April 26, 2020

The Honorable Steven Mnuchin
Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Re: Ensuring Minority Depository Institutions and Community Development Financial Institutions get fair share of funds allocated by the Paycheck Protection Increase Act of 2020

Dear Secretary Mnuchin:

The undersigned civil rights, faith, and community development organizations write to seek that you direct the Small Business Administration (SBA) to designate that Community Financial institutions (CFIs) receive one-third of the $30 billion set aside for three groups of lenders—CFIs, small insured depository institutions, and credit unions—pursuant to H.R. 266, the Paycheck Protection Program and Health Care Enhancement Act. Of the three groups of lenders, only CFIs aim specifically at serving communities of color. Congress included them in the $30 billion set-aside in order to correct the problem that businesses of color were almost entirely excluded from the first round of funding under the SBA's Paycheck Protection Program (PPP). It is anticipated that the PPP funding will once again be exhausted quickly. **Reserving $10 billion to CFIs is the only way to ensure that businesses of color have access to this lifeline before the money runs out.**

Businesses of color are a substantial source of income and employment in communities of color—accounting for 8.7 million jobs at total annual payroll of $280 billion, and $1.3 trillion in revenue[1]—yet they were almost entirely excluded from the first round of funding in the PPP. This is because the scarcity of funding relative to demand strongly favors relatively well-connected, well-resourced businesses with commercial lending relationships with a bank or credit union, who can get their application accepted and processed quickly to claim their share while the funding lasts. This strongly disfavors businesses owners of color, who generally do not have these relationships and access. Moreover, the program incentivizes lenders to favor larger loans, which yield larger fees, and these require payrolls larger than those of the vast majority of businesses of color.

H.R. 266 specifically provides for $30 billion for loans made by Community Financial Institutions, Small Insured Depository Institutions, and Credit Unions with assets less than $10 billion. These three categories must receive equal portions ($10 billion each) of this allotment to ensure that the intent of Congress is met and that qualified institutions have an equal opportunity to participate in the PPP. "Community financial institutions" are defined as community development financial institutions (CDFIs), minority depository institutions (MDIs), SBA certified development corporations, and SBA microloan intermediaries.

The CARES Act specifically gives the Administrator authority to promulgate rules as necessary to carry out the PPP and to exercise its authority. It also notes that loans to businesses "owned and controlled by socially and economically disadvantaged individuals" should be prioritized. Thus far in this program, that prioritization has not occurred. To rectify this reality, Congress has now provided a more specific vehicle for carrying out this directive. To that end, we urge the following steps be taken immediately:

- Treasury and SBA set aside $10 billion for CDFIs and MDIs to fund loans for small businesses of color.
    - $5 billion must be used for loans of less than $150,000.
    - PPP loans by CDFIs affiliated with banks with asset size of $10 billion or more shall be counted against their bank's allocation group rather than this CDFI allocation.
- Treasury eliminates the requirement that CDFIs meet a $50 million lending threshold to access the SBA PPP.
- Treasury ensures that the PPP dedicated liquidity facility prioritizes CDFIs and MDIs.
- SBA should ensure increased PPP lending to businesses of color. At least 50% of all new loan dollars should be used to fund loans of $150,000 or less. The SBA should also require that 30% of all new loan dollars are awarded to businesses that are located in LMI census tracts and are owned by or employ residents of the area and/or are

owned by LMI borrowers. The SBA should also specifically advise and incentivize larger banks to buy a minimum level of PPP loans from CDFIs and MDIs and thus serve as another liquidity facility for the smaller lenders**.**
- SBA requires and reports on the demographic breakdown of all loans made through the PPP program.

Community development financial institutions (CDFIs) and minority-depository institutions (MDIs) best serve businesses and communities of color. Without a dedicated allocation, CDFIs and MDIs will lose out on most of the expanded PPP funds. CDFIs have strong track records of lending to underserved businesses as they best understand the needs of small businesses of color and have systems to adequately process loans to them.[2] However, without a specific allocation, the expanded PPP funding will run out before CDFIs and MDIs can access it, thwarting Congressional intent and the overall goals of the program. While the bill appropriately includes set-asides for community banks; they reach rural areas and additional businesses, but they have had even less success in serving borrowers of color than big banks. Community banks and large banks alike do not serve small businesses of color. PPP lenders are not encouraged or incentivized to work with businesses outside of their existing credit relationships. While there is little data collected on small business lending, HMDA data shows that community banks do a third less of their home purchase lending to borrowers of color.

Many CDFIs and MDIs were excluded, by regulation, from the first round of PPP funding. The first round arbitrarily excluded non-depository institutions that have not had a loan volume of $50 million within the last three years, despite the fact that size of the loans needed for most small businesses does not require a loan volume capacity of anywhere close to that level. Many CDFIs had loan volumes below $50 million, but also demonstrated significant lending capacity.[3] These institutions are not currently set up to participate immediately in the new round nor do they already have pending applications, putting them at an extreme disadvantage compared to other banks. Almost all banks (98%) and credit unions (99.8%) have assets under $10 billion.[4] **All of these institutions would be eligible for funding under the $30 billion set-aside.**

As you are aware this is a high-demand and the rest of the funding, including the other $30 billion set-aside for mid-size banks and the remaining $250 billion, will run out in a matter of days. This funding will flow as it has previously, primarily through larger, more resourced institutions and to wealthier businesses. While smaller institutions are not excluded from these funds, it is highly likely that they will be squeezed out by the big banks. These banks are already PPP lenders and have thousands of applications awaiting SBA approval as soon as the funds are released.

As the Treasury Secretary, you must use your authority to ensure that the structural issues with the PPP do not continue to exclude businesses of color. Because structural issues remain with the new SBA PPP, businesses of color will fail to get their fair share unless dedicated funding is provided for CDFIs and MDIs. The PPPIA does not change in how banks are paid – banks will still be incentivized to do larger loans with larger businesses. This is because banks earn an origination fee based on the size of the loan. The size of the loan is determined by the size of the payroll. The vast majority of businesses of color have a smaller number of employees per business, but are a vital source of employment in their communities. This is also still a first-come, first-serve model that privileges businesses and financial institutions that have more resources and are better prepared to move quickly before funds run out. Many lenders will extend credit to those first in line from the previous $349 billion. Further, within those lines, they will continue to prioritize wealthier and more connected clients. These first-in-line practices raise significant fair lending concerns.

Finally, we urge you to implement and require a robust data collection process for all lenders. Transparency is essential to this program and true transparency and impact can only be determined if data is actually collected and analyzed. Data tells the American public which businesses are being served with public dollars. Businesses of color deserve their fair share. Estimates are that more than 90% of the original $349 billion went to wealthier and white businesses. Further, SBA loan programs in general have a poor track record of serving Black and Latino businesses in particular.[5] Since the stated intent of the PPIA was to ensure more loans to small businesses, including businesses of color, taking the outlined actions will ensure that the goals of the Treasury and Congress are not undermined.

We trust that you will use your authority to make these adjustments and issue appropriate guidance and regulations so that Administrator Carranza can act in a timely manner to ensure fair access is achieved before the expanded funds run out.

Sincerely,

American Business Immigration Coalition
Association for Enterprise Opportunity
CDFI Coalition
Center for Responsible Lending
Community Development Bankers Association
Community Development Venture Capital Alliance
Hope Credit Union
Inclusiv
Leadership Conference on Civil and Human Rights
Main Street Alliance
NAACP
NAACP Legal Defense and Educational Fund, Inc.
NALCAB – National Association for Latino Community Asset Builders
National CAPACD
Natural Capital Investment Fund
National Community Investment Fund
National Urban League
National Baptist Convention USA, Inc.
Opportunity Finance Network
Page 30 Coalition
Partners for Common Good
UnidosUS
US Black Chambers, Inc.

CC:
The Honorable Jovita Carranza
Administrator
US Small Business Administration
409 3rd St, SW
Washington DC 20416

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[1] Census Bureau's Annual Survey of Entrepreneurs, 2016.
[2] According to the Opportunity Finance Network, 58% of CDFI loan funds serve people of color and 85% of the clients served are in low-income communities. They have financed over 400,000 businesses since inception.
[3] According to an analysis by the Hope Policy Institute of 2017 CDFI Fund Awardee reports (the most recent available), in 2017, there were 315 Awardees, 212 of which reported originating commercial loans during the year. Twenty-seven of those CDFIs (13%) did more than $50 million in commercial loan originations that year. However, 146 of CDFIs who did commercial lending (67%) did more than $1 million in commercial loan originations.
[4] According to CRL analysis of 4Q2019 FFIEC and NCUA data, 5,134 out of 5,227 banks (98%) and 5,339 out of 5,349 credit unions (99.8%) have assets under $10 billion.
[5] In FY2019, SBA 7a program approvals were 6.3% Hispanic and 3.3% African-American.
https://fas.org/sgp/crs/misc/R41146.pdf