Community Development Bankers Association
1444 Eye Street, Suite 201 • Washington, D.C. 20005 • (202) 689-8935 • (202) 689-8938 (fax)

April 4, 2020

The Honorable Steven Mnuchin
Secretary
U.S. Department of Treasury
1500 Pennsylvania Avenue, NY
Washington, D.C. 20220

Re: Effect of PPP Interest Rate on Bank Liquidity Due to Lack of Interest in a Secondary Market

Dear Secretary Mnuchin:

My organization, the Community Development Bankers Association (CDBA), is the national trade association for banks that are Community Development Financial Institutions. Many of our members, particularly the 60+ who are already SBA approved lenders, stand ready and eager to participate in the Payroll Protection Program (PPP) authorized under the CARES Act. We have supported many of the provisions of the CARES Act since it emerged from the Senate Committee on Small Business and Entrepreneurship.

Our members were pleased that the PPP interest rate has increased from an untenable 0.5% rate to 1% in the Interim Final Rule, and we acknowledge that the sliding scale of points provided at closing may be perceived as fair compensation for the closing and carrying costs of originating lenders.

Our members, however, have expressed concern that PPP is insufficiently responsive to the need for bank liquidity. At this time liquidity is an essential consideration for our members, and indeed for any small- or mid-size bank rising to meet the rush of desperate borrowers. Sadly, smaller banks that are unable to exchange PPP loans for cash efficiently and without undue risk will be unable to meet the needs of their communities. Here are the issues we see that put the program at risk:

- Many of our members are experienced in the secondary market for SBA loans. These members have found that the rate of 1% is simply not enough to sell PPP loans at a premium or even at par; selling at a discount is certainly not an option that margin-constrained CDFI banks can consider.

- Members who have reached out to regional Fed offices to inquire about access to liquidity have found the Fed is unsure how to respond. This is despite the explicit appropriation in the legislation under Section 4003 (b)(4) for the Fed to respond through providing liquidity:

  > *Not more than the sum of $454,000,000,000 and any amounts available under paragraphs (1), (2), and (3) that are not used as provided under those paragraphs shall be available to make loans and loan guarantees to, and other investments in, programs or facilities established by the Board of Governors of the Federal Reserve System for the purpose of providing liquidity to the financial system that supports lending to eligible businesses, States, or municipalities by—*

(A) purchasing obligations or other interests directly from issuers of such obligations or other interests;
(B) purchasing obligations or other interests in secondary markets or otherwise; or
(C) making loans, including loans or other advances secured by collateral.

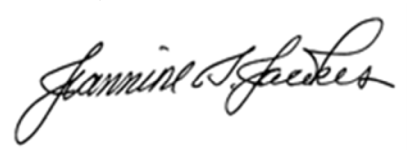
We are gravely concerned that without a clear source for liquidity, CDFI banks and the communities they serve will get squeezed out. Only the biggest banks' customers will benefit.

We appreciate your attention to this issue. Our members are committed to assisting Treasury and the SBA in any way we can, and stand ready to provide further insight or guidance into the PPP and its implementation as details emerge.

If you have questions, please contact me at jacokesj@pcgloanfund.org or 202-207-8728 or contact Brian Blake, CDBA's Public Policy Director at blakeb@pcgloanfund.org or 646-283-7929.

Thank you for your consideration on this important matter.

Sincerely,



Jeannine Jacokes
Chief Executive Officer

cc:
The Honorable Bimal Patel, Assistant Secretary for Financial Institutions
Ms. Jodie Harris, Director, Community Development Financial Institutions Fund