Mission Lenders Working Group

April 17, 2020

Joseph Firschein
Deputy Associate Director and Community Affairs Officer
Federal Reserve Board of Governors
Division of Consumer and Community Affairs
20th Street and Constitution Avenue NW
Washington, DC 20551

RE: PPP Loan Facility and Main Street New Loan Facility

Dear Mr. Firschein,

The Mission Lenders Working Group (MLWG) appreciates the opportunity to comment on the Federal Reserve's Paycheck Protection Program Loan Facility (PPPLF) and Main Street New Loan Facility. SBA Community Advantage (CA) lenders organized the MLWG in 2015, including SBA Certified Development Companies (CDCs) and Treasury-certified Community Development Financial Institutions (CDFIs). MLWG members are 20 of the most active CA lenders, out of the 110 CA lenders who have participated since the program's inception in 2011. As of December 31, 2019, MLWG members have approved 3,263 (or 54%) of the 6,032 total CA loans approved to date. In terms of dollars, MLWG members have approved over $415 million in CA loans, accounting for 51% of the $809 million in total CA lending.

As mission lenders, we are deeply concerned that many small businesses, including minority-, women-, and veteran-owned small businesses and those in low-to-moderate income and rural communities lack banking relationships and will be unable to access COVID-relief financing, including the Paycheck Protection Program (PPP). Mission lenders exist for the sole purpose of delivering capital to these underserved markets. We stand ready to provide PPP relief to as many underserved small businesses as possible, to the extent that resources are available.

CA lenders were approved to begin deploying PPP loans on April 5, 2020. To date, a sample of 12 surveyed CA lenders has delivered nearly $71 million in PPP loans to 1,096 small businesses, with an average loan size under $100,000. Pending supplemental funding from Congress, the 12 surveyed lenders expect to approve another 2,000 loans totaling at least $130 million. However, without access to low-cost facilities, mission lenders will be forced to turn away many qualified business owners due to liquidity constraints. If granted access to the PPPLF with accommodations for mission lenders, the 12 surveyed lenders estimate that they could approve nearly 6,500 PPP loans totaling $360 million. This sample suggests that facility access would enable mission lenders to triple our impact in delivering urgent relief to the hardest-to-reach small businesses that will otherwise go without.

In order to expand access to PPP loans for underserved small businesses, we offer the following recommendations that would enable CA lenders to successfully utilize the Fed's facilities and maximize our PPP volume. These recommendations are based on 13 CA lender responses to an internal survey distributed the week of April 13, 2020. Of the 13 lenders who participated in this survey, 62% are CDFIs, 23% are CDCs, and 15% are both CDFIs and CDCs.

1. <u>PPPLF Term Sheet Feedback</u>

Interest in using the PPPLF:
- 92% would use the PPPLF with term adjustments to accommodate mission lenders
- One respondent *may* use the PPPLF but more urgently needs an avenue to sell their PPP loans

"Maturity and Acceleration of Maturity" recommendations:
- Extend the maturity date by 12 months
- Clarify acceleration language to ensure that, in the event of partial SBA loan forgiveness, any unforgiven balances are not accelerated
- Provide flexibility on accelerations due to default, such as a cure period

Rate recommendation:
- 35 basis points is acceptable, but any reduction would help cover the costs of originating and servicing very small loans (under $100,000)

2. <u>Main Street New Loan Facility Term Sheet Feedback</u>

Interest in using the Main Street New Loan Facility:
- 15% of respondents would use the facility; 39% may use it with term adjustments; 46% would not use this facility even with term adjustments

Reasons why some lenders would not use the facility:
- Terms are not within reach of CDFIs (intended for large loans to larger businesses)
- 5% loan retention and *pari passu* risk sharing could be an issue for some CDFIs
- Lack of clarity around underwriting and eligible loan criteria
- Participation with recourse loan on an unsecured basis does not align with lenders' existing products

"Loan Participations" recommendation:
- Increase SPV participation to 100%

"Eligible Loan" section recommendations:
- Minimum eligible loan size of $5,000 to ensure coverage for most businesses
- Terms up to 7 years
- Reduce variable interest rate to max of 200 basis points
- Make participation non-recourse to lender

"Required Attestations" recommendations:
- Clarify that lender is not responsible for enforcing borrower attestations
- Permit use for repayment of COVID-related bridge loans
- Remove requirement that borrowers prioritize repayment of facility-backed financing

"Facility Fee" and "Loan Origination and Servicing" fee recommendation:
- Reduce both fees to 50 basis points

Thank you, again, for the opportunity to comment on these important facilities that expand access to urgently-needed financial relief for small businesses. We are happy to discuss any of these recommendations in detail and can be reached at kim@feighan.org.

Sincerely,

The Mission Lenders Working Group