

December 19, 2022

Re: Community Investment Request for Information Comments

Jessica Milano  
Chief Program Officer  
Office of Recovery Programs  
US Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220

Dear Ms. Milano:

Opportunity Finance Network (OFN) appreciates the opportunity to comment on the Interagency Community Investment Committee's (ICIC) request for information on the operations and execution of federal programs that facilitate the flow of capital and the provision of financial resources into historically underserved communities.

OFN is a national network of more than 390 community development financial institutions (CDFIs). CDFIs are specialized lenders - community development banks, credit unions, loan funds and venture capital funds - that invest to benefit low-income and low-wealth communities across America.

As a condition of certification by the US Department of the Treasury's CDFI Fund, CDFIs must direct at least 60% of their financial products and services to low-income or disadvantaged communities and most CDFIs do much more than that. In addition, CDFI certification requires accountability to the community where the CDFI operates and regular reporting to the CDFI Fund. Recipients of CDFI Fund awards must observe even stricter compliance and reporting requirements. Minority Depository Institutions (MDIs), most of which are certified CDFIs, have exceptional credibility and decades of experience serving historically underserved communities.

Community banks and credit unions represent a much larger group of financial institutions. Most community banks and credit unions have minimal responsibility for providing financial products and services to the communities prioritized by the ICIC. Therefore, grouping mission driven financial institutions like CDFIs and MDIs along with credit unions and community banks in a category of "Community Financial Institutions" is a mistake.

The Small Business Administration's (SBA) Paycheck Protection Program (PPP) defined "community financial institutions" much more precisely.<sup>1</sup> In the PPP, CDFIs and other CFIs

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<sup>1</sup> The SBA defines the category of Community Financial Institutions as a Community Development Financial Institution (CDFI), Minority Depository Institution (MDI), Community Development Corporation (CDC), or Microlender Intermediary.



outperformed other lenders in reaching historically underserved communities as described in the attached analysis. CDFI and MDI participants in PPP layered public, private and philanthropic capital effectively to reach very small, minority and women-owned businesses and businesses located in low-wealth communities. The PPP experience demonstrated that when specialized financial institutions (CDFIs and MDIs) access adequate capital combined with supportive public policies, historically underserved communities benefit.

To facilitate the flow of capital and the provision of financial resources into historically underserved communities, the ICIC should adopt reforms that target federal resources to the financial institutions that specialize in serving those markets: CDFIs and MDIs.

Finally, OFN recommends that the membership of the ICIC be expanded to include the Environmental Protection Agency (EPA). The Greenhouse Gas Reduction Fund is a significant new program enacted in the Inflation Reduction Act which targets capital and financial resources to historically underserved communities disproportionately harmed by climate change. Leaders at the EPA responsible for implementing this program would benefit from participating in this interagency collaboration and accessing the expertise of the other federal departments.

We commend the Biden-Harris Administration for promoting greater collaboration across federal agencies and for considering reforms that would improve the operations and delivery of federal community investment programs.

Sincerely,

Jennifer A. Vasiloff  
Chief External Affairs Officer



# **Community Development Financial Institutions (CDFIs) + Supportive Public Policies + Capital = Responsible, Affordable Financing for Historically Underserved Communities**

## **Lessons from the Paycheck Protection Program (PPP)**

***The PPP experience demonstrated that with sufficient capital and supportive public policies, CDFIs outperform traditional lenders in reaching low-wealth and minority communities.***

### **Early Days of PPP Missed Underserved Businesses**

The Paycheck Protection Program (PPP) was an unprecedented effort to save our nation's small businesses as they struggled through the COVID-19 pandemic. Amid an economic and health crisis, the Small Business Administration (SBA) faced the daunting task of implementing a new program that ultimately deployed nearly \$1 trillion in assistance to businesses.

At first, very few CDFIs were eligible to offer PPP loans. CDFIs are specialized lenders with the expertise and relationships required to provide responsible financing to low-income, low wealth and minority communities. With most CDFIs excluded from offering PPP loans, many of the smallest businesses without a lending relationship with a mainstream bank could not obtain one.

### **Initial Reforms to PPP**

As it became clear that PPP was not reaching very small, minority and women-owned businesses, changes were made that expanded the role of CDFIs.

- **PPP set-asides for CDFIs** - In the PPP and Health Care Enhancement Act (P.L. 116-139) which passed on April 24, 2020, Congress directed SBA to create a \$30 billion set aside for PPP loans made by "community financial institutions" (CFIs)<sup>2</sup>, a category of mission-driven lenders which included CDFIs. On May 28, 2020, the SBA announced a dedicated \$10 billion set-aside **only** for CDFIs. The set-asides enabled CDFI lenders the time to appropriately assist their clients, who often did

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<sup>2</sup> Community Financial Institutions is a category of lenders defined by Small Business Administration as a Community Development Financial Institution (CDFI), Minority Depository Institution (MDI), Community Development Corporation (CDC), or Microlender Intermediary.



not have access to accountants or tax professionals and required technical assistance to prepare PPP applications.

- **Dedicated access to SBA’s online lending portal for small lenders** - In late April 2020, the SBA provided a brief window of limited access to the SBA’s e-Tran system to lenders with less than \$1 billion in assets. This was another important opportunity for CDFIs to process their loans and have access to the SBA systems without directly competing with thousands of other much larger financial institutions.
- **Removing barriers to entry for non-depository lenders** – The initial requirement for non-depository lenders to have made \$50 million in small business loans annually excluded many small but high performing, high capacity CDFIs from becoming PPP lenders. On April 30, 2020, Treasury dropped the lending volume threshold from \$50 million to \$10 million, opening access to more CDFI lenders. Easing that requirement earlier in the process would have allowed more CDFIs to become PPP lenders and serve additional customers, especially in the early days of the program when demand was extremely high.
- **Access to the Federal Reserve’s PPP facility for non-depository lenders** – Non-depository CDFIs were initially locked out of the Federal Reserve’s PPP facility to purchase loans, preventing access to critical liquidity. Without access to a secondary market, CDFIs were limited to deploying their existing capital or quickly working to raise lending capital from banks. On April 30, 2020, the Federal Reserve opened access to its PPP facility to non-depository CDFIs if they were able to establish a correspondent relationship with a financial institution with a master account with the Federal Reserve. While helpful to some CDFI loan funds, the process was delayed and complex, limiting access to liquidity at a critical time.

### **Legislative Changes Improve Access to PPP for Underserved Businesses**

In December 2020, with the passage of the FY2021 Omnibus Appropriations and COVID-19 Relief Bill, Congress made major changes to the next round of PPP funding to better target resources to underinvested businesses and the lenders that serve them:<sup>3</sup>

- **\$15 billion for Paycheck Protection Program (PPP) loans set aside** for community financial institutions (CFIs) to increase access for minority-owned and other underserved small businesses and nonprofits.
- **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.

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<sup>3</sup> <https://www.ofn.org/historic-funding-cdfis-fy2021-omnibus-appropriations-and-covid-19-relief-bill/>



- **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.
- **Clarifying the tax status** of business expenses paid with forgiven PPP loans.

### **SBA Implementation of Policy Changes Leads to Better PPP Outcomes**

In January 2021, the new round of PPP was implemented incorporating the legislative changes from the December 2020 COVID relief bill. The SBA also made regulatory and programmatic changes designed to better reach underserved small businesses.

- With the new round of PPP funding, SBA **prioritized CFIs including CDFIs by opening the PPP application period eight days early**. As a result of that early access, CFI customers were served first. During the dedicated window, CFIs made more than 60,000 PPP loans totaling more than \$5 billion.

### **Biden-Harris Administration Adopts Further PPP Reforms to Reach More Vulnerable Businesses**

Under the Biden-Harris Administration, the SBA voluntarily implemented even more changes to target relief to underserved small businesses<sup>4</sup>:

- **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 CFIs - were focused on the needs of underserved borrowers.
- **Recalculation of income for Schedule C filers** - Changes to income calculations for sole proprietors, independent contractors, and self-employed people to allow

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<sup>4</sup> <https://cdn.ofn.org/uploads/2022/02/24092735/Testimony-of-Lisa-Mensah-OFN-to-the-Senate-Committee-on-Small-Business-and-Entrepreneurship-03-17-2021-Final.pdf>



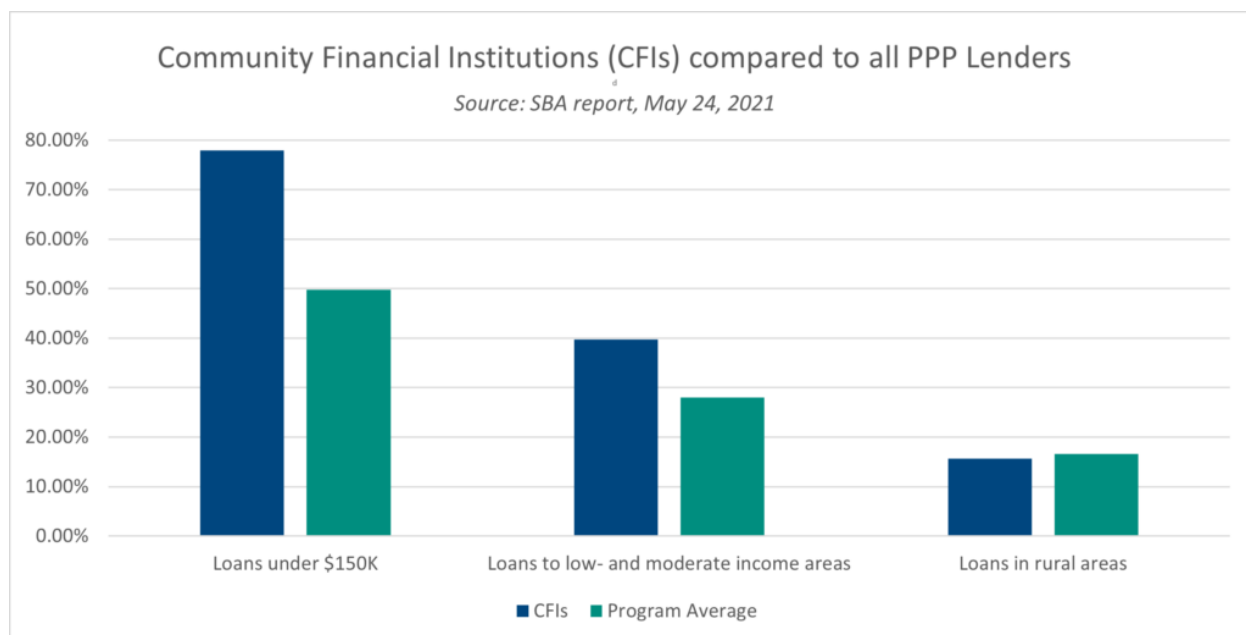
these businesses to apply for a PPP loan based on gross income rather than net income.

- **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 and direct phone calls to raise awareness of program changes and encourage lender participation. During this time, OFN participated 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.
- **Exclusive access for CFIs** - As the program drew to a close, on May 5, 2021, the SBA made a policy decision that **only** CFI lenders would be authorized to process Paycheck Protection Program (PPP) applications through the May 31, 2021 deadline.

## **Policy Changes Help Mission Lenders Reach More Targeted Businesses**

As a result of these policy changes to PPP, CFIs outperformed other lenders in multiple ways:

- The law establishing the \$292 billion 2021 Paycheck Protection Program reserved \$15 billion for CFIs to lend. SBA data shows that CFIs had lent more than TWICE this amount – making more than \$34 billion in total PPP loans. In addition, CFIs reached financially underserved businesses with a higher proportion of their loans compared to every other type of PPP lender: the SBA reported that 77.9% of CFI loans were under \$150,000 (49.8% program average); 39.7% of CFI loans were in low- and moderate-income areas (28% program average); and 15.7% were in rural areas (16.6% program average).



## Conclusion

It took a series of reforms before the Paycheck Protection Program reached very small, women and minority-owned small businesses and those located in low-income areas. Critical to this success was expanding the role of CDFIs as lenders in the program.

With supportive policies and adequate capital, CDFIs do an exemplary job of providing affordable finance to historically marginalized communities. The CDFI industry's unique strengths must be recognized in the design and implementation of new, as well as existing, federal programs seeking to reach disinvested people and places.



## Appendix

### Opportunity Finance Network Blog Posts on PPP

- [Biden Reforms to Paycheck Protection Program Advantage Smallest Businesses](#) - Feb. 25, 2021
- [Lisa Mensah Testifies Before Senate Small Business and Entrepreneurship Committee](#) - Mar. 19, 2021
- [SBA Paycheck Protection Program Presentation](#) - May 24, 2021
- [CDFIs Continue to Outperform Other PPP Lenders](#) - May 25, 2021
- [PPP Winds Down with CDFIs as Top Lenders](#) - June 10, 2021
- [Policymakers Highlight Impact of CDFIs and MDIs in Small Business Lending During House Financial Services Hearing](#) - Feb. 24, 202