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Media Contact:
Conan Knoll
conan@emcstrategies.com
(831) 524-6764

$30B Set-Aside for the Most Vulnerable Small Businesses in New PPP Funding is a Carve-Out in Name Only

Statement by Gwendy Brown, Vice President of Research and Policy at Opportunity Fund, on Congress' passage Thursday of the Paycheck Protection Program Increase Act, which, despite setting aside $30 billion for smaller lenders, won't give the smallest businesses the relief they so desperately need

San Jose, Calif., April 24, 2020—Congress passed $320 billion in new funding for the Paycheck Protection Program (PPP) Thursday, including $30 billion for lenders with relationships with traditionally underserved businesses. This is a $30 billion carve-out in name only, and will not adequately help the nation's most vulnerable business owners who were completely left out of the first round of funding.

Congress's vote recognized the strong need to help small businesses weather the COVID-19 crisis. Yet, despite setting aside funding for Community Development Financial Institutions (CDFIs) and Minority Depository Institutions—lenders that have relationships with underbanked small businesses—the list of institutions eligible to distribute the $30 billion set aside was expanded to also include banks with assets under $10 billion. That's more than 95% of all banks in the country. By comparison, just 8% of the nation's CDFIs have been authorized to distribute the funds. Community banks were some of the most active lenders in the first round of the PPP. While this carve-out includes CDFIs, it is unlikely the set-aside will enable them to participate in this lending.

The first round of PPP loans left the smallest and most vulnerable businesses at the back of the line. Minority business owners have a much harder time getting loans from banks than their white counterparts. The majority of our clients—most of whom are minorities, women or immigrants—haven't seen a dime of federal funds. Given only 1.6 million of the country's 30 million small businesses received funds from the initial package, our clients are obviously not alone.

CDFIs' sole mission is to support underserved and minority-owned businesses—those that are the heart and soul of local communities. Setting aside money for CDFIs helps ensure banks do not quickly utilize all the available funds and distribute them to preferred and long-standing customers, which happened during the first round of PPP funding.

Unfortunately, this new round of funding simply didn't prioritize CDFIs and other lenders who specialize in underserved businesses to ensure the most vulnerable businesses get the relief they need to survive.

Big banks with assets between $10 and $50 billion also received a special set aside of $30 billion for their customers in this new round of funding. In the rush for funding, which some say could evaporate in two days or less, businesses with the most resources and best banking relationships will once again be favored.

What's more, an NPR investigation found banks collected more than $10 billion in fees after processing the last round of PPP loans. Banks are incentivized to make bigger loans to collect larger fees, which leaves smaller businesses that need to borrow smaller amounts of money with nowhere to turn. This shows there is a need to create a mechanism that ensures truly small businesses have a shot at getting these funds, otherwise the loans will continue to go to larger companies with better access to capital.

As the country navigates this crisis, we must begin working to ensure relief goes to the people who need it the most. The Consumer Financial Protection Bureau (CFPB) should immediately implement Section 1071 of the Dodd-Frank Act, incorporating it within all relief funding. Ten years ago, the Dodd-Frank Act directed the CFPB to collect data on credit applications made and credit received by women or minority-owned small businesses. That never happened. Such data would be invaluable in helping us verify that underserved businesses receive their fair share, not just during this crisis but as we move to the next phase of American life after COVID-19.

We cannot state strongly enough how important it is to provide targeted relief to our most vulnerable small businesses. If we don't give them a direct lifeline now, they will not survive this crisis and our Main Streets and communities will be forever changed for the worse.

To request an interview with Opportunity Fund VP Gwendy Brown contact Conan Knoll at (831) 524-6764 or conan@emcstrategies.com.

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About Opportunity Fund

Opportunity Fund, the nation's leading nonprofit small business lender, believes small dollar loans help hard-working entrepreneurs make lasting change in their own lives and build stronger communities by growing businesses and creating jobs. Opportunity Fund's community of donors and investors is creating an inclusive financial system that empowers women, immigrant, and minority small business owners. Our strategy combines microloans for small business owners and New Markets Tax Credit investments in high-impact community infrastructure projects. Since 1994, Opportunity Fund has deployed more than $900 million and helped thousands of entrepreneurs invest in their families' futures. The organization has committed to lending an additional $1.2 billion to small business owners across the country and investing $174 million in community real estate projects by 2023.

In March, 2020, Opportunity Fund and Accion, The US Network, joined forces to establish Accion Opportunity Fund, the first national organization focused on a national microlending strategy to meet the credit needs of small businesses by developing new products, establishing new partnerships, promoting research and financial education, and leveraging digital technologies to support mission-driven lending. www.opportunityfund.org