NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS

April 14, 2020

Rep. Nydia Velazquez, Chairwoman, Small Business Committee

Rep. Maxine Waters, Chairwoman, Financial Services Committee

Rep. Emanuel Cleaver, Chairman, Subcommittee on National Security, International Development, Monetary Policy

Rep. Karen Bass, Chairwoman, Congressional Black Caucus

Rep. Judy Chu, Chairwoman, Congressional Asian Pacific American Caucus

Rep. Joaquin Castro, Chairman, Congressional Hispanic Caucus

Re: A Call to Action to Fix the CARES Act on Behalf of Underserved Small Businesses

Honorable Members of Congress:

The CARES Act Paycheck Protection Program (PPP) makes available approximately $350 billion through the Small Business Administration's (SBA) 7(a) loan program structure for eligible lenders to make loans to businesses to support payroll and certain limited operating costs. Across the board, small businesses have been incredibly hard hit by this rapidly evolving economic crisis. Underserved small businesses and the people they employ are even more vulnerable in this moment. We should be particularly concerned for minority and immigrant microbusiness owners and low-income sole proprietors who may not have strong banking relationships and may have reasonable concerns about engaging directly with federal agencies. For communities of color, the resources available through the PPP could be the difference between resilience and economic ruin. In fact, this may be the only way that CARES Act resources reach many of the most vulnerable and hardest working people in our economy. I am writing to urge you to speak out on the following urgent priorities.

1. Insist that the Paycheck Protection Program "fix" includes at least a $60 billion a set aside for community development financial institutions (CDFIs) and minority depository institutions (MDIs) to deploy underserved businesses and nonprofits.

2. Ensure that the PPP "fix" includes at least $100 million to support culturally and linguistically relevant entrepreneurial assistance for diverse business owners through community-based nonprofits and national and regional networks that reflect their communities.

3. Call on the Chairman Powell and the Governors of the Federal Reserve to rapidly open the Fed's new Paycheck Protection Program (PPP) credit facility (recently established on April 9) to non-depository community development financial institutions (CDFIs) and minority depository institutions (MDIs) in order to support these community lenders to undertake the scaled deployment of PPP loans to underserved small businesses and nonprofits.

Additional detail is provided below.

Set Aside $60 billion for CDFIs and MDIs to Make PPP Loans
In the first ten days of implementation, PPP resources have flowed primarily through large banks and almost exclusively to their preferred customers. Underserved small businesses and nonprofits are not getting access to this critical emergency financial relief. The intent of Congress is expressed in the text of the CARES Act as follows.

> *It is the sense of the Senate that the Administrator should issue guidance to lenders and agents to ensure that the processing and disbursement of covered loans prioritizes small business concerns and entities in underserved and rural markets, including veterans and members of the military community, small business concerns owned and controlled by socially and economically disadvantaged individuals, women, and businesses in* A set aside

The current program structure for the Paycheck Protection Program established by the Treasury Department and SBA makes it very difficult for underserved small businesses and nonprofits to get rapid and equitable access to these resources. If the program is oversubscribed, underserved businesses will be left out. That would be a travesty.

A funding set aside deployed through CDFIs and MDIs is the only way to ensure that, in the rush to access funding, underserved small businesses and nonprofits will not be left out of this program. This further requires that the SBA will need to provide Delegated Authority to make PPP loans to any US Treasury certified CDFI that applies. Given this "late start" for CDFIs and MDIs, Congress will also need to extend the deadline for processing PPP loans until at least September 30, 2020. Finally, a minimum fee of $2,500 should be established for loans under $50,000 to eliminate the disincentive in the fee structure for processing small loans to underserved businesses that may actually require more time and resources from the lender to effectively serve them.

Ensure Diverse Businesses Receive Entrepreneurial Assistance
Funding made available through the CARES Act restricts access to funding to provide entrepreneurial assistance primarily (80%) to SBA designated Small Business Development Centers (SBDCs), the vast majority of which are operated by universities and colleges. The legislation fails to recognize other critical elements of our nation's infrastructure for providing entrepreneurial assistance, particularly for minority owned businesses. Often, minority business owners are better served by community-based nonprofits that focus on providing culturally and linguistically tailored entrepreneurial counseling to their specific target community rather than university-based center that, in perception or reality, does not serve their community as effectively. The national SBDC Association reports that only 28% of the clients served by SBDCs are "minority" of some kind and no additional data on race and ethnicity is made publicly available.

To address this significant gap in the CARES Act, Congress should appropriate $100 million in additional funding for entrepreneurial assistance for the specific purpose of targeting these services to minority-owned microbusinesses, business owners with Limited English Proficiency and rural microbusinesses. The SBA Administrator should be charged with awarding these funds to nonprofit organizations and intermediaries that have been previously awarded funding under the Small Business Administration's PRIME Program in any of the past four fiscal years and that have a demonstrated track record of providing services to underserved minority businesses, business owners with Limited English Proficiency, and rural microbusinesses. The Administrator may choose to make intermediary awards to facilitate the distribution of funding to networks of nonprofit organizations in a timely manner.

Open the Federal Reserve's Paycheck Protection Program (PPP) Credit Facility to Non-Depository CDFI and MDIs

Even if Congress sets aside funding for CDFIs and MDIs to make PPP loans, a very significant challenge remains. CDFIs and MDIs do not have the liquidity, or cash on hand, to be able to deploy billions of dollars in PPP loans. Under the program structure, the lender uses their available cash on hand to make the PPP loan that is 100% guaranteed by the US Small Business Administration (SBA). The SBA pays the lender for the portion of the loan that is forgiven or "written off," subject to the guarantee agreement. This could take six months to a year from the time the loan was originally made. The ability of lenders to scale their PPP lending is limited by their available cash on hand. For example, if a lender has the capacity in staff and systems to meet the demand for $200 million in loans, but only has $20 million in available liquidity, then 90% of that lender's deployment capacity will be left on the table. Very large banks do not have this problem because they have enormous access to liquidity while smaller institutions have to pay a premium to borrow money from secondary market sources.

On Thursday April 9, the Federal Reserve took a bold step and opened a new credit facility to make liquidity available to depository institutions (banks and credit unions) at very low rates for the purpose of supporting the deployment of PPP loans. This credit facility left out non-depository CDFI Loan Funds (the majority of CDFIs that are not banks and credit union).

If the Federal Reserve quickly opens access to this new Paycheck Protection Program (PPP) credit facility to non-depository CDFIs and MDIs, it could make the difference in whether billions of dollars in emergency financial relief actually makes it to diverse small business owners who are not typically served well by our mainstream banking system, and the largely low- and moderate-income workers they employ. While these resources would be life changing for many people who are approaching the point of a humanitarian crisis, in the context of the Fed's overall response to this crisis, the scope of this expansion would barely be a rounding error. The good that can be done by taking this action will far outweigh any potential technical or regulatory hurdle that would need to be addressed.

Thank you for fighting for our communities and considering these urgent concerns.

Respectfully submitted,

Noel A. Poyo

Noel Poyo

cc: NALCAB Board of Directors