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Regarding CDFIs' Response to the Economic Impact of the Pandemic

Provided to the CDFI Fund Advisory Board

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What is the main issue your CDFIs are addressing?

CDFIs, like most other businesses in the American economy, are dealing with the impacts of the COVID-19, economic, and racial justice crises. The CDFIs in OFN's network are focused on mitigating the impacts of the pandemic on their borrowers and their loan portfolios. OFN is conducting short quarterly surveys to track trends in our members' and their clients' performance and needs. One hundred OFN members completed OFN's baseline COVID-19 Survey in late March and early April when the economic impacts of the virus were just starting to take hold. The results of that initial survey showed CDFIs expect an uptick in delinquencies and charge offs by the end of 2020, and that CDFIs were proactively reaching out to their clients early in the pandemic to offer whatever accommodations they could to ease the economic disruption.

The second quarter survey which members are completing this month, which will more clearly reflect the impacts of the pandemic. Anecdotally, CDFIs, especially small business and microenterprise lenders, have some concerns about their portfolios but are focused on ensuring they have the balance sheet capacity to continue to provide accommodations and flexibility to their borrowers.

It is also important to remember that CDFIs are small businesses themselves impacted by COVID-19. CDFIs must maintain their own financial health to continue to be a resource to their communities. CDFIs are uniquely positioned to respond to the financial needs of low wealth markets but need their own balance sheets to be stable in order to contribute to the economic recovery. This balance sheet stability is essential to allow CDFIs to continue to leverage private and philanthropic resources.

What solutions/tools/resources are your CDFIs using to address these issues?

CDFIs are implementing a variety of creative solutions to address the issues in their communities. Across the nation, CDFIs are offering their customers principal payment deferrals, followed by interest payment deferrals and interest only periods. Borrowers are most often requesting, and CDFIs are most often granting, three-month accommodation periods. In our survey, CDFIs report that they plan to offer more 6+ month deferrals in the near future. Others are implementing emergency responses or new products to help borrowers weather the crisis. Below is a small sample of some of the loan fund emergency programs that OFN members have rolled out in recent months:

a. Orlando, Florida-based Black Business Investment Fund created the BBIF Emergency Relief Fund to offer working capital loans with low interest rates and flexible lending criteria to small businesses, including those that do not fit public relief programs. BBIF also offers payment deferment and restructures/modifications to current borrowers as well as one-on-one technical assistance via online/video conferencing technologies

b. Crystal City, Virginia-based Capital Impact Partners is channeling relief funds to the Entrepreneurs of Color Fund to assist their CDFI partners Latino Economic Development Center (LEDC) and the Washington Area Community Investment Fund (Wacif) and support small business borrowers in Washington, D.C. The fund is a partnership to forge new pathways to entrepreneurship in the DC region's underserved communities by pairing low-cost capital with business advisory services to help entrepreneurs of color start and grow businesses, create jobs, and build wealth.

c. Kansas City, Missouri-based ALT-Cap is administering the KC Region Small Business Relief + Recovery Loan Fund, a $5 million small business relief loan fund that provides immediate relief to local, small businesses experiencing extreme economic disruption and financial strain as a result of COVID-19. As communities begin the reopening process, the fund now offers small businesses support to cover the additional capital expenses required to ensure a safe reopening.

d. New Mexico-based Homewise is administering the Emergency Mortgage Assistance Fund to help low-income homeowners weather the COVID-19 crisis and its economic consequences. The Emergency Mortgage Assistance Fund will help those people who have lost the majority or all of their household income due to COVID-19 related economic conditions and may be at risk of losing their homes.

e. Berea, Kentucky-based Fahe, a network of more than 50 nonprofits across the Appalachian portion of Kentucky, Tennessee, West Virginia, Virginia, Alabama, and Maryland, is providing a variety of services including: the creation of an emergency fund at zero percent interest to support any members who need it, to allow them to continue serving their vulnerable communities; forbearance plans to existing borrowers to prevent delinquencies and possible foreclosures; and establishment of an Emergency Stabilization Fund that will facilitate the flow of no or low interest loans and grants into the region where it is needed most.

f. New York-based LISC offered grants ranging from $5,000 to $20,000 to businesses facing immediate financial pressure because of Covid-19. Grants can be used for rent and utilities, meeting payroll, paying outstanding debt to vendors, and other immediate operational costs. Demand for grant funds was so high that LISC increased the amount allotted for the program from $2.5 million to $15 million, which still only funded about ten percent of the applications received.

g. Capital Impact Partners and CDC Small Business Finance formed an alliance to begin three place-based pilots in the Los Angeles, Detroit, and Washington, D.C. Metropolitan (DMV) areas focused on supporting recovery and relief needs of community members, small businesses, and organizations, delivering key social services that have been devastated by these uncertain times. In each community, cross-organizational teams will listen and actively engage with local community members to understand the problems that are unique to each region, while sharing tools, programs, and services that are strategically customized to address high-priority issues.

Paycheck Protection Program

CDFIs were also major players in the Paycheck Protection Program, punching well above their weight and making more than $7 billion in capital available to distressed small businesses.

a. California Farmlink, one of the first agricultural CDFIs in the nation focused on sustainable and organic agriculture, and economic and environmental resilience, made more than 52 PPP loans totaling more than $2 million - including new relationships with Hmong/Southeast Asian immigrant farmers and others farmers throughout California who had difficulty accessing PPP through other channels.

b. Philadelphia, Pennsylvania-based Finanta helped Solar States, a certified B corporation that provides solar installation and education and access to Philadelphians to the green economy received a PPP loan that helped keep 30 staff on payroll.

c. San Jose, California-based Opportunity Fund, while awaiting designation as a PPP lender, directed its "tech-comfortable" borrowers to partners including Community Reinvestment Fund, where they could quickly apply online with little assistance. Simultaneously, another CDFI, CDC Small Business Finance, trained Opportunity Fund staff to provide one-on-one assistance to its borrowers for whom applying online was a challenge. CDC Small Business provided Opportunity Fund access to its platform once Opportunity Fund became an approved PPP lender in the second round of the program, allowing Opportunity Fund to accept and process loans itself.

d. Chicago, Illinois-based IFF partnered with another CDFI, Community Reinvestment Fund, USA (CRF) to deploy PPP loans. The organizations committed $50 million of their own liquidity to ensuring PPP loans made it to smaller nonprofits, nonprofits serving lower-income communities, and nonprofits led by or serving people of color throughout the Midwest.

In addition to capital, what do your CDFIs need to weather this in the short-term and long-term? Anything particularly innovative or new?

CDFIs need flexibility on compliance and reporting deadlines from the CDFI Fund. We have appreciated the flexibility of federal agencies like the SBA and HUD, but we are dismayed that we have not found that same level of flexibility from the Treasury Department.

OFN submitted a letter to the CDFI Fund on March 27 for certain program extensions and adjustments at the beginning of the asking pandemic. Rather than making broad policy changes that would help the entire industry manage their compliance obligations during the pandemic, the Fund chose to review all requests for flexibility on a case-by-case basis. On August 20, a joint letter from CDFI trade associations was submitted asking the CDFI Fund to create a temporary "COVID-19 Impacted Business" Target Market for CDFIs that made PPP and other emergency loans in response to the crisis. Responding to a national economic emergency should not jeopardize a CDFI's certification status.

Looking forward – what's your outlook on the industry when the economy begins to recover?

The initial wave of economic impact related to COVID-19 hit small businesses hard but there is looming uncertainty around what is next for the economy as the balance sheets of households and businesses continue to suffer. CDFIs are focused on some of the following questions:

- Will banks retract their lending and stop extending credit?
- Will the modest recovery in bank small business lending evaporate, leaving a hole that high cost and predatory lenders are waiting to fill?
- Will there be another wave of foreclosures and evictions as people struggle to meet mortgage and rent obligations?
- Will unemployment rates, already slow to decline in communities of color, rural, and Native communities, remain stubbornly high for years to come?
- For underserved communities, will access to affordable financial products and services become ever further out of reach just when they are needed most?

CDFIs recognize that there is a more pressing need than ever for our industry to expand its lending, but capital and capacity constraints will need to be addressed for CDFIs to meet the scale of the need. The partnership that CDFIs have with the federal government is critical, especially with the CDFI Fund. As we emerge from the pandemic and the economic costs of the pandemic become clear, CDFIs stand ready to be partners in this important work to rebuild and restore our communities.