

Microenterprise Assistance

May 28, 1997

MEMORANDUM FOR: Joseph K. Aversano, Director, CPD Division, 3FD

FROM: Richard J. Kennedy, Director, Office of Block Grant Assistance, DGB

SUBJECT: Microenterprise Assistance

This is in response to your memorandum of March 28, 1997, to the Office of Block Grant Assistance, raising questions about several provisions of the Housing and Community Development Act of 1992 which affect microenterprises. You specifically asked about the underwriting and documentation requirements for activities undertaken by Community Development Block Grant (CDBG) recipients under this category of eligibility.

Section 807(a)(4) of the 1992 Act amended section 105 of CDBG's governing statute, the Housing and Community Development Act of 1974, by establishing an entirely new category of CDBG eligibility for microenterprises at section 105(a)(23). Section 807(c) further defined a microenterprise as a commercial enterprise that has 5 or fewer employees, 1 or more of whom owns the enterprise. As you have indicated, these provisions were self-implementing and thus became effective upon the enactment of the 1992 Act (October 28, 1992). The new eligibility category has been codified at Section 570.201(o) of the CDBG regulations.

Another provision of the 1992 Act, Section 806(a), also required the Department to establish, by regulation, guidelines to be used by grantees in the evaluation and selection of economic development projects eligible to be assisted with CDBG funds only under sections 105(a)(14), (15), and (17) of the 1974 Act. This provision regarding the development of guidelines therefore does not apply to microenterprises qualifying under the new statutory provision of 105(a)(23). Accordingly, microenterprise assistance qualifying under section 570.201(o) of the regulations does not have to meet the underwriting guidelines or public benefit standards now implemented at Section 570.209 of the CDBG entitlement regulations.

There may, however, be circumstances where a microenterprise receives assistance under the provisions of 105(a)(17), which is implemented in the CDBG regulations at 24 CFR 570.203(b). Such instances arise where a grantee may operate a program which assists applicants with businesses of varying sizes, some of which may be microenterprise. The 1992 Act at Section 806(c) directs that those microenterprises (and small businesses) qualifying for assistance under Section 105(a)(17) be reviewed under guidelines which consider the special needs and limitations of the entity. Thus, any assistance provided under 24 CFR 570.203 is subject to the underwriting guidelines and public benefit standards at 570.209.

Your memorandum further inquired about the documentation necessary under Section 570.506(b) to support the low- and moderate-income status of persons employed by CDBG-assisted job creation activities. This regulatory provision states that where information on income by family size is required, a

recipient may substitute a copy of a verifiable certification from the assisted person that his or her family income does not exceed the applicable income limit. The individual's latest income tax return is not required as evidence of income. The requirements of section 570.506(b) will have been met if an individual signs a certification that his or her family income falls within the low- and moderate-income limits established for that community for that family size.

If you have any further questions, please contact the Entitlement Communities Division at (202) 708-1577.