

August 21, 2020

Ms. Jodie Harris  
Director  
Community Development Financial Institutions Fund  
U.S. Department of the Treasury  
1500 Pennsylvania Ave. NW  
Washington, DC 20220

Re: Request to Create Temporary Target Market Designation for Paycheck Protection Program and Other COVID-19 Small Business Loans

Dear Jodie:

The undersigned organizations are contacting you to request flexibility and accommodations in Target Market requirements for CDFIs that made emergency COVID-19 loans, in particular those CDFIs that participated as lenders in the Paycheck Protection Program (PPP).

### **CDFIs and the Paycheck Protection Program**

When the Paycheck Protection Program was created as part of the CARES Act in late March, most CDFIs were initially sidelined as lenders. However, after the first round of PPP loans failed to reach women, minority, and low wealth business owners, Congress, the Small Business Administration (SBA) and the Treasury Department looked to CDFIs to meet the needs of underserved small businesses.

CDFIs stepped up to meet the call from the federal government and the scale of the participation is truly unprecedented: more than 300 CDFIs made more than \$7 billion in PPP loans in just four months. The time sensitive nature of PPP lending and the desire to help as many small businesses and nonprofits as quickly as possible to minimize the damage meant PPP loans were made quickly, with decisions and funding compressed into very short time periods. Most lenders, including CDFIs, were "rushing in to fight a fire" and did not stop to collect extensive demographic, geographic data from applicants. This was a crisis when speed was paramount.

For some CDFIs, stepping up to meet the needs of small businesses and nonprofits meant making PPP loans outside of their currently approved CDFI Fund Target Market. We are extremely concerned that for some of these lenders, their CDFI certification might be at risk because they administered another federal program to help small businesses survive during a national emergency. The CDFI PPP lenders were meeting a critical need in their communities and should not be penalized for making those loans.

### **CDFI Response to Crisis Should Not Jeopardize Certification Even Outside of PPP**

According to a report by the Minneapolis Federal Reserve, CDFI leaders reported that since the COVID-19 crisis began, they are serving businesses beyond their pre-existing customer base. According to CDFI leaders, many of the new CDFI clients are customers at traditional banks, but were turned away by those banks when inquiring about the PPP or the SBA's

longstanding Economic Injury Disaster Loan (EIDL) program.<sup>1</sup> Many CDFIs have also stepped up to help administer pandemic response funds for state and local governments. These funds have provided critically needed capital to small businesses, many with a focus on businesses owned by people of color. Stepping up and meeting the needs of their communities is a core part of the CDFI model – the Target Market requirement should not prohibit CDFIs from meeting a critical need at a time of national emergency. Even if these loans were made outside of their Target Market, these activities are central to the mission of those CDFIs.

### **Challenges Persist in Updating Target Markets**

Even before the pandemic, CDFIs encountered challenges updating and making changes to their Target Markets in a timely manner. The process to make updates to Target Markets is inconsistent and opaque: some CDFIs report having requests to update their Target Markets pending with the CDFI Fund for several years.

We understand that it has been the Fund’s practice to consider modifications and changes to compliance requirements on an individual basis. However, making one-off decisions about whether a CDFI has met its Target Market requirement is impractical and time consuming. With more than one quarter of CDFIs enrolled as PPP lenders, this warrants a broader policy flexibility.

### **Recommendation: Create a “COVID-19 Impacted Business” Target Market**

The CDFI Fund could address the issues raised above by creating a “COVID-19 Impacted Businesses” as an additional Targeted Population Target Market for CDFIs in 2020. Creating this temporary Target Market would allow all PPP and other pandemic response loans to be counted towards a CDFI’s certification requirement rather than penalizing CDFIs for making loans to help small businesses survive the economic impact of the pandemic, even if those loans were outside of their currently approved Target Market.

The CDFI Fund should offer as much flexibility as possible for CDFIs as the industry navigates unprecedented internal capacity and organizational challenges related to the pandemic while also mobilizing to support the immediate needs of borrower businesses and consumers that have suffered economic harm. The impacts of COVID-19 are widespread and the response needs to be nimble and flexible. The CDFI Fund has the ability to make this change through guidance: the 60 percent threshold is not a statutory or regulatory requirement, so the Fund has the flexibility to adjust this requirement to reflect the national emergency.

We urge the CDFI Fund to establish this short-term COVID-19 Impacted Business Target Market. Dafina Williams, OFN’s Senior Vice President of Public Policy is available to answer any questions. ([dwilliams@ofn.org](mailto:dwilliams@ofn.org); 215-478-5800).

Thank you for your consideration.

Association for Enterprise Opportunity  
Community Development Bankers Association  
CDFI Coalition

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<sup>1</sup> <https://www.minneapolisfed.org/article/2020/covid-19-connecting-small-businesses-to-pandemic-relief-is-a-struggle-cdfis-say>

Community Development Venture Capital Alliance  
Inclusiv  
Native CDFI Network  
Opportunity Finance Network

Cc: Tanya McGinnis, Manager Certification, Compliance Monitoring and Evaluation