JPMorgan Chase & Co.
PolicyCenter
Advancing Inclusive Growth and Opportunity

April 2020

SUPPORT FOR COMMUNITY FINANCIAL INSTITUTIONS

As the nation faces the health and economic consequences of COVID-19, communities that were vulnerable when economies were stronger now face growing economic hardship. Without intentional policy interventions, the racial and wealth inequities that have persisted for decades will accelerate and the repercussions to society and the economy will be long-lasting. Now more than ever, business, government and civic leaders must work together to advance solutions that support communities in need and foster a more equitable recovery.

America's small businesses are the engines of economic growth and opportunity, employing roughly half of the private sector workforce. Congress and the Administration passed the CARES Act, an unprecedented response to an unparalleled crisis, which included much needed relief for small business. While the program serves an important need, it remains necessary to have a more deliberate and targeted approach to reaching underserved businesses, particularly those owned by women, people of color, veterans, and in rural communities. Community Development Financial Institutions (CDFIs) play an important role in generating economic opportunity in the nation's most distressed communities and expanding their scope will help bring new sources of capital into communities that lack access to traditional financing. JPMorgan Chase partners with CDFIs in order to deepen our reach in underserved communities, and this week we announced a $150M loan program to help community partners get capital to underserved small businesses and non-profit organizations. This policy paper provides administrative and legislative policy ideas to further address the needs of these businesses.

OPTIONS FOR ADMINISTRATIVE ACTION:

- Community Advantage Program
  Leverage SBA Community Advantage lenders (*i.e.*, Community Development Financial Institutions) and resource partners (*i.e.*, Small Business Development Centers) to support vulnerable small businesses that may not qualify for traditional financing. Clarify in guidance that Community Advantage lenders may participate in PPP up to their limit of $250,000 per loan. Community Advantage is currently a pilot program; it should be made permanent with certain enhancements (*e.g.*, allowing Community Development Financial Institutions to use the express loan product and process).

- Leverage Community Development Financial Institutions (CDFI) Microlenders
  Expedite the approval of CDFIs who participate in the SBA Microloan program to increase the number of CDFIs able to offer a PPP loan. SBA Microlenders issue loans up to $50,000 and develop strong relationships with some of the most vulnerable small businesses in need. Currently, only SBA 7(a) loan program lenders, federally insured credit unions and depository institutions, and farm credit system institutions are eligible to participate.

- Establish Fed Facility to Buy Back CDFI Loans
  On Monday, April 6th, the Federal Reserve announced the establishment of a facility to buy PPP loans. This facility should include CDFIs to reach smaller and minority-owned businesses, which would enable CDFIs to lend more. The Federal Reserve could also provide zero-percent interest rate loans to community financial institutions participating in the PPP.

OPTIONS FOR LEGISLATIVE ACTION:

- Reserve a Portion of the PPP Funds for Underserved Businesses
  A portion of the next round of PPP funding should be set-aside for borrowers who do not have relationships with traditional lenders.

- Expand CDFI Fund
  Increase funding to CDFIs so they can lend to communities most in need, particularly for disadvantaged and rural communities.

- Amend Small Business Act to Permit Securitization of PPP loans
  Large increases in origination of guaranteed loans may exceed the capacity of community lenders to hold these instruments on their balance sheets. To ensure these lenders have adequate liquidity to distribute capital to communities in need, there should be an explicit authorization for distribution of these loans in the capital markets in a similar format to other frequent SBA issuances (i.e., SBIC or 504) and provide the mechanics for doing so.