the loan guarantee fee; depending on loan size, the fee ranges from 2 to 3 7/8 %	If necessary, CAIP will cover up to 2% of the loan guarantee fee; CAIP expands the availability of B&I funds in eligible communities.
Loan Processing	Lenders should submit loan guarantee requests to their local SBA District Office.	Lenders should submit program requests to their state’s USDA Rural Development Office.

Note: The CAIP takes no direct role in the lending process under either of the loan guarantee programs. It merely provides the promised financial support directly to the Agencies who handle all loan approval under their existing guidelines.

In addition to physical location in a CAIP-eligible community, business applicants must also demonstrate that within 24-months of the loan closing, the loan will result in the creation of one new private-sector job for every \$70,000 of the guaranteed amount of the financing. So, for example, if the loan amount is \$1 million and 75% (\$750,000) is guaranteed through the CAIP, the demonstrable result would have to be the creation of eleven new

jobs within two years. The NADBank periodically monitors the “good faith” job creation plans of the assisted businesses.

Beyond the assistance the CAIP provides for the guarantee programs, it is also able to participate in loan transactions as a direct lender or as a guarantor. This direct involvement is restricted to cases where conventional credit is not available and federal loan guarantee programs cannot be used. In such cases, the CAIP is limited to a maximum participation of 49% in any transaction; and, like many such programs, the CAIP will use as little of its resources as necessary to make a loan work. In these transactions, the CAIP relies on a local intermediary, typically the majority lender, to manage the borrowing relationship.

The CAIP may also co-lend or provide loan guarantees to community-based intermediaries serving CAIP-eligible communities. The CAIP has full flexibility in the terms and conditions it can offer; however, the NADBank requires the creation of one new job per \$35,000 of its participation.

In addition to NADBank’s financing programs under the Environmental and Domestic Windows, last year’s federal budget added \$10 million in funding for technical assistance and grants within CAIP-eligible communities to help stimulate new job creation. Details on the new program and funding availability will be released in the near future.

For further information about the NADBank and the CAIP, you can visit its web site at www.NADBANK-CAIP.org or contact Hugh Loftus in the Southern California office at (562) 908-2100.

Can CAIP Work For YOU?

Ask Yourself These Questions:

Does Your Bank:

- Serve one of the CAIP eligible areas?
- Serve an area which you think should be eligible?
- Participate in government guaranteed loans?
- Like the idea of co-lending or risk sharing?
- Like the idea of saving your borrower money?
- Worry about your peer banks having the competitive advantage?
- Want to enhance your community reinvestment program?

About the Author



Hugh Loftus was appointed director of the Los Angeles office of the North American Development Bank (NADBank) in June 1996. The L.A. Office is responsible for the implementation of the Community Adjustment and Investment Program of the NADBank, created to assist U.S. communities that have experienced job losses since the passage of NAFTA, due to plant relocations or changing trade patterns with Canada or Mexico. Prior to his appointment, Mr. Loftus was senior vice president and manager of community development for First Interstate Bank of California. He has been in banking for 30 years with an emphasis in the fields of community and economic development lending. Mr. Loftus has served on the board of directors for numerous local, state and national organizations and currently serves on loan committees for the City of Los Angeles and the State of California. He is a past president of the California Association for Local

Economic Development and vice president of the National Council for Urban Economic Development.