Congressional Research Service
Informing the legislative debate since 1914

INSIGHT

Paycheck Protection Program (PPP) Lending Set Asides for Community Development Financial Institutions (CDFIs)

Updated April 27, 2020

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act; P.L. 116-136) created the Small Business Administration's (SBA's) Paycheck Protection Program (PPP). On April 16, 2020, the SBA reported that it had exhausted all funding provided by the CARES Act for the PPP.

On April 24, 2020, President Trump signed the Paycheck Protection Program and Health Care Enhancement Act (P.L. 116-139), which contains lending set asides for smaller lenders. These set asides appear to be motivated by media coverage claiming that some big banks benefited from issuing large volumes of PPP loans and tended to favor existing clients or larger clients.

P.L. 116-139 increases the total lending authority in the PPP to $659 billion, an increase of $310 billion over the $349 billion authorized under the CARES Act. Of this amount, *no less than* $30 billion is set aside for loans issued by

- insured depository institutions with consolidated assets between $10 billion and $50 billion; and
- state or federal credit unions, defined in Section 101 of the Federal Credit Union Act (12 U.S.C. §1752), with consolidated assets between $10 billion and $50 billion.

A similar, but separate, set aside of *no less than* $30 billion in lending authority applies to

- "community financial institutions," which includes the following four groups of entities:
    - community development financial institutions (CDFIs), defined under Section 103 of the Riegle Community Development and Regulatory Improvement Act of 1994 (12 U.S.C. §4702);
    - minority depository institutions, as defined in Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (12 U.S.C. §1463);
    - certified development companies (CDCs) under title V of the 23 Small Business Investment Act of 1958 (15 U.S.C. §695 et seq.); and

Congressional Research Service
https://crsreports.congress.gov
IN11355

CRS INSIGHT
Prepared for Members and
Committees of Congress

  - microloan intermediaries, as defined in Section 7(m)(11) of the Small Business Act (15 U.S.C. §636).
- "small insured depository institutions," defined as having consolidated assets of less than $10 billion; and
- credit unions with consolidated assets of less than $10 billion.

In other words, at least $60 billion (19%) of the additional $310 billion in PPP lending authority provided by P.L. 116-139 is set aside for the specified groups of lenders, above.

What Are CDFIs?

CDFIs are specialized financial institutions that work in market niches that are underserved by traditional financial institutions. They provide a range of financial products and services in economically distressed markets, use flexible underwriting standards, and provide commercial loans and investments to small businesses in low-income areas. CDFIs exist in both rural and urban communities.

Section 103 of the Riegle Community Development and Regulatory Improvement Act of 1994 (12 U.S.C. §4702) defines a "CDFI" as an entity that

1. has a primary mission of promoting community development;
2. serves an investment area or targeted population;
3. provides development services in conjunction with equity investments or loans, directly or through a subsidiary or affiliate;
4. maintains, through representation on its governing board or otherwise, accountability to residents of its investment area or targeted population; and
5. is not an agency or instrumentality of the United States, or of any state or political subdivision of a state.

The Riegle Act also established the CDFI Fund ("Fund"), an agency within the Department of the Treasury, which administers several programs that encourage the role of CDFIs and similar organizations in community development. In order for a CDFI to be eligible for the Fund's core CDFI Program Financial and Technical Assistance, a CDFI must first apply to the Fund for certification and demonstrate that it meets the criteria in Section 103, above.

As of April 14, 2020, there were 1,142 certified CDFIs comprised of loan funds (48%), credit unions (28%), banks or thrifts (13%), depository institution holding companies (9%), and venture capital funds (1%).

Do CDFIs Need to Be Certified by the Fund to Qualify for the Set Aside?

The text of P.L. 116-139 is ambiguous as to whether CDFIs eligible under the set aside must be certified by the Fund. Section 103 of the Riegle Act does not contain requirements for certification; those requirements are provided for in regulations under 12 C.F.R. §1805.201. Further, Treasury or SBA regulations or guidance may be needed to clarify whether a CDFI must first apply for Fund certification to issue PPP loans under the set aside.

How Do CDFIs Benefit from PPP Lending?

Lenders that issue PPP loans stand to financially benefit primarily through processing fees paid by SBA based on the principal amount of the loans. According to regulations, the processing fees are

- 5% for loans of not more than $350,000;
- 3% for loans of more than $350,000 and less than $2 million; and
- 1% for loans of at least $2 million.

Depository institutions can borrow from an emergency Federal Reserve facility, the PPP Liquidity Facility, to make PPP loans at a rate of 0.35% using PPP loans as collateral. The loans are not subject to capital requirements. The Fed created this facility to ensure that depository institutions did not face funding or regulatory constraints that would prevent them from meeting customer demand for PPP loans. The Fed stated that it was working to expand access to the facility to other types of lenders.

How Will These Set Asides Affect Who Receives PPP Loans?

According to SBA data, the average size of a PPP loan approved before enactment of P.L. 116-139 was $206,000, and 74% of the number of loans approved were for amounts of $150,000 or less. The SBA did not report the specific identities of the largest PPP lenders or the borrowers' demographics. But, the SBA did report that the 15 largest lenders, in terms of dollars of loans approved, accounted for 20% of the 1.66 million loans approved and 27% of the $342 billion in loans approved. Among those 15 lenders, all but one had an average loan amount in excess of $150,000 and all but two had an average loan amount in excess of the total average of $206,000. Several of them had average loan sizes of approximately $400,000-$500,000.

P.L. 116-139's set asides for CDFIs and the other, smaller lenders could affect the future distribution of PPP loans among lenders and borrowers. Because of their typical clientele, CDFIs could enable smaller businesses and startups to access PPP loans that otherwise would not have received them.

It remains to be seen, though, how many CDFIs will participate in PPP lending. For example, venture capital and loan funds typically do not offer commercial loans to general members of the public. Although depository holding companies can be certified as CDFIs, they do not issue loans to individual borrowers. Instead, their subsidiaries would issue loans. For CDFIs that do participate, their ability to process a large volume of PPP loan applications could be limited by available staff and resources.

Author Information

Sean Lowry
Analyst in Public Finance

Disclaimer