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Provided to the Senate Committee on Small Business and Entrepreneurship

March 17, 2021

Thank you for holding this hearing entitled: "The Paycheck Protection Program: Performance, Impact, and Next Steps". My name is Lisa Mensah, President and CEO of the Opportunity Finance Network (OFN). I am pleased to be here today to testify about why community development financial institutions (CDFIs) are critical to helping the Paycheck Protection Program (PPP) and other federal relief reach underserved businesses.

OFN is a national network of CDFIs: mission-driven community development banks, credit unions, loan funds, and venture capital funds investing in opportunities that benefit low-wealth communities across America. As specialized lenders that focus on underbanked communities, CDFIs are uniquely poised to deliver federal relief resources to businesses owned by people of color, very small businesses, and other under-resourced businesses in urban, rural, and Native communities.

For nearly 40 years, CDFIs have provided responsible, affordable capital where it is needed most: CDFI customers are 84 percent low-income, 60 percent people of color, 50 percent women and 26 percent rural.[1] Nationwide, the more than 1,100 CDFIs certified by the US Treasury Department's CDFI Fund manage more than $222 billion. CDFIs are also experienced small business lenders with deep expertise reaching low wealth markets. In fiscal year (FY) 2019, certified CDFIs had more than $24 billion of small business and microloans in their portfolios.[2] With cumulative net charge-off rates of less than 1 percent, CDFIs lend prudently and productively in markets underestimated by mainstream banks.[3]

The State of America's Small Businesses

One year into the pandemic, America's small businesses are still suffering from the economic impacts of COVID-19. The Census Bureau's "Small Business Pulse Survey" found that in early March 2021, nearly 72 precent of small businesses report the pandemic had a moderate or large negative impact on their business.[4]

The Federal Reserve's 2021 Small Business Credit Survey Report found 57 percent of firms characterized their financial condition as "fair" or "poor." That number increases to 79 percent for Asian-owned firms and 77 percent for Black-owned firms. In addition, the share of firms that experienced financial challenges in the prior 12 months rose from 66 percent to 80 percent between 2019 and 2020. In response to those challenges, 62 percent of businesses firms used personal funds and 55 percent cut staff hours and/or downsized operations. [5]

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[1] Opportunity Finance Network, "Impact Performance", https://ofn.org/impactperformance
[2] Opportunity Finance Network, 2019 CDFI Fund Annual Certification Reporting Database", Accessed November 19, 2020.
[3] Opportunity Finance Network, "Impact Performance", https://ofn.org/impact-performance
[4] U.S. Census Bureau, "Small Business Pulse Survey", March 11, 2021, Accessed March 13, 2021, https://portal.census.gov/pulse/data/
[5] Federal Reserve, "2021 Small Business Credit Survey Report on Employer Firms", Accessed March 13, 2021, https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2021/2021-sbcs-employer-firms-report

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As small businesses struggle, they continue to look to the federal government for assistance. The Paycheck Protection Program (PPP) is one of the cornerstones of the federal government's COVID-19 response – with more than $800 billion allocated so far. The program has helped many small businesses survive the pandemic. More than 90 percent of small businesses surveyed in the Small Business Credit Survey sought emergency funding to weather the financial impacts of the pandemic – 82 percent applied for PPP.[6] The popularity of the program makes it even more imperative to implement improvements to make it more effective. As OFN noted in previous testimony before the Senate Small Business and Entrepreneurship Committee, Round 1 of PPP was riddled with challenges, resulting in many eligible businesses – especially minority-owned women-owned, and businesses in low-wealth communities - missing out on accessing a PPP loan.[7]

Praise to Congress for making Critical Improvements to PPP in COVID-19 Relief Legislation

Late last year, after continued urging by OFN, community lenders, and small businesses, Congress prioritized small businesses located in low-wealth communities in the extension of the PPP. The new round of PPP delivered as part of HR 133, Consolidated Appropriations Act, 2021 provided $284 billion in new PPP funds along with programmatic improvements to improve the program's reach and flexibility.[8] OFN was pleased to see Congress restructure and reform the PPP to reach the most underserved small businesses.

These program modifications helped CDFIs take a larger role in PPP lending including:

- $15 billion set-aside for CDFIs, Minority Depository Institutions (MDIs), and other mission lenders;
- Set-asides for first-time PPP loans to businesses with 10 or fewer employees, sole proprietors and the self-employed, nonprofits, and for loans less than $250,000 to businesses located in low- to moderate-income (LMI) areas;
- Allowing second draw PPP loans for hard-hit businesses;
- Simplifying the forgiveness application process for loans of $150,000 or less;
- Repealing the requirement to deduct an Economic Injury Disaster Loan (EIDL) advance from the PPP forgiveness amount;
- Changing the fee structure to ensure lenders could continue to make smaller loans and provide the technical assistance needed to navigate the application and forgiveness process; and
- Clarifying the tax status of business expenses paid with forgiven PPP loans.

Rocky Initial Implementation of New PPP Round

The new round of PPP built on the lessons learned from the first round, starting from a much stronger foundation. With the new changes in place, lenders were optimistic about implementation of this round of PPP – hoping many of the bumps along the way had been smoothed. The CDFI industry was encouraged by the SBA's recognition that CDFIs and other community lenders are best positioned to drive PPP resources to minority-owned, women-owned, and other underserved

[6] Ibid.
[7] Opportunity Finance Network, OFN Testimony on the Future of the Paycheck Protection Program before the Senate Small Business Committee, December 10, 2020, https://www.sbc.senate.gov/public/index.cfm/hearings?ID=FC8E242C-B966-4C5A-AD3C-83E17DDE6704.
[8] https://www.congress.gov/bill/116th-congress/house-bill/133

businesses. Unfortunately, some of the efforts to prioritize the needs of these small businesses were hampered by missteps in the program rollout.

The scale of the crisis facing small businesses necessitated rapid implementation of this new round of PPP. Receiving aid quickly was especially critical for very small, minority owned, and other marginalized businesses prioritized by Congress and the SBA. To reach these targeted businesses, only community financial institutions (CFIs), including CDFIs, were permitted to submit PPP applications when the program opened on January 11, 2021. Larger lending institutions were prohibited from submitting applications until January 19, 2021.

When this exclusive application window was announced, CDFIs and other CFIs raced to understand SBA's new systems and program rules, many of which were published only hours before the scheduled opening of the application period. In addition, CDFIs encountered challenges with the SBA's new lending platform, delayed and incomplete guidance from SBA, and limited access to technical assistance:

- **New lending platform -** SBA moved to a cloud-based platform aimed at reducing bottlenecks created when large number of applications from large lenders were submitted at once. However, guidance to help lenders use the system to process new PPP applications was unveiled just a few days before the portal opened, leaving little time for staff training or technical assistance. One CDFI noted that the initial glitches in the new SBA platform slowed their productivity by as much as 80 percent. In addition, the borrower information that was prepopulated in the E-tran system was not available in the new system portal. Lenders had to resubmit the information, wasting valuable processing time during the dedicated window.

  OFN members also noted that the shift from automatic approvals in the 2020 round of PPP to a loan approval time of up to 48 hours in 2021 slowed their ability to process a high volume of loans. Lenders expressed frustration as there was strong demand from new and existing customers for first and second draw PPP loans.

- **Delayed and incomplete guidance -** New loan documents and guidelines related to eligible uses of funds, expanded eligibility for new applicants, and requirements for borrowers seeking a second PPP loan were all made available to lenders less than 48 hours before the opening of the portal to CFIs. SBA's guidance on documentation requirements and critical details on the calculation of gross receipts was not released until January 17th and January 19th, more than a week after opening the program to CFIs. There were even more delays on obtaining guidance and materials on the accelerated applications for forgiveness on loans less than $150,000. The opening of the program to the public without key guidance created confusion and impacted the ability of CFIs to appropriately serve their customers.

- **Limited access to technical support -** Some CDFIs noted difficulty accessing timely assistance through SBA's helpline when technical problems arose. Updates to the PPP lending portal were made even as CFIs were processing loans, but without SBA providing appropriate technical assistance to help lenders understand those changes. Specifically, OFN members report that error messages were confusing, key calculations for loan amounts were inaccurate, and their staff encountered problems trying to connect with SBA staff.

  For example, calls to the PPP lender platform hotline directed you to submit an email, but most of those emails did not receive a reply – one lender reported only one of ten emails submitted received a response. While SBA did warn lenders to have patience and expect delays, these technical challenges negatively impacted the ability of CDFIs to fully take advantage of the dedicated access when the program opened.

Although the initial rollout of PPP Round 2 was very challenging, CDFIs and other small lenders once again stepped up to deliver critical relief to small businesses. During the dedicated window, CFIs made more than 60,000 PPP loans totaling more than $5 billion.[9]

Biden Administration Changes Provide Targeted Relief to Underserved Small Businesses

In February, the Small Business Administration implemented additional changes designed to prioritize the needs of very small businesses and businesses located in low- and moderate-income communities including:

- **Exclusive access for very small businesses** - A two-week window of dedicated access to the PPP loan system for businesses with fewer than 20 employees. During that period, the SBA only processed applications from those very small businesses. This dedicated access meant all lenders – not just mission lenders - were focused on the needs of underserved borrowers. This was an important policy decision that truly centered the needs of these businesses.

- **Recalculation of income for Schedule C filers** - Changes to income calculations for sole proprietors, independent contractors, and self-employed people to allow these businesses to apply for a loan through the program based on gross income rather than net income. The change will significantly increase the amounts for which these very small businesses qualify. OFN member Hope Enterprise Corporation noted the impact: a Black woman-owned boutique in Alabama qualified under the old rules for a PPP loan of $7,469. With the changes, she would qualify for a loan of $22,659.

- **Focus on low- and moderate-income communities** - An additional $1 billion set aside for businesses with employees located in low- and moderate-income areas, providing dedicated resources and greater access to PPP for many CDFI customers.

- **Expanded borrower eligibility** - Easing restrictions on borrowers with non-fraud felony convictions, delinquent student loan debt, and Individual Taxpayer Identification Number (ITIN) holders. CDFIs report that expanding eligibility increased demand for PPP loans among borrowers with nontraditional credit histories.

- **Greater communication and outreach to lenders** - SBA improved communication with lenders through webinars, direct phone calls to raise awareness of program changes and encourage lender participation. OFN has appreciated participating in weekly update calls with SBA which allowed us to reinforce SBA guidance with our members and share information in a timely manner.

- **Improvements to technical problems** - There were also improvements to some of the technical problems lenders encountered in the early days of Round 2. SBA ramped up processing of forgiveness applications and clearing hold and error codes, allowing thousands more applications to move forward.

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[9] U.S. Small Business Administration, "60,000 Paycheck Protection Program Loans Approved in First Week", Release Number 21-11, January 19, 2021. https://www.sba.gov/article/2021/jan/19/60000-paycheck-protection-program-loans-approved-first-week

Prioritizing the needs of these borrowers yielded results. The Biden Administration reports that during the two-week exclusive access window there was a 14 percent increase in loans to women-owned businesses, a 20 percent increase in loans to minority-owned businesses, a 12 percent increase in loans to businesses in rural areas, a 15 percent increase to businesses with fewer than five employees and a 25 percent increase to first-time borrowers.[10]

CDFIs have continued to be an integral part of reaching these businesses. The share of CDFI lending in PPP is 60 percent higher than in PPP Round 1. The following are examples of CDFI PPP lending in Round 2:

- Albuquerque, New Mexico- based **DreamSpring** has made 1,822 PPP loans totaling $48 million to small businesses in Arizona, Colorado, Florida, Georgia, Illinois, Iowa, Kansas, Missouri, Nevada, New Mexico, New York, North Carolina, Oklahoma, Texas, Utah, and Washington. The average loan size is approximately $26,000.

- Washington, DC–based **LEDC** made 64 PPP loans totaling $1,4 million to businesses in DC, Maryland, Virginia, and Puerto Rico. The average loan size is $21,501 – with an average loan size for businesses in Puerto Rico of $10,460. LEDC has received a high number of first-draw applicants, with most being sole proprietors, and reports an increase in the number of applications from their Puerto Rico market.

- Missoula-Montana-based **MoFi,** a CDFI serving Montana, Idaho. Oregon, Utah, Washington, and Wyoming made 1,466 Round 2 PPP loans totaling more than $28.87 million. The average loan size is $24,329. Sixty percent of MoFi's PPP clients found the CDFI through a bank or credit union referral.

- Austin, Texas-based **BCL of Texas** approved 84 loans totaling $2.34 million with an average loan size of about $27,900, All of BCL's Round 2 PPP loans are to businesses with fewer than 20 employees. The CDFI also reports an increase in volume of borrowers who now qualify through their annual gross income borrowers after the changes to the Schedule C filer loan application.

- Bedford, Texas-based **Capital Plus Financial** approved more than $99 million in PPP loans in Round 2 PPP loans with 95 percent of the loans for less than $150,000. The average business served has fewer than five employees, and the smallest PPP loan approved was $400.

Despite Improvements, Challenges Remain for PPP Lenders and Borrowers

OFN applauds SBA for continuing to make changes and conduct outreach to lenders and borrowers. The PPP has been a valuable lifeline to the businesses able to secure access, but challenges continue for participants:

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[10] U.S. Small Business Administration, "Fact Sheet: Changes to Paycheck Protection Program by Biden-Harris Administration Increase Equitable Access to Relief", March 9, 2021, https://www.sba.gov/article/2021/mar/09/fact-sheet-changes-paycheck-protection-program-biden-harris-administration-increase-equitable-access

- **Access to capital for lenders** – Some CDFIs were limited in their ability to make more PPP loans because of challenges accessing lending capital. The Federal Reserve's PPP Lending Facility (PPPLF) has been critical to those who are able to access it, but not all CDFIs have been able to participate. Some CDFIs were able to access the facility by developing correspondent relationships with depository institutions that have master accounts with the Federal Reserve. However, the process was delayed and complex, limiting access to liquidity at a critical time when CDFIs needed it most. OFN is pleased to see the PPPLF extended through June 30. This will be especially valuable should Congress extend the PPP application deadline.

- **Delayed guidance from SBA -** SBA guidance to operationalize the changes put forth by the Biden Administration has not been timely. The Interim Final Rule related to the changes in Schedule C income calculations was not made available until March 3, 2021, again taking valuable time away from small businesses seeking to take advantage of the higher loan amounts.

- **Forgiveness process** – Several CDFIs noted the SBA is conducting onerous review of loan forgiveness applications, making documentation requests related to first round forgiveness in spite of the clear directive of Congress to streamline the process for smaller loans. Some CDFIs had to dedicate full-time staff to supporting clients whose loans are selected for forgiveness review by the SBA – reducing the time staff spend processing new PPP loans. The average loan size under review is modest, with many in the $1,000 range. Congress should clarify that the streamlined forgiveness process applies to all PPP leans, regardless of when the loan was made.

Significant Additional Federal Investment Needed to Support Small Business

The PPP was an important first step in addressing some of the challenges facing small businesses, but more must be done. With the prospect of pandemic restrictions on businesses easing as vaccination rates rise relief efforts must start to transition into recovery efforts. The lessons learned from the implementation of PPP should be carried forth in SBA's economic recovery programs. Federal recovery initiatives, particularly those at SBA, must be targeted to reach the most vulnerable businesses to ensure a more inclusive economic recovery. Federal programs that do not reach businesses owned by women, people of color, rural businesses, and other underbanked business are not successful and must be reformed.

In HR133, Congress made a significant investment in the CDFI industry's capacity by providing $3 billion in emergency grants. In addition, the recently passed American Rescue Plan includes support for small businesses through a $10 billion State Small Business Credit Initiative with set-asides for very small business, tribal businesses, and economically and socially disadvantage businesses. These federal investments are an important down payment but more is needed.

The following are OFN recommendations that will help ensure new federal resources reach the intended communities by enhancing the capacity of CDFIs to support the economic recovery:

- **Provide $1 billion in annual appropriations for the CDFI Fund –** The federal government put a down payment on the CDFI industry in HR133. More investments at this scale are needed. An annual appropriation of $1 billion for the CDFI Fund is critical to strengthening CDFIs to continue assisting in the long term recovery of low-wealth communities. To truly achieve an inclusive recovery, the federal government must increase the supply of capital to CDFIs, mission based responsible lenders that are adept at channeling those resources into distressed communities. This investment will also broaden the reach and impact of the federal government's investments.

While the PPP set-asides were critical in helping capital flow to small business owners impacted by the pandemic, only a small subset of CDFIs were able to become PPP lenders, and they used their own lending capital to make PPP loans to small business customers. SBA pays a small servicing fee to PPP lenders for each loan they make, but the funds for the loan itself comes from the PPP lender.[11] PPP loans are a short-term, focused financing tool to meet an immediate small business need, not a substitute for critical equity capital CDFIs need to support the medium- and long-term economic recovery. CDFIs are well positioned to respond to the financial needs of low wealth markets but need their own balance sheets to be stable in order to contribute to the economic recovery. This balance sheet stability is essential to allow CDFIs to continue to leverage private and philanthropic resources.

- **Extend PPP through May 31** – OFN urges Congress to quickly pass the PPP Extension Act of 2021 to extend the deadline until May 31, 2021 and provide an additional 30-day period for the SBA to process applications that are still pending. Thousands of business owners will not receive access to PPP without an extension. If the SBA PPP program closes on March 31, Jackson, MS-based CDFI HOPE estimates 1300 loans for businesses that have applied for assistance will not be funded – of which 98 percent are businesses with fewer than 20 employees, 95 percent are minority-owned businesses, and nearly 100 businesses are veteran or veteran spouse-owned businesses.

  As other lenders are closing down their programs early and/or not complying with the newly enacted Schedule C changes, these smallest businesses, particularly those in communities of color, continue to seek PPP loans from CDFIs. These lenders then have the triple duty of processing loans already in the pipeline, working to implement the new Schedule C changes which benefit most of their borrowers, and picking up the unmet need left by the banks' inaction. An extension would enable all lenders to meet the ongoing demand for PPP loans.

- **Make retroactive Schedule C income calculations -** The new loan calculation for Schedule C filers is only available to businesses approved after the regulations were finalized on March 3, 2021. If businesses have already been approved, they cannot re-apply or gain access to the new formula changes unless Congress makes the changes retroactive, as they have done for ranchers and farmers. SBA has suggested approved businesses cancel PPP loans and reapply, however, with many lenders making provisions to stop taking applications by the middle of March, some businesses may receive no relief at all. Unless Congress acts to make the Schedule C changes retroactive, these businesses will not benefit from the recalculation of their PPP loan size based on gross income.

- **Direct SBA resources to small businesses located in low-wealth markets or owned by historically underserved groups –** The inability of SBA's core programs to reach low wealth communities, businesses owned by people of color, very small businesses, and other under-resourced businesses can no longer be accepted. The success of refocusing PPP to meet the needs of the most underserved borrowers demonstrates the importance of SBA using the entirety of its resources to stabilize and support the most vulnerable small businesses.

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[11] U.S. Small Business Administration, "Paycheck Protection Program Interim Final Rule", Issued April 2, 2020. https://www.sba.gov/document/policy-guidance--ppp-interim-final-rule

Congress must make improvements to the SBA's core programs, including 7(a), Community Advantage, 504, and the Microloan program to ensure that their primary focus is increasing access to capital for these businesses. To survive the pandemic, businesses will need access to responsible, affordable loans, credit enhancements, and working capital in addition to PPP's payroll support. Programs that prioritize CDFI participation like the 7(a) Community Advantage program and the SBA Microloan program are more successful at reaching underserved businesses, especially businesses owned by women and people of color. Enhancing CDFI participation and making improvements to these programs will help reach more underbanked businesses.

- **Fully Fund Section 1112 CARES Act debt relief program -** The SBA's debt relief program was a critical lifeline for many CDFIs and their borrowers. The six months of payments eased borrower's debt burden while the SBA's payments of interest and fees to lenders helped relieve stress on balance sheets from lost revenue. For some CDFIs, this additional capacity enabled them to offer their own emergency loan products or administer state and local aid programs.

  The $3.5 billion provided for the debt relief program in HR133 was insufficient to fund these extensions, causing SBA to proportionally reduce the number of months of relief provided to each borrower. The economy is still fragile, and many small business owners can ill afford to start making debt payments, especially those with loans under the Community Advantage and Microloan programs. OFN urges Congress to provide more funding for Section 1112 payments to ensure small businesses continue to have access to the capital they need to keep their doors open.

- **Make permanent the Community Advantage pilot program -** More than a decade after its inception, the SBA's 7(a) Community Advantage program remains in pilot phase despite its proven ability to reach underserved borrowers. In addition, the definition of underserved borrower remains too narrow – excluding women and people of color at a time when their businesses are in most need of access to capital. Congress must make these program changes before the pilot program is set to expire in 2022.

- **Make permanent enhancements to Microloan and Community Advantage programs** HR 133 made temporary changes to the SBA Microloan and Community Advantage programs. Congress should make these changes permanent:

  - increase the amount of time Microloan borrowers have to repay their loans to eight years;
  - increase the outstanding aggregate amount each Microloan intermediary may borrow from $6 million to $10 million;
  - waive the Microloan program's matching requirements for the technical assistance grants and the 50 percent limitation on pre-loan technical assistance; and
  - increase to 90 percent the loan guarantee amount for Community Advantage loans.

- **Repeal the Microloan Program's 1/55th Rule -** Congress should also repeal the Microloan program's 1/55th rule that prevents SBA from distributing more than 1/55th of its funding in any given state during the first half of the year. Microlenders are on the front lines of saving small business in America. The patient, flexible capital and technical assistance offered by microloan intermediaries is more important than ever in the current economic and health crisis. The 1/55th rule is a serious impediment to finds reaching high-need areas.

Designed to ensure widespread availability of program funds, the rule is no longer needed. The Microloan program is widely available; there are 154 intermediaries working in 46 states, the District of Colombia and Puerto Rico. However, these organizations are in most cases unable to borrow additional funds to make microloans until the third or fourth quarter of the fiscal year. This creates an administrative bottleneck for the SBA, limits cash availability for lenders, and creates a paperwork burden for intermediaries. Eliminating this requirement will improve program efficiency and reach more businesses.

CDFIs are Essential to Financing Justice

The implementation of the Paycheck Protection Program has provided valuable lessons. Policies that prioritize the needs of very small, minority and women-owned businesses and businesses located in low-wealth communities achieve positive outcomes. Prioritizing these businesses requires partnership with lenders that specialize in serving them; it takes CDFIs.

To truly reach the businesses and communities that need help the most, Congress must invest in scaling the CDFI industry. Policymakers should incorporate CDFIs as partners across the federal government and make major investments in proven solutions and programs that enable the industry to grow. This is both an effective and smart investment for the federal government: investing in CDFIs means small amounts of public subsidy are leveraged to amplify its impact.

The nation's small businesses cannot afford for CDFIs to be an afterthought in public policy. The PPP experience demonstrated that when CDFIs are empowered with supportive policies coupled with capital they outperform other lenders. With targeted resources from the public sector and partnership with CDFIs, our country's small business sector can weather the pandemic and recover to thrive. Focusing on reaching unbanked and underbanked businesses through CDFIs, the lenders best equipped to serve them, will ensure a more equitable recovery.

Thank you for the opportunity to speak with you today. I look forward to your questions.