CDBA Community Development Bankers Association
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June 22, 2020

The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, D.C. 20551

Dear Chairman Powell:

My organization, the Community Development Bankers Association (CDBA), is the national trade association for banks that are Community Development Financial Institutions (CDFIs). We are the voice and champion of banks with a mission of serving distressed and underserved communities. Our membership is comprised of banks that are mission focused and designated by the U.S. Treasury Department as CDFIs. Our members serve distressed and disenfranchised rural communities and high poverty urban neighborhoods. In total, the US Treasury has certified 147 CDFI banks and 104 CDFI bank holding companies throughout the United States that serve distressed urban, rural, and Native American communities.

We respectfully submit comments and recommendations on the proposed expansion of liquidity facilities to nonprofit entities released by the Board of Governors on June 15, 2020. We sincerely appreciate and commend the agency's leadership in responding to the COVID-induced economic crisis faced by communities across our nation and beyond. We commend the agency for its willingness to step in to help financial institutions meet the credit needs of nonprofits during the crisis, as well as manage the resultant liquidity and credit risk that will undoubtedly emerge in the coming months.

We believe the proposed facilities are a good start, but refinement is needed. Above all, we believe these facilities must position the smaller nonprofits that comprise the great majority of the sector and are part of America's "Main Street," for long-term recovery.

Unfortunately, the current facility as proposed does not adequately consider the needs of the great majority of nonprofits. This is primarily because most nonprofits (at least 66% and perhaps as high as 90%) are too small to benefit from the program as currently proposed, or the criteria are too burdensome. Therefore, most will be excluded from the program based on some combination of the following:

- Not qualifying for or not needing the minimum loan size of $250,000
- Not meeting the minimum 50 employee threshold
- Not having five years of operations
- Ineligibility due to the donation cap of 30% of revenue

This would be a terrible shame. The largest cause/issue area for nonprofits is overwhelmingly health and human services, a category that covers cause areas such as mental health, diseases and disorders, food and nutrition, housing and shelter, and services provided for humans (low-income families, youth, immigrants, and more).[1] These are precisely those organizations most likely to respond to the needs of the low- or moderate income communities served by CDFI banks, and they are also the organizations least likely to benefit from the liquidity facilities as they are currently designed.

The greatest challenge for nonprofits seeking to access this program will be size. As recently as 2017, Guidestar, a widely used information service specializing in U.S. nonprofit companies, reported that 66% of nonprofits had annual expenses of $1 million or less. Even the next largest category, representing approximately 30%, encompasses organizations with up to $5 million in expenses.[2] Therefore, ***over 90% of nonprofits have $5 million or less of expenses*****.** Since most nonprofits operate at some approximation of "break-even" – a $250,000 loan representing a quarter or more of annual budget would be unjustifiable, and worse, useless.

Further, these organizations are extremely unlikely to approach the 50 employee minimum threshold. A common (although not-universal) rule of thumb for grant-making foundations to evaluate nonprofits is whether the nonprofit maintains a 20/80 ratio of operating expenses / program expenses. For a nonprofit with expenses of $1 million, (representing the highest end of the most populated category), this would leave just $200,000 for operations, including compensation. These numbers clearly demonstrate that the great majority of nonprofits are grassroots organizations relying on the inherent goodness of volunteers and employees who accept curtailed salaries to accomplish their mission. While we agree that a basic level of professionalization is required to establish a nonprofit as "bankable," the economics of operating nonprofits exclude a minimum employee number greater than five, and possibly three.

Further, the requirement for a minimum of five years of operations is also unduly burdensome. Nonprofits must be nimble, and are required to respond to the quickly evolving needs of low- and moderate income communities. The five year requirement is an excessive burden that would exclude many groups that have been established to meet acute emerging needs while also demonstrating a baseline of otherwise sustainable operations. It is also a burden in comparison to **similarly sized small for-profit businesses, which are often able to access bank financing through SBA programs with *as little as three, and sometimes two years of operations.* Nonprofits should be accorded the same consideration as small business, especially in these circumstances.**

The proposed cap on the portion of revenues derived from donations also requires significant revision. Nonprofit revenue models vary significantly. Some sectors – such as human service nonprofits – may rely heavily on grants and donations. These organizations are critically important to meeting the needs of low-income and vulnerable populations and often experience increased service demand during economic downturns. Many of our members know how to prudently lend to nonprofits and do NOT use arbitrary caps on the source of revenue as is proposed in the Federal Reserve's Main Street term sheet. To effectively underwrite a nonprofit, a lender needs to evaluate the CONSISTENCY of every revenue source – both earned revenue and grant revenue. The historic consistency of revenue sources is the best indicator of future revenue – versus whether or not the source is a donation or a grant. A 30% cap on

[1] "What Does the Nonprofit Sector Really Look Like?", trust.guidestar.org/what-does-the-nonprofit-sector-really-look-like
[2] Ibid

donation revenue would be capricious and damage a great number of nonprofits that would otherwise be able to service an appropriately structured loan. Lenders should have the discretion to underwrite nonprofits' ability to repay based on historic revenues without being hampered by an arbitrary cap on revenue type.

We also strongly urge the Federal Reserve to set a fixed rate for the term of the loan at 3.5%, or, if pegging to LIBOR is essential, capping the LIBOR peg at 50 bps, plus 3% (at the time of writing 6 month LIBOR is 43 bps). During a time of economic instability, fixed rate financing is the most effective tool for nonprofits to manage uncertainty.

GENERAL RECOMMENDATIONS:

In summary, given the unique and acute needs of LMI communities, we strongly urge the Federal Reserve to set lower thresholds so that lenders, particularly CDFIs, may better serve the nonprofit sector:

- Set a minimum loan amount of $25,000
- Set a minimum employee amount at five, with a clear distinction for full-time vs. part-time (e.g. two full-time, and three part-time), with exceptions for well-established organizations with as few as three employees
- Set the minimum years of operation at three
- Eliminate the 30% donations revenue cap and allow lenders to underwrite based on the historic sustainability of all sources of nonprofits revenue
- Fix the interest rate at 3.5% or cap it at a LIBOR pegged equivalent

We thank you for the opportunity to comment. We sincerely appreciate the agency's leadership in providing tools to the financial services sector to respond to the economic crisis and to stabilize our local communities.

If you have any questions or comments about this letter, please contact me directly on my cell at (202) 207-8728, or jacokesj@pcgloanfund.org. If I am temporarily unavailable, you may also contact Brian Blake at (646) 283-7929 or blakeb@pcgloanfund.org.

Sincerely,

Jeannine Jacokes
Chief Executive Officer