Proposal: 1712(AF86) Reg Q; Paycheck Protection Program Lending Facility and Paycheck Protection Program Loans

Description:

Comment ID: 137212

From: Spring Bank, Demetris Giannoulias

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Subject: Regulatory Capital Rule: Paycheck Protection Program Lending Facility and Paycheck Protection Progra

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Comments:

Date:Apr 17, 2020
Proposal:Regulatory Capital Rule: Paycheck Protection Program Lending Facility and Paycheck [R-1712]
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Your comment:Board of Governors of the Federal Reserve System (Board)
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attention: Ann E. Misback, Secretary
PPPLF and Docket No. R-1712; RIN 7100-AF86
Re:
Paycheck Protection Program (PPP) Lending Facility (PPPLF) and Related Interim Final Regulatory Capital Rule
Ladies and Gentlemen:
We appreciate the opportunity to comment on the Board's term sheet for the PPPLF and the interim final rule on regulatory capital issued by the Board, FDIC, and OCC (the Banking Agencies). We strongly support both actions.
We write this comment letter, however, because we believe the goals of the PPPLF would be more fully realized by enabling CDFI banks to serve as a secondary market, and thus a source of liquidity, for non-bank lenders who originate PPP loans. CDFI banks are uniquely positioned to play this intermediary role due to the fact they have a shared target audience with so many of the non-bank PPP lenders, namely minority and women-owned businesses. In order for CDFI banks to play this role and purchase PPP loans from non-bank lenders, they would need to be authorized to pledge these purchased loans to the PPPLF. The regulation, as drafted, only provides for banks who originate loans to pledge them to the PPPLF. This small modification would serve to provide significant liquidity to the PPP initiative without adding any additional risk to the PPPLF. Loans purchased from approved PPP lenders would also need the same zero risk weighting as loans directly originated by PPP bank lenders. Enabling CDFI banks to purchase and pledge loans originated by approved non-bank PPP lenders would

provide substantial opportunities for so many small businesses who had difficulty in obtaining PPP loans from mainstream banks due to the lack of meaningful banking relationships.

Moreover, empowering CDFI banks to pledge purchased PPP loans under the PPPLF would foster a double-bottom line. First, many of the newly authorized non-bank lenders will be able to serve an even greater number of these borrowers through increased liquidity provided by CDFI banks. Second, by authorizing CDFI banks in this manner, the fee income generated for these CDFI banks would provide a much-needed source of capital for them to supercharge their ability to provide other types of financing consistent with their U.S. Treasury designated mission.

The treatment we are proposing, by allowing non-bank lenders to originate loans and sell them to CDFI banks who could then pledge them to the PPPLF, would help to allocate capital and loan processing capacity more efficiently among lenders and increase the number of deserving small businesses that would be able to obtain a PPP loan. The same reasoning applies to the related interim final rule on neutralizing the effect of PPP loans on an eligible borrower's leverage or risk-weighted capital ratios. Whether PPP loans are originated by eligible borrowers such as CDFI banks or acquired by them in the secondary market, they would be PPP covered loans that are backed by the full faith and credit of the United States and pledged to a Federal Reserve Bank to secure an extension of credit under the PPPLF.

Finally, we believe that our proposal is entirely consistent with the policies underlying both the PPPLF and the interim final rule and consistent with the U.S. Treasury's purpose in establishing the CDFI Fund. Doing as proposed would further encourage the origination of PPP loans without creating any additional risk to the financial system.

We appreciate your consideration of this matter. Please do not hesitate to contact me should you require any further information.

Very truly yours,

Demetris Giannoulias
CEO
Spring Bank