

October 14, 2020

Ms. Jodie Harris
Director
Community Development Financial Institutions Fund
US Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington DC 20220

Dear Jodie:

Our organizations and the CDFI industry as a whole strongly support the CDFI Fund's diligence in protecting the integrity of CDFI certification. CDFI certification is a mission test that serves not only as an eligibility screen for CDFI Fund programs, but as a valuable credential with private, philanthropic and other public sector investors in CDFIs. We support the Fund's commitment to keep certification standards high so that unsavory financial service providers in low-wealth communities are prevented from becoming certified CDFIs.

An important component of CDFI certification is the identification of a CDFI's target market, which can be an Investment Area or Target Population. Regardless of whether a CDFI has an Investment Area or Target Population target market, all CDFIs must designate a discrete geographic area that they serve. These geographic boundaries had important implications for CDFIs that became lenders in the Paycheck Protection Program (PPP). CDFI Fund guidance has determined that at least 60% of a CDFI's financial product activities must be directed to one or more eligible target market that the CDFI Fund must approve in advance.

As communicated in a previous [letter](#), we believe that the dramatic economic disruption caused by the COVID pandemic warrants a *temporary time-limited* adjustment to CDFI Fund policies regarding a CDFI's target market. The Paycheck Protection Program was an emergency response focused on saving the jobs of employees of small businesses and nonprofits impacted by the COVID pandemic. Some CDFIs risk losing their CDFI certification because they answered the Administration and Congress' call to become PPP lenders and to reach beyond their current customers in offering PPP loans.

In asking for a temporary change in policy, please consider the following:

- In the interest of helping small businesses and nonprofits keep their employees and continue operations, some CDFIs chose to provide PPP loans to customers outside their CDFI Fund approved target market because the mission of CDFIs is to help disadvantaged borrowers. Avoiding job loss and business failures is squarely within the mission of CDFIs and the CDFI Fund.
- One category for an eligible target market for purposes of CDFI certification is "Other Targeted Population", for example Latinx or African-American. Due to the geographic restriction currently in place for target markets, a CDFI could have made a PPP loan to a black-owned business outside the geographical boundaries of its target market that would count against the CDFI for purposes of certification compliance. This is counter to the clearly expressed policy goals of Congress, Treasury, and the Small Business Administration (SBA) to have PPP reach more business owners of color.
- While there is a process the CDFI Fund uses in considering amendments and updates to a CDFI's target market, it is a deliberate one that could not respond quickly to the emergency situation. In fact, the CDFI Fund is in the middle of a public comment period for a revised rule that significantly changes the current certification system which the industry as well as the Fund agree needs to be updated. The proposed

changes to the Target Market would address some of the issues facing CDFI PPP lenders by removing the geographic boundaries for their Target Markets.

- While the data SBA has released on PPP is flawed and incomplete, it shows that on average, loans made by CDFIs were significantly smaller than those made by other lenders. Based on the SBA's data, the average loan size for CDFIs was about \$65,000 in PPP, approximately 35 percent smaller than the average loan size for all PPP lenders. In the second round of funding, average loan size for CDFIs was even lower at \$43,000. Some CDFI PPP lenders report making loans of less than \$1,000. Very small businesses and nonprofit organizations had difficulty in the early weeks of the program in finding a bank to process their PPP applications. Many of these borrowers turned to a CDFI once more CDFIs became eligible PPP lenders. Very small businesses, particularly ones trying to operate during a global pandemic, are by their very nature "disadvantaged".
- The Small Business Administration delay in processing forgiveness applications has contributed to the risk some CDFIs face in falling into noncompliance with certification requirements. To date, SBA has approved very few forgiveness applications, so PPP lenders are holding PPP loans in their portfolio for much longer than they anticipated. CDFIs report on their adherence to target market boundaries and requirements on an annual basis. Lending has been anything but typical since March 2020. For CDFI PPP lenders, "normal" lending has dropped due to the pandemic and PPP lending is up, skewing the proportion of loans that meet target market criteria.
- If CDFIs only offered PPP loans to their existing customers (as the mainstream banks initially did), there would be no issue with them breaching their target market parameters. By the time most CDFIs became eligible to make PPP loans, the SBA was strongly encouraging PPP lenders to go beyond their current customers to reach small business borrowers who had been turned down by banks in the early weeks of the program. Some otherwise banked borrowers became underserved due to high demand for PPP loans.

Some examples illustrate the situation:

- One CDFI PPP lender has a target market comprising two Western states. This CDFI met the need for PPP loans in these states and then responded to nonprofits and small businesses operating in neighboring states, particularly those serving Native populations.
- Another CDFI PPP lender made more than \$50 million in PPP loans and reached the 60 percent threshold in dollar amount of loans but not in number of loans because they made a significant number of smaller dollar PPP loans.
- Several other CDFIs report trying to update their Target Markets even before COVID-19 and PPP and have yet to hear back from the CDFI Fund.
- An organization serving rural communities in the Midwest made emergency loans to small businesses in their communities to help them remain open during the pandemic. Because of the checkerboard of eligible and ineligible communities in rural areas, some of the loans were not in eligible geographies based on current Target Market mapping, even though these businesses were clearly distressed. The CDFI reports raising this issue with the CDFI Fund in May 2020 to determine if these loans would count towards CDFI eligibility.

The consequences of non-compliance with CDFI certification requirements can be severe. Losing CDFI certification status can prevent a CDFI from accessing CDFI Fund programs. Covenants with a CDFI's private investors usually require CDFI certification, putting these capital sources at risk as well.

As our nation's health and economic crisis continues, high-performing CDFIs that stepped up to become PPP lenders should not be side-lined from serving their communities. Losing CDFI certification will weaken CDFI small business lenders at a critical time when their borrowers need them to be strong. Please consider options for temporary policy changes that will address this situation.

Possible Approaches Include:

- Qualify any PPP or other pandemic response loans made outside a CDFI's current target market that would qualify as eligible under another CDFI Fund target market criteria.
- Qualify any PPP or other pandemic response loans under \$50,000 that was made outside a CDFI's current target market.
- Qualify any PPP or other pandemic response loans in a low-income census tract that was made outside a CDFI's current target market.

Sincerely,

African American Alliance of CDFI CEOs
Association for Enterprise Opportunity
CDFI Coalition
Community Development Bankers Association
Community Development Venture Capital Alliance
Inclusiv
Native CDFI Network
Opportunity Finance Network