Under current rules, each intermediary is eligible to receive an SBA grant equal to twenty-five percent of the total outstanding balance of loans which SBA had made to it. Consistent with section 208(a)(2) of the 1994 legislation, § 122.61-9 of SBA's regulations would be amended to provide that if an intermediary would provide no less than twenty-five percent of its loans to small business concerns located in or owned by residents of an economically distressed area, it would be entitled to receive an additional SBA grant equal to five percent of the total outstanding balance of SBA loans made to the intermediary. Thus, if an intermediary made at least twenty five percent of its loans in an economically distressed area, it would be eligible for an additional SBA grant of five percent which it would not be required to match.

Consistent with section 208(b) of the 1994 legislation, § 122.61–2 of SBA's regulations would be amended to define "economically distressed area" to mean a county or equivalent division of local government of a state in which the small business concern is located in which, according to the Bureau of the Census, not less than forty percent of the residents have an annual income that is at or below the poverty level. SBA will obtain this information from the Bureau of the Census.

Finally, consistent with section 201 of the 1994 legislation, proposed new § 122.61–13 of SBA's regulations would implement a microloan financing pilot in which SBA would have the authority to guarantee no less than ninety and no more than one hundred percent of a loan made to an intermediary by a forprofit or non-profit entity or by an alliance of such entities. This guaranty authority by SBA would terminate on September 30, 1997. Under this proposed rule, SBA would not guarantee loans to more than ten intermediaries in urban areas and ten in rural areas. An SBA guaranteed loan to an intermediary under this pilot would have a maturity of ten years. During the first year of the loan, the intermediary would not be required to repay principal or interest, although interest would continue to accrue during this period. During the second through fifth years of such a loan, the intermediary would pay only interest. During the sixth through tenth years of the loan, the intermediary would make interest payments and fully amortize the principal. There would be no balloon payments. Interest on these SBA guaranteed loans to intermediaries would be calculable as set forth in

§ 122.61–6 of SBA's regulations (13 CFR 122.61–6).

Compliance With Executive Orders 12612, 12778 and 12866, the Regulatory Flexibility Act, 5 U.S.C. 601, et seq. and the Paperwork Reduction Act, 44 U.S.C. Ch. 35

For purposes of the Regulatory Flexibility Act, 5 U.S.C. 601 *et seq.*, SBA certifies that this proposed rule, if promulgated in final form, will not have a significant economic impact on a substantial number of small entities.

SBA certifies that this proposed rule, if promulgated in final form, will not constitute a significant regulatory action for the purposes of Executive Order 12866, since the proposed change is not likely to result in an annual effect on the economy of \$100 million or more.

SBA certifies that the proposed rule, if promulgated in final form, would not impose additional reporting or recordkeeping requirements which would be subject to the Paperwork Reduction Act, 44 U.S.C. Chapter 35.

SBA certifies that this proposed rule would not have federalism implications warranting the preparation of a Federalism Assessment in accordance with Executive Order 12612.

Further, for purposes of Executive Order 12778, SBA certifies that this proposed rule, if promulgated in final form, is drafted, to the extent practicable, in accordance with the standards set forth in section 2 of that Order.

(Catalog of Federal Domestic Assistance Programs, No. 59.012)

List of Subjects in 13 CFR Part 122

Loan programs—business, Small businesses.

Accordingly, pursuant to the authority contained in section 5(b)(6) of the Small Business Act (15 U.S.C. 634(b)(6)), SBA proposes to amend part 122, chapter I, title 13, Code of Federal Regulations, as follows:

PART 122—BUSINESS LOANS

1. The authority citation for Part 122 would continue to read as follows:

Authority: 15 U.S.C. 634(b)(6), 636(a), 636(m).

2. Section 122.61–1(a) would be amended by revising the last sentence to read as follows:

§ 122.61-1 Policy.

- (a) *Program.* * * * This Microloan Demonstration Program terminates on October 1, 1997.
- 3. Section 122.61–2 would be amended by republishing paragraph (d)

introductory text, by removing the "or" at the end of paragraph (d)(3), by removing the period at the end of paragraph (d)(4) and adding "; or" in its place, and adding new paragraphs (d)(5) and (h) to read as follows:

§122.61-2 Definitions.

* * * * *

- (d) Intermediary menas: * * *
- (5) An agency or a nonprofit entity established by a Native American Tribal Government.

* * * * *

- (h) Economically distressed area means a county or equivalent division of local government of a state in which, according to the most recent data available from the United States Bureau of the Census, not less than 40 percent of residents have an annual income that is at or below the poverty level.
- 4. Section 122.61–3 would be amended by adding a new sentence at the end of paragraph (a) to read as follows:

§122.61-3 Participation of intermediary.

- (a) Eligibility. * * * In evaluating applications to become an intermediary, SBA shall select such intermediaries as will ensure appropriate availability of loans for small business concerns in all industries located throughout each state, located in both urban and in rural areas.
- 5. Section 122.61–6 would be amended by revising paragraph (e) to read as follows:

$\S\,122.61-6$ Conditions on SBA loan to intermediary.

(e) Loan Limits by SBA. Notwithstanding any other provision of law to the contrary, no loan shall be made to an intermediary by SBA under this program if the total amount outstanding and committed (excluding outstanding grants) to such intermediary (and its affiliates, if any) from the business loan and investment fund established under section 4(c) of the Act would, as a result of such loan, exceed \$750,000 in the first year of such intermediary's participation in the program, and \$2,500,000 in the remaining years of the intermediary's participation in the program.

6. Section 122.61–9 would be amended by adding a new sentence after the second sentence in paragraph (a), by revising paragraph (b)(1), and by adding a new sentence at the end of paragraph (b)(2) to read as follows: