Community Development Bankers Association
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April 7, 2020

The Honorable Nydia M. Velázquez
Chairwoman
Committee on Small Business
U.S. House of Representatives
2361 Rayburn House Building
Washington, D.C. 20515

Re: Economic Recovery Tools for Communities Hardest Hit by COVID-19

Dear Chairwoman Velázquez:

On behalf of the members of the Community Development Bankers Association (CDBA), we strongly urge that the next recovery package provide meaningful support for low- and moderate income communities. CDBA is the national trade association of the community development bank sector. We are the voice and champion of banks with a mission of serving low and moderate income communities.

Low-income people and the communities they live in have been hit the hardest by this recession and bear the brunt of job losses. Thus, we believe any new Federal resources directed toward economic recovery must intentionally focus on these people and places.

The first waves of COVID-19 layoffs have focused on low-pay service jobs, which are disproportionately held by communities of color. Per March 2020 analysis by the Pew Research Center, nearly one-in-four U.S. workers – 38.1 million – are employed in the industries feeling an immediate impact from the COVID-19 outbreak. Among the most vulnerable are those employed in retail trade (10% of all workers) and food services and drinking places (6%). In total, these two industries employ nearly 26 million Americans. Workers in these and other high risk industries have lower-than-average earnings. Across all industries, the average weekly earnings in January 2020 were $975. By contrast, workers in food services and drinking places earned only $394 per week on average. Workers in the other high-risk industries had earnings ranging from around $500 to $600 per week.[1] Pew also found that communities of color are disproportionately impacted. A March 19-24, 2020 survey by the Pew Research Center found that 49% of Hispanics say someone in their household has taken a pay cut, lost a job, or both due to the COVID 19 outbreak – compared to 33% of all US adults.[2]

[1] https://www.pewresearch.org/fact-tank/2020/03/27/young-workers-likely-to-be-hard-hit-as-covid-19-strikes-a-blow-to-restaurants-and-other-service-sector-jobs/
[2] https://www.pewresearch.org/fact-tank/2020/04/03/u-s-latinos-among-hardest-hit-by-pay-cuts-job-losses-due-to-coronavirus/

To ensure resources are directed to the most severely impacted people and places, we urge you to:

- Provide $1 billion for the Community Development Financial Institutions (CDFI) Fund of the U.S. Department of the Treasury;
- Direct the Board of Governors of the Federal Reserve to create a meaningful set-a-side within its Main Street program for CDFIs and Minority Depository Institutions (MDIs) to ensure that borrowers in low- and moderate-income communities are not left behind; and
- If Congress provides more money for SBA's Paycheck Protection Program (PPP), we urge that at least half be earmarked for CDFIs, MDIs and small banks under $10 billion that will target the resources for borrowers in Low and Moderate Income communities.

Community Development Financial Institutions Economic Recovery Fund

We strongly urge Congress to fund $1 billion for the Community Development Financial Institutions (CDFI) Fund of the U.S. Department of the Treasury as part of the upcoming economic recovery package.

During the Great Recession, CDFIs played a pivotal role in stabilizing the local economies and preserving and creating jobs in low- and moderate-income communities. Likewise, the 2020 recession is already taking a devastating toll on the most economically fragile households and the communities where they live. In 2009, Congress channeled $100 million in stimulus funds into CDFIs through American Renewal and Recovery Act (ARRA). CDFIs were able to quickly and successfully mobilize and deploy funds to help businesses, consumers and others to survive the Great Recession.

The $1 billion request is modest relative to the size and scope of the CDFI industry. Currently, 1,131 organizations are certified CDFIs. Collectively, the CDFIs have $211 billion in total assets with total outstanding portfolios of $158.7 billion. The $1 billion request represents a modest 0.47% of total CDFI industry assets. Yet, these funds are critically important at this time. This capital can leverage up to 12-times ($12 billion) the $1 billion in private monies that will be channeled to local businesses, nonprofits, and others to help recover the devastating effects of the recession and begin rebuilding. CDFIs have a strong, proven track record of promoting economic stabilization, job preservation and creation, and addressing community needs in the hardest hit urban, rural and Native American communities.

Federal Reserve's Main Street Program

We strongly urge Congress to direct the Federal Reserve to create a meaningful set-a-side within its Main Street program for CDFIs and MDIs to ensure that borrowers in low- and moderate-income communities are not left behind.

On March 23, 2020, the Federal Reserve announced its intent to use its full range of tools to support households, businesses and the US economy in the wake of the COVID-induced recession. It is anticipated that one component will be a Main Street Business Lending Program that will support lending to small- and medium-sized businesses. The Federal Reserve has not yet announced any details on the program. We are very concerned, however, that most of the resources will be used up by the largest banks and businesses.

Given the unique and acute needs of low- and moderate-income communities, we believe the Fed should designate a set-a-side within the Main Street program for all CDFIs and MDIs. Ideally, such a program will buy troubled small business loans and/or provide guarantees.

The Federal Reserve's use of section 13(3) of the Federal Reserve Act during the 2008–09 financial crisis was extremely successful in maintaining financial stability during the 2008-2009 financial crisis. Likewise, we strongly encourage the Federal Reserve to use this emergency authority to buy COVID-19 impacted loans and/or loan guarantees of financial institutions. Eligible loans should include a broad range of assets, including business loans, nonprofits, churches, multifamily and single family housing, and others. We believe these loans should be purchased at par with borrowers forgiven from paying interest and principle during COVID-19 crisis on for 6 months thereafter, or longer period if the Fed believes that a longer recovery period is appropriate given severity of the crisis in respect of the particular sector to which the loan is related.

SBA Payroll Protection Program

If Congress provides more money for SBA's Paycheck Protection Program (PPP), we strongly urge a significant portion of any new PPP monies be earmarked for CDFIs and lenders that will target the resources for borrowers in Low and Moderate Income communities. We believe PPP will be helpful to small businesses. Yet, the "first come, first serve" prioritization by SBA has created challenges for lenders and customers. Based on anecdotal reports, we are concerned that many of the smallest and most vulnerable businesses in low- and moderate-income and communities of color will likely receive a disproportionately small portion of these resources. Many of these businesses are capacity constrained and may not have been able to respond quickly enough to apply for a PPP loan.

The following are additional modifications recommended to make the PPP program more effective in serving the neediest communities:

- **We urge Congress to extend the 100% guarantee of PPP loans for borrowers in low- and moderate-income census tracts to up to 60 months.** Prior recessions and natural disasters have taught us that economic recovery will be slow in low- and moderate-income communities – far slower than higher income places. Furthermore, businesses in low- and moderate-income communities should qualify for a PPP forgivable loan amount that is 5-times the historic payroll and 12 months of payroll, mortgage/rent and utilities. We urge Congress to allow businesses that make good faith efforts to rehire employees, but are unable to for reasons beyond their control, to redeploy loan funds to other operating costs that will ensure their businesses survival. We urge Congress to clarify language related to borrower's costs incurred during the eight week forgiveness covered period, to allow businesses to choose between accrued costs or cash based costs, as appropriate to their business model.

- **We urge Congress to exempt CDFIs originating PPP from prohibitions on applying to the program to preserve jobs at their institutions.** Allowing CDFIs to be PPP borrowers will help manage lower revenues caused by borrower forbearance requests and a zero-interest rate environment combined with increased expenses for loan loss reserves.

- **We urge Congress to authorize the US Treasury or the Federal Reserve to create a liquidity facility to enable small financial institutions to participate in PPP that is accessible to all CDFIs and MDIs.** As smaller financial institutions rush to meet the needs of customers in their communities, many lenders are unable to exchange PPP loans for cash efficient without undue risk. The 1% rate of PPP loans are insufficient to sell PPP loans at a premium or even at par; selling at a discount is not an option that margin-constrained CDFI banks can consider.

We are gravely concerned that without a deliberate focus on CDFIs and MDIs that the communities they serve will get squeezed out and only the biggest banks' customers will benefit.

We appreciate your attention these critically important issues. CDBA members are strongly committed to assisting the country in any way we can, and stand ready to provide further insight or guidance into Federal initiatives as details emerge.

We welcome the opportunity to continue this dialogue. Thank you for considering these important matters. Please contact Jeannine Jacokes at (202) 207-8728 or *jacokesj@pcgloanfund.org* or Brian Blake at (6460 283-7929 or blakeb@pcgloanfund.org.

Thank you for your consideration.

Sincerely,

Jeannine Jacokes
Chief Executive Officer

On Behalf of the Membership of the Community Development Bankers Association

Amalgamated Bank (NY)
Bank of Anguilla (MS)
Bank of Brookhaven (MS)

Bank of Cherokee County (OK)
Bank of Commerce (MS)
Bank of Franklin (MS)
Bank of Kilmichael (MS)
Bank of Lake Village (AR)
Bank of St. Francisville (LA)
Bank of Vernon (AL)
Bank of Winona (MS)
BankFirst Financial Services (MS)
BankPlus (MS)
Bay Bank (WI)
Beneficial State Bank (CA)
BNA Bank (MS)
BOM Bank (LA)
Broadway Federal Bank (CA)
Carver Federal Savings Bank (NY)
Carver State Bank (GA)
Central Bank of Kansas City (MO)
Century Bank of the Ozarks (MO)
Citizens Bank & Trust (MS)
Citizens National Bank of Meridian (MS)
City First Bank of D.C., N.A. (DC)
Commercial Capital Bank (LA)
Community Bancshares of Mississippi (MS)
Community Bank of the Bay (CA)
Farmers & Merchants Bank (MS)
FBT Bank & Mortgage Bank (AR)
First Eagle Bank (IL)
First Independence Bank (MI)
First National Bank & Trust (AL)
First Security Bank (MS)
First SouthWest Bank (CO)
FNBC Bank (AR)
GN Bank (IL)
Great Southern Bank (MS)
Guaranty Bank and Trust Company (MS)
Holmes County Bank and Trust Company (MS)
Industrial Bank (DC)
International Bank of Chicago (IL)
Legacy Bank and Trust (MO)
Mechanics and Farmers Bank (NC)
Merchants and Planters Bank (MS)
Metro Bank (KY)
Mission Valley Bank (CA)
National Cooperative Bank (VA)

Native American Bank, N.A. (CO)
Neighborhood National Bank (CA)
New Haven Bank (CT)
NOAH Bank (PA)
OneUnited Bank (MA)
Optus Bank (SC)
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PriorityOne Bank (MS)
Providence Bank & Trust
Security Federal Bank (SC)
Security State Bank (OK)
Southern Bancorp, Inc. (AR)
Spring Bank (NY)
State Bank & Trust Company (MS)
Sunrise Banks (MN)
Sycamore Bank
Texas National Bank (TX)
The Cleveland State Bank (MS)
The Commercial Bank (MS)
The First, A National Banking Assoc. (MS)
The Harbor Bank of Maryland (MD)
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