Record of Meeting

Federal Reserve Governors' Special COVID-19 Meeting with Community Advisory Council
April 13, 2020

In light of the critical role of the Community Advisory Council in advising the Board of Governors of the Federal Reserve System on matters affecting vulnerable populations, the Board convened a special meeting of the Council to discuss the public health and economic impacts of the coronavirus pandemic. The Council members responded to the questions below on impacts of the pandemic, and what follows is a thematically organized summary of their observations.

- What do you see as the two or three most critical short-term effects of the pandemic in relation to the most vulnerable in your community?
- What do you believe will be the most critical resources and interventions to address these effects, and that could realistically be provided/implemented in your market?
- Have you observed any particularly effective local interventions or actions to date, on either the economic front or to address new realities including but not limited to closed schools, sheltering in place, or addressing needs of elderly residents?
- Will your organization plan to address the financial challenges of the most impacted workers? Do you anticipate adding or repurposing programs to meet the needs of vulnerable workers?
- What long-term effects do you anticipate will need to be addressed in your community?
- How has the pandemic affected local small businesses in your communities? Have you observed any interventions to preserve small businesses or support their employees during the crisis? What do you anticipate the long-term effects on small businesses will be in your communities?

Introduction

The pandemic has greatly exacerbated the economic challenges facing low- and moderate-income (LMI) populations and vulnerable communities. The duration and scope of the crisis remains unknown, but the effects have been swift and severe, and look to be long-lasting. Broad groups of low-wage workers in diverse industries, many of whom live paycheck-to-paycheck, are now unemployed. Many cities expect to lose large numbers of their small businesses. Rural areas are pessimistic about ramifications post-pandemic for small businesses. Uneven responses to the pandemic by state, counties and cities, and delayed implementation of public health measures broadly speaking, will almost certainly result in amplified and longer lasting social, economic, and public health effects for vulnerable populations. The policy responses thus far have provided support to the overall economy, but are falling short of the needs of small businesses and LMI communities.

Direct Impacts on the Labor Market and Vulnerable Populations

Mounting Unemployment and Effects on State and Local Budgets

Many state governments are struggling to keep up with unemployment claim processing for the historic influx of claims. Workers are waiting up to three weeks for claims to be processed, and are unable to contact personnel for assistance filing claims, with no customer service representatives to answer questions on denials or errors. This is creating undue hardship for individuals in the hardest hit industries who cannot work, through no fault of their own.

The mounting state unemployment claims are also having a drastic impact on local and state budgets. Staffing cuts are already being discussed at all levels of government in some of the Council's regions. The Council calls on the Federal Reserve to use all available powers to ensure state and local governments have the necessary liquidity to maintain maximum employment. This challenge is further exacerbated by the shift in tax filings from April to July. This three-month gap leaves already cash-strapped cities and states even more vulnerable.

Access to Financial Products and Services

Some groups face greater barriers in accessing mainstream financial products and services, which can make it more difficult to obtain social safety net and relief benefits allocated under the Coronavirus Aid, Relief, and Economic Security (CARES) Act that would lessen the financial hardship of the pandemic. Underserved rural and urban areas often have a more cash-based economy, leaving some workers ineligible for unemployment benefits. Immigrants who are undocumented may also experience greater barriers accessing support and relief programs. Given the delayed arrival of relief benefits, low-income households may turn to payday lenders or other predatory actors to obtain short-term consumer loans. Senior citizens, especially those who are not internet savvy, are feeling very isolated and vulnerable. They may easily become victims of new scams, including resurging mortgage rescue scams or similar scams that claim to help them avoid tax foreclosure.

Safe and Secure Housing

"Stay–at-home" directives have different meanings for LMI households, the homeless, the formerly incarcerated, and victims of domestic violence than for most others. Millions of LMI households face an untenable situation that includes living in crowded units—often with building code violations—and challenges paying for heat, electricity, and basic necessities. Additionally, victims of domestic violence are at higher risk in this environment, and some organizations that serve this population are reporting higher incidence. Meanwhile, formerly incarcerated individuals may face fewer economic opportunities and safe and secure housing choices, and those currently living or working in detention facilities are at higher risk of contracting and transmitting the virus, putting themselves and their families at risk. All of these groups need assistance with obtaining and affording safe and secure housing that is attuned to their unique needs and circumstances.

Populations in Group Quarters

Other individuals, including the elderly, disabled, and foster children, are often in congregant settings that are at high risk for the spread of the virus. They rely on intermediate care from non-medical caretakers, such as direct service professionals, certified nursing assistants, and family caretakers. Telemedicine and social distancing cannot replace this care, and these frontline caretakers are either being laid off or choose not to work to avoid exposure.

Workers at Risk of Exposure

Many vulnerable workers are being harmed not just by layoffs and furloughs, but also by being forced to work in unsafe working conditions. As the country scrambles for adequate personal protective equipment, our health-care professionals, frontline grocery clerks, bus drivers, janitors, security officers, and others are left with little or no protections. In turn, these same workers are experiencing some of the most severe health impacts.

Food Security

Food security has long been a major challenge in LMI communities, and has worsened due to the effects of the pandemic. Childhood nutrition and food security for children living in poverty is often tied to childcare centers, the public school system, and food banks, which are now all operating in a more limited fashion. Low-income families dependent on SNAP, WIC, and Senior Vouchers are not able to order groceries online. Many people living in poverty in rural areas do not have access to cars, so more limited access to affordable and nutritious food is of heightened concern.

Racial and Geographic Disparities

The pandemic is not playing out in a vacuum but rather is happening within a national context where racial, social, health, and economic inequities exist. There is growing evidence that communities of color are experiencing the health effects of the COVID-19 pandemic more severely than other groups. Around 70 percent of deaths in some areas that the Council serves, including Chicago and Louisiana, were among black residents–far exceeding the share of the total population that is black in these places. Underlying health conditions are also more common in communities of color and in impoverished rural areas. In Eastern Kentucky and Central Appalachia, there are higher rates of cancer, diabetes, obesity, and pulmonary diseases, including black lung–all of which make residents more susceptible to the virus and at greater risk of death from it. Economic inequality, poor housing quality, and lack of access to health care may all play a role in these disparities. Furthermore, the Council believes the disparate health impacts align with disparate economic and social impacts. For example, unemployment resulting from the pandemic among black workers in many areas may exceed the rates seen in the aftermath of the Great Recession. And Asian American communities are reporting more instances of discrimination and acts of racism on account of the origins of the virus.

Lack of Support and Implications for the Economy

The Council is concerned that many service and financial relief organizations that serve these vulnerable populations are shuttered or operating on a more limited basis to comply with social distancing measures, or due to the financial effects of the crisis. If containment and other measures affecting commerce persist for more than a few months, many of these organizations will shutter altogether. Moreover, government entitlement and social services programs rely on nonprofit organizations to administer programs and support to those in need. Funding provided by the Center for Medicare & Medicaid Services and Social Security Disability Insurance (SSDI) programs are important safety nets, but the nonprofit and local government agencies that utilize these programs to deliver services are now operating at a limited capacity, if at all. Additionally, these programs are seeing unintended consequences of relief funding provided under the CARES Act. For example, the $1,200 stimulus checks could result in individuals losing their SSDI income and other entitlements. Special needs students rely on public schools to provide support services such as occupational and speech therapy, and with those students at home, their families carry the burden of caretaking and education that they are not equipped to provide. If nonprofits, schools, and local government entities cannot appropriately deliver services because of onerous regulations, layoffs, reduced capacity, or social distancing, there is a domino effect that ultimately puts strains on families that are already experiencing economic, health, and social distress.

In addition to the direct impacts on vulnerable populations, the effects that these groups face will ripple through other parts of the economy when they are unable to work, make rent or mortgage payments on time, or make purchases as they would in normal times.

Small Business Impacts

The Council believes the economic impact of the COVID-19 pandemic on the nation's small businesses is severe and potentially long-lasting. In response to public health measures limiting non-essential business activity and declining consumer demand, many businesses have seen steep and sudden declines in revenue. Some of the hardest hit businesses include arts and theater organizations; food, hospitality, and event services; salons; and small nonprofits. As university campuses empty and move to online learning, many local businesses that provide a wide array of services and goods have been affected. While the CARES Act's Paycheck Protection Program (PPP) and supportive actions by the Federal Reserve are helping to provide substantial relief funding to small business, the Council is concerned that emergency funds are arriving too slowly, are inaccessible to many organizations, and will not meet the level of sustained need over the course of the public health crisis.

Slow Arrival of Funds

Small business relief funding administered by the Small Business Administration (SBA) via approved lenders is arriving too slowly. State and municipal restrictions on business activity began in early March in some states, with stay-at-home orders following soon after, placing businesses that provide or rely on in-person services and customer interactions under immediate stress. In early April, however, Council members reported that in many of their communities few lenders were offering SBA PPP loans. As a result, chambers of commerce were encouraging small businesses to instead lay off/furlough workers, since workers could then apply for roughly four months of unemployment benefits, which would also reduce business expenses. Access to this and other SBA emergency programs is crucial in order for small businesses to maintain their payrolls so that workers remain employed and companies can restart operations in full once the public health risks subside.

Limited Access to Support

The Council is concerned that access to SBA programs is especially limited for some communities and firms. Small businesses in rural areas and in other communities with limited access to financial institutions are less likely to have an existing relationship with an SBA lender. Moreover, in the current context, few banks are extending loans to new customers due to economic uncertainty and credit standards. In addition, self-employed individuals, micro-enterprises, nonprofit organizations, and immigrant business owners may face greater barriers to obtaining these funds. Clearer guidance and more technical assistance is needed in order to provide equitable access to funding for these groups. The U.S. Treasury Department could allow Community Development Financial Institutions (CDFIs) to give PPP loans to small businesses and nonprofits.

Insufficient Level of Funds So Far

Finally, given the breadth of impact on the nation's small businesses and the possibility that public health measures limiting non-essential business activity could endure for months, the Council believes that the level of relief funding provided is likely to be insufficient. The public health crisis continues to increase in severity across the nation and may not peak for several weeks in some areas. With no return to normalcy in sight, the impact on small business activity may remain for months, and the funding needs associated with a longer-term crisis are much greater than what has been appropriated thus far.

Incentives to Lay Off Workers

The Federal Pandemic Unemployment Compensation (FPUC) program will cause another round of chaos for any small business still open in rural communities with generally lower incomes. The flat $600 payment for anyone who qualifies for even $1 per week in state unemployment benefits has had the effect of employees asking employers to lay them off. The federal amount (plus the state funds) are far greater than an employee working 40 hours a week, earning $12 per hour would ever make. For example, most employees still working right now in rural Kentucky at local hospitals, Wal-Mart, grocery stores, and restaurants earn less than $12 per hour. When the $600 payments start to flow, many are bracing for a complete shutdown of the entire small business community in rural areas like Eastern Kentucky. While workers are absolutely owed these wages, the set amounts were calculated based on urban metrics and reveal a complete, and disturbing, disconnect between the knowledge of federal policymakers and what poor people in Appalachia actually live on and make in wages.

The Council has seen some effective solutions to supporting small businesses on a local level. Crowdfunding platforms have provided capital to local small businesses in some places, with well-intentioned residents looking to extend support. CDFIs, local governments, and philanthropic organizations have partnered to create emergency grant and loan funds to serve small businesses in need. However, greater federal support will be needed to handle a sustained downturn and must be tailored to the unique needs and circumstances of different communities.

Policies to Protect Vulnerable Populations and the Economy

Protecting Housing Security for Renters and Homeowners

The Council considers efforts to create a more coordinated and comprehensive rent and mortgage debt-relief intervention a top priority. Policies to reduce the impact of the pandemic should be particularly responsive to the shortage of affordable housing for many vulnerable populations. In many areas that the Council serves, policies have been introduced to temporarily pause evictions and foreclosure proceedings.

For homeowners, many have the option of obtaining forbearance from their mortgage servicer. However, there must be consistency in the terms offered to borrowers eligible for forbearance under the CARES Act. Some lenders are allowing the moratorium on mortgage payments, but then demanding a lump sum at the end of the (forbearance) period; others allow borrowers to pay back the missed payments over time; others are simply extending the term of the loan and adding the missed payments to the end. There should be an incentive for lenders to modify the loans with terms that allow stability for homeowners, the lender, and the community. We also need federal support for homeowners who are not covered by the CARES Act—those whose loans are in portfolios and private-label securities. Those homeowners, or roughly 35 percent of those with mortgages, should not be left out of the relief plans. Finally, the Federal Reserve should consider changing the terms of the loans it has purchased in mortgage-backed securities (MBS) to be more favorable to borrower needs. In the previous foreclosure crisis, lenders and servicers claimed that they were powerless to reduce principle or otherwise change the terms of individual loans because of all the investors in any given tranche.

Multifamily Housing Concerns

The Council supports policies that strengthen housing stability for LMI households, but it also urges policymakers to consider unintended consequences of such policies. As workers go unpaid, the Federal Housing Finance Agency and the government-sponsored enterprises have established short-term relief for mortgagors whose loans are securitized in agency MBS, and the Council supports this action, though a 60-day moratorium may not be sufficient for many unemployed workers. Residential rent and/or eviction moratoria have been imposed by some local governments, and LMI renters in general face immediate need, but measures to prevent eviction should take into account that many landlords are themselves small business owners in need of relief. Many commercial and residential landlords cannot afford to service debt on their rental property, or otherwise operate without regular revenue, which has implications for housing quality, safety, and security.

Need for Housing and Financial Counseling

Many lenders and community advocates agree that there is a critical need for support of homebuyer and homeowner counseling agencies at this time. We are in an environment in which programs and regulations are changing by the day, responses are varying by lender, and lenders are still scrambling to ramp up their ability to address the needs and respond to borrowers. Homeowners are sick with worry about how they will keep their homes when their jobs have been permanently, or even temporarily, eliminated. Homeowners need the sound, legitimate, unbiased, and free information that homebuyer and homeowner counseling agencies can provide. Before the pandemic, the number of housing counseling agencies, and especially default- and foreclosure-prevention counselors, were at levels below those in 2007. Now these agencies also need to ramp up their post-purchase, default- and foreclosure-prevention assistance—and they need support not only for additional staff but also for technology that allows them to work from home.

Moreover, the Council sees the overwhelming volume of information about the pandemic and policy responses, including information that is conflicting or inaccurate, as a paramount issue facing homeowners, renters, small business owners, community organizations, and consumers broadly. There is a need for clearer and more concise support as well as more effectively designed online portals directing individuals to the resources and programs they need.

Community Health Care

Targeted waiving of cross-state licensing and regulatory requirements has facilitated greater access to medical care and telemedicine, but community health centers that serve LMI populations have had to suspend elective and non-urgent procedures, are losing revenue, and have the least resources to convert to telemedicine. In normal times, these facilities are often the principal or only providers of primary care for LMI communities, and some may be lost.

Community Reinvestment Act

More concrete guidance to financial institutions regarding the role of Community Reinvestment Act (CRA) and, specifically, modified risk-tolerance guidelines could go far to address some economic effects of the pandemic by encouraging banks to provide more support to those in need. However, the Council is concerned with the Office of the Comptroller of the Currency's proposal for CRA modernization, and emphasizes the importance of putting a moratorium on the proposed changes to how CRA is regulated. The combination of changing the definition of what qualifies as a small business (for the purposes of CRA) from $1 million to $2 million in annual revenue and changing the retail lending test to a pass/fail assessment instead of generating ratings for a bank's retail lending would be a catastrophic one for small businesses—even in a pre-pandemic environment.

Critical Role of CDFIs and Nonprofit Sector in Extending Relief

CDFIs have played a critical role in financing for-profit and nonprofit businesses in LMI areas, and have been impacted deeply by economic uncertainty and disruption of the pandemic. CDFIs are well positioned to channel relief to preserve critical, post-pandemic business entities as diverse as childcare facilities, domestic violence shelters, affordable housing organizations, providers of services to people with disabilities, and entrepreneurs and for-profit employers in underserved communities. Many of these entities are facing higher distress in their portfolios in the current environment and are experiencing reduced access to liquidity. They are often unable to access SBA financing, and further, many are concerned about the ramifications for their post-pandemic viability of assuming more debt. Nonetheless, the Council believes CDFIs will play an important role in the response to and recovery from the pandemic.

CDFI Fund Program

Given the current circumstances and the devastating impact of COVID-19 on communities throughout the country, CDFIs and Community Development Entities (CDEs) should be encouraged to expand their reach to cover all areas of need across the nation, both urban and rural. To accomplish this goal, efforts should focus on making the CDFI Fund's programs easier to use to help new CDFIs and CDEs access CDFI resources and programs. This could be accomplished by minimizing application and reporting burdens and costs, increasing transparency of the award-making process, and improving the Help Desk and website to improve customer service.[1] Also, there is a need to promote awareness of CDFIs in order to expand their access to new resources, which is particularly important now, as various investors and philanthropists may be seeking ways to help restart the economy after COVID-19. The CDFI Fund should consider extending upcoming deadlines for the CDFI Program and CDFI Bond Guarantee Program to provide CDFIs, CDEs, nonprofit housing organizations, and banks insured by the Federal Deposit Insurance Corporation more time to apply given the current circumstances.

Innovative Actions by CDFIs

The Council has seen many innovative and impactful activities by CDFIs in their regions in support of vulnerable populations that could prove critical in the coming months in terms of access to financial products, job training, affordable housing, health care, social services, case management, education, and public transportation. In late March, for example, the Appalachian Impact Fund and other partners launched a small business support fund, which is now operationalized and offering both mini-grants and zero-interest loans for larger amounts to qualified businesses from a revolving loan fund. It has been life-saving for many Eastern Kentucky small businesses and entrepreneurs who have yet to be able to access federal resources.

CDFIs have also provided support for childcare services for essential workers and LMI communities, with the hope of maintaining operations so that these critical services remain available throughout the crisis and at the onset of the recovery.

Another CDFI is working with community stakeholders to preserve and create affordable housing and provide consumer loan products for LMI individuals that would allow those with lower credit scores to bypass predatory lenders. In another example, a CDFI has funding available for nonprofits to purchase

[1] See CDFI Fund Strategic Plan 2017-22, Goal 3 objectives, at https://www.cdfifund.gov/Documents/Final%20Strategic%20Plan%20102516.pdf.

transit-oriented development (TOD) land to build affordable housing and for small businesses designated for LMI. Others provide financing for women-owned businesses. With the backing of national CDFIs, local CDFIs can begin to collaborate and quickly adapt to community need in both urban and rural areas during the crisis while setting up an infrastructure for post-pandemic development that will serve vulnerable populations.

Issues Facing the Nonprofit Sector

In the last decade, many nonprofits have been encouraged by funders to adopt a "social enterprise" business model and diversify revenue by creating small businesses where vulnerable populations could learn vocational, life, and social skills. Funders, including government programs, require that these businesses demonstrate measurable, evidence-based outcomes, such as the number of people employed in the community, which adds a complicated level of compliance. Once established, the business revenue becomes an important part of these nonprofits' operating costs. Many of these businesses are in industries that are now shut down, such as commercial kitchens and food service, production work, and janitorial services.

Vulnerable individuals who were employed by these programs have mental and physical health issues that puts them at greater risk for contracting COVID-19 and for unemployment. Meanwhile, essential social services are harder to access, nonprofit staff are being furloughed or not able to provide case management assistance in a timely way, grant obligations are not being met, and operating revenue has come to a standstill while operating costs continue.

Social enterprises are a hybrid of nonprofit and for-profit businesses and are a proven model for advancing vulnerable population economically and socially. Understanding this hybrid business model and allowing access to traditional SBA funding could be critical to allow these businesses to prepare to re-open and scale up in the coming few years to provide employment and social services for vulnerable individuals. If SBA funding was streamlined and accessible for nonprofits (which are legally incorporated as businesses), they could continue to serve vulnerable populations and save jobs during the crisis. This could also be a viable model post-crisis to lead to job creation both for vulnerable populations and the staff that operate nonprofits. During the COVID-19 crisis, SBA loans would need to include some forgivable debt structure and still allow nonprofits to braid together social service entitlements to keep social safety nets in place.