Record of Meeting

Federal Reserve Governors' Special COVID-19 Meeting with Community Advisory Council
May 14, 2020

Introduction

Given the unprecedented public health and economic impacts of the coronavirus pandemic, the Federal Reserve's Community Advisory Council was asked to convene for two meetings in the first half of 2020 with the Board of Governors. The Council was asked at an interim meeting on April 13, and at its regular meeting on May 14, to provide comments and observations directly related to the pandemic, its effects on low- and moderate-income (LMI) communities, and existing and potential future policy responses. This is the second of these two meeting records.

Insights Regarding Existing Programs to Assist Small Businesses

Small businesses play a crucial role in the economy broadly, and employ many LMI workers. Impacts of the pandemic on small business and small business employment will be significant and long-standing. Estimates continue to indicate that the loss (permanent closure) of small businesses will be somewhere between 25 percent to 30 percent or even greater.[1] According to the National Federation of Independent Business, "half of all small businesses cannot last more than one to two months under current conditions."[2] Fortunately, the Paycheck Protection Program (PPP) and accompanying Federal Reserve Paycheck Protection Program Liquidity Facility (PPPLF) have had a positive effect on firms that have been able to participate. However, the Council identified several notable shortcomings of these programs, and would like to offer recommendations for subsequent programs to provide relief to small businesses and affected workers.

A primary challenge that the Council recognizes is that many eligible and affected businesses have been unable to access PPP financing, for a variety of reasons. First, the first-come, first-serve nature of the program has favored some firms over others. Firms that already have a financially substantial credit relationship with a lender approved by the Small Business Administration (SBA) and firms that are well resourced and informed enough to quickly submit an application were able to receive approval in a timely manner. Conversely, small proprietors, nonprofits, firms that operate in the cash or informal economy, and those in rural and underserved areas continue to have difficulty accessing PPP. Barriers for these firms include a lack of clear information about how to participate; a lack of a strong relationship with an eligible lender; an unwillingness to take on additional debt and concern that the loan would not be forgiven; not meeting eligibility criteria, including the inability to produce required paperwork; and the limited ability of smaller or less administratively sophisticated 501(c) (3) nonprofits to participate. These barriers and others have contributed to inequities for women- and minority-owned businesses in particular.[3]

[1] See https://higherlogicdownload.s3.amazonaws.com/NMSC/390e0055-2395-4d3b-af60-81b53974430d/UploadedImages/Resource_Center/COVID_19/NMSC57_MSA_COVID19IMAPCTSURVEY_F.pdf.
[2] See https://www.nfib.com/assets/Final-Coronavirus-write-up-pt-3-1.pdf.
[3] See https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-cares-act2-smallbusiness-apr2020.pdf.

A second concern of the Council is that many firms whose business operations were not severely affected have been able to receive funds, in some cases ahead or instead of firms that desperately need a capital infusion to keep their payroll intact. For example, construction was designated an essential business activity in many states, and construction employment does not appear to be highly affected in the short term, yet construction firms received a significant amount of PPP dollars. Meanwhile, accommodation and food service sectors have been underfunded relative to their share of employment loss.[4]

A third concern is that firms that have received approval for PPP funds are facing uncertainty about when funds will be received and the likelihood that their loans will be fully forgiven. In some cases, firms that received approval from their lender have waited for up to four weeks for funding to arrive, though funds appear to be flowing in high volume in the aggregate.[5] In other cases, firms that have received their PPP loans are anxious about the process and documentation required for their loans to be forgiven. All recipients need clarity and assurances about this forgiveness process—in particular nonprofit organizations and others that do not have the capacity to take on greater debt.

A report[6] from the SBA's inspector general notes four issues that, in part, reflect the Council's concerns: (1) there is no evidence that the SBA issued guidance to lenders to prioritize underserved and rural markets—therefore, rural, minority, and women-owned businesses may not have received loans as intended by the Coronavirus Aid, Relief, and Economic Security (CARES) Act; (2) there is evidence that tens of thousands of borrowers would not meet the 75 percent payroll cost threshold and would therefore have to repay the amount of non-payroll costs in excess of 25 percent in less than 2 years; (3) SBA did not issue guidance on the deferment process for PPP loans to lenders within 30 days as required, which means that lenders may not be adequately prepared to service PPP loans that carry balances, and borrowers may not know what is required to repay outstanding loan balances; and (4) there is no evidence that SBA registered the loans. The report also called for PPP lenders to collect the optional demographic information of borrowers going forward.

A final set of insights on PPP that the Council would like to share concern the Federal Reserve's PPPLF. The Council appreciates the Federal Reserve's recent actions to expand access to PPPLF to include Community Development Financial Institutions (CDFIs) and other non-depository lenders. This is an important step for supporting CDFIs' ability to extend needed PPP loans to small businesses in areas that are underserved by conventional lenders, and an important acknowledgement that CDFIs are a critical part of the nation's financial infrastructure. One limitation of the expansion, however, is that a relatively small number of CDFIs have been able to take part in PPPLF due to eligibility criteria, such as the size of a CDFI's servicing portfolio. As a result, only the largest and most well-resourced CDFIs are able to participate, meaning that underserved segments of the small business sector that are not directly served by large CDFIs, such as micro-ventures, will continue to struggle to obtain PPP loans. Another limitation is that CDFIs must work through a correspondent lender to access PPPLF, which is a challenge for some CDFIs. Finally, by the time that many CDFIs do gain access to the facility, there are concerns that PPP funds may no longer be available.

[4] See https://www.urban.org/urban-wire/opportunity-lost-expansion-paycheck-protection-program.
[5] See https://www.nfib.com/assets/Final-COVID-19-5-Write-up-Results.pdf.
[6] See https://www.oversight.gov/sites/default/files/oig-reports/SBA_OIG_Report_20-14_508.pdf.

Recommendations for Supporting Small Businesses

The Council has a number of recommendations for increasing the responsiveness of existing policy interventions to support small businesses, as well as considerations for future policy measures. First, regarding PPPLF, the Federal Reserve and other policymakers should build upon recent actions to include non-depository institutions to allow a greater number of CDFIs to access this facility. These actions could include lowering the eligibility thresholds regarding previous loan portfolio sizes to include smaller CDFIs, at least up to their historical levels, and creating incentives for correspondent lenders to serve as intermediaries to facilitate access. In addition, the Council urges the Federal Reserve and other policymakers to set aside funds in any subsequent round of PPP funding to be allocated toward underserved entities and the intermediaries that serve them, such as CDFIs and mission-oriented nonprofits.

Second, the Council would like the Federal Reserve to consider other actions to support CDFIs and underserved small businesses in this crucial time. Many CDFIs are currently repositioning their balance sheets to accommodate PPP lending and other emergency financing to underserved communities. A liquidity facility could purchase existing debt from CDFIs so that they can continue to provide capital to organizations and people in need. The Main Street Lending Program could also be expanded, or new facilities created, to provide greater support to nonprofit organizations and the critical services they provide to LMI communities.

A third action to support small businesses is to further strengthen the financial position of state and local governments so that they can continue to expand their own small business finance programs. In many areas where there is little CDFI presence, including rural places and small towns, local government programs are a critical source of grants and debt financing to support entrepreneurs and small businesses. However, local governments are facing falling revenue and increased costs due to the pandemic. The Federal Reserve's Municipal Liquidity Facility has helped ensure that municipal bond markets remain functional. However, the Council urges participation in this facility be expanded to directly include much smaller municipalities than it currently does. Currently, only U.S. counties with a population of at least 500,000 residents and cities with a population of at least 250,000 residents are eligible. These population thresholds leave out rural America, as well as many mid-sized cities impacted by disruptions and suspended operations at factories, universities, hospital systems, and other key facilities. For municipalities that do have a strong CDFI presence, the Council recommends stronger support from local government to address local needs and inequities in access to capital.

A final small business-related recommendation of the Council is for the Federal Reserve and other policymakers to consider what the financing needs of small businesses will be as we look toward "reopening" the economy. Small businesses have begun to switch from shock–not sure what to do–to beginning to respond to the new situation and attempting to identify new markets and new ways of doing business, such as focusing on internet sales. However, just as this transition has occurred, states began to announce "opening up" policies, a move that has continued to create issues for small businesses. Now businesses are struggling with deciding whether to reopen and how to do that safely. The Council believes that disruptions to normal business activity will be present for months to come, and businesses will need to adapt to evolving circumstances when reopening. Additional capital may be needed for small businesses to be viable in the coming months, even for those that are able to operate in a limited fashion. For example, restaurants that are shifting to curbside service only may need to build take-out windows and redesign interiors in order to operate effectively. Encouraging and facilitating access to liquidity for loan products that allow businesses to safely and efficiently reopen will be crucial for supporting the economy and the nation's small businesses.

Issues Facing Nonprofits

Nonprofit organizations provide critical services and resources that are not and cannot be addressed by governments or corporations. However, nonprofits, even though legally incorporated as businesses, have fundamental organizational, funding, and governance issues that are being exposed during the COVID-19 crisis. There are currently 1.6 million nonprofits in the U.S. It is inevitable that some small nonprofits will fail or go dormant as funding is redirected due to the COVID crisis. Also at risk are the medium to large nonprofits that rely on philanthropy, government funding, earned income, and volunteers to deliver essential services. Except for the largest nonprofits that have cash reserves, endowments, and capital investments, most nonprofits are expected to operate without ready access to cash in a crisis.

Often nonprofit organizations are unable to access the mainstream banking system for credit needs, and have their credit needs provided by CDFIs. Nonprofits with no existing bank credit relationship had more difficulty accessing PPP loans, at least in the initial round, for this reason. The Fed's PPP liquidity facility is a historic opportunity for the Federal Reserve System to connect with CDFIs across the country. The Council recommends this connection last beyond this crisis and be made more direct than through ad hoc bank correspondents. Some CDFIs have not availed themselves of the facility due to the required representation that no other liquidity is available to the organization. While the facility terms are unique, the requirement that it be a lender of last resort may diminish its use.

Notably, certain types of nonprofits–including 501(c)(6) membership organizations such as chambers of commerce and trade organizations, which are providing key services and information in the current crisis by surveying members and coordinating information (and other) resources–are excluded from the SBA PPP. The Council strongly urges expansion of the program to include these crucial organizations.

Working capital is a major challenge for nonprofits. Typically, philanthropy will only fund direct costs associated with a program and will provide very limited funding for administrative and overhead, startup, or development expenses. Further, the last round of tax cuts removed incentives for philanthropy; in 2018, giving declined 1.7 percent. Giving was flat for human services; arts and humanities; and health organizations, while giving declined for education, religious organizations, and foundations.[7] In the current context, 2020 giving to human and social services has increased related to the COVID-19 crisis, but this kind of giving is not expected to continue post-pandemic.

The Federal Reserve could consider creating a new liquidity facility, or augmenting an existing one, with the purpose of maintaining access to capital for the nonprofit sector. Capital provided from such a facility would need to have at least a partial forgivable debt structure and still allow nonprofits to braid together government funding to keep needs such as housing, childcare, mental health services, domestic violence services, addiction and recovery programs, food access, social services, financial literacy, health care, and employment services in place. However, many nonprofits will likely fail as philanthropies and governments make tough decisions about how to distribute funds.

[7] See https://givingusa.org/giving-usa-2019-americans-gave-427-71-billion-to-charity-in-2018-amid-complex-year-for-charitable-giving/.

Housing Instability

It is helpful to distinguish the different categories of rental housing for LMI and vulnerable populations to understand the continuum of who is most secure in housing and who is most vulnerable. Currently, some of the most vulnerable (e.g., seniors, disabled, and homeless individuals) are in deeply subsidized public housing and permanent supportive housing, often run by local housing authorities and community development corporations. Mixed-income housing is available to employed, middle-income households who often have high housing cost burden. Some of the households in mixed-income housing qualify for limited Section 8 housing vouchers. These can be owned by nonprofits, for-profit developers, or housing authorities. With immediate loss of renters' personal incomes, there will be a domino effect of unpaid rent and evictions once moratoria are lifted. Renters are feeling the pressure and the concern is growing as they begin to fall further and further behind on their rental obligations. There are also implications for landlords. Both renters and landlords are concerned about the long-term effects after the moratoria end.

In the immediate future, two groups most vulnerable to evictions and possible homelessness include LMI individuals who have not qualified for unemployment and undocumented workers. For those who hold housing vouchers, it is imperative to accelerate income eligibility procedures for individuals who have lost their jobs so rents can be recalculated based on income. These are individuals most likely to return to work and resume rent payments, but there need to be consistent policies in rental relief, eviction moratoria, and financial risk to landlords. Otherwise, we will see a wave of displacement and a rise in homelessness among those who have the desire and ability to resume their employment. Assistance to LMI families living in unregulated or substandard housing and their landlords is necessary to stabilize housing markets and ensure the livelihoods of multifamily owners and occupants.

The least vulnerable multifamily housing, where supports are in place for owners and residents, is housing that is financed by federal and state programs (e.g., Federal Housing Administration (FHA)-insured and Fannie Mae- and Freddie Mac-financed mortgages). These buildings must legally have a forbearance of 180 days and adequate reserves for emergencies. In the case where rent supports derive from household income, such as housing vouchers, it is imperative to accelerate income eligibility procedures for individuals who have lost their jobs so rents can be recalculated based on revised income.

The pandemic has revealed deep vulnerabilities in lower-wealth communities and shown clearly that housing is a public health need. For instance, the 2018 American Community Survey one-year data reveal that nearly 30 percent of all occupied units in Louisiana are cost burdened, meaning more than 30 percent of gross household income goes to housing costs; among renters, the ratio is 48 percent. For New Orleans, whose economy hinges on tourism and has an outsized proportion of low-paying jobs in the hospitality industry, these ratios, pre-pandemic, were much higher, per Housing NOLA, with 63 percent of renters cost burdened. The pandemic's economic impact will surely exacerbate cost burden among both renters and homeowners. This moment demands the federal government provide rent and mortgage payment assistance to vulnerable families, but also, longer term, bolster federally funded housing production programs to address affordability, homelessness, and racial disparities in housing. To the extent that housing touches federally regulated programs, or that housing debt is held by regulated banking institutions, we urge the Federal Reserve to research holistic solutions for the coming issues with delayed payments in order to prevent foreclosures, evictions, and defaults.

In Louisiana, preparedness for hurricane season is a top priority for landlords and homeowners. The cost burden of insurance in the state was a problem before the pandemic, and both homeowners and landlords face cancellation of policies without some form of extended relief. A temporary moratorium covering 14 states expired in mid-May. Owners of smaller- to medium-size rental buildings, as well as homeowners, need extended moratoriums on insurance cancellations or assistance paying their premiums. The Council believes that direct assistance to businesses and households is a better approach than payments to insurers. The Louisiana state insurance commissioner has said that his office has no authority to force insurers to reduce premiums or prevent cancellations, but the upshot of mass cancellations will be disastrous in the event of a hurricane. Lags in coverage of homeowners insurance due to missed payments could create major challenges for households in other regions of the country as well.

The federal government's economic responses to the pandemic have certainly had impact, but miscommunications, misinformation, and lack of clear guidance has led to confusion. A post on the Mortgage Bankers Association website dated April 27, 2020, described a prohibition on FHA, Fannie, and Freddie borrowers being required to repay missed payments in one lump sum. But so far, other lenders seem to be left to their own devices, and it is not clear how even the FHA, Fannie, and Freddie loan servicing is being monitored. An April 27 memorandum from the Housing and Urban Development (HUD) Office of the Inspector General stated: "HUD OIG reviewed the information that the top 30 FHA mortgage servicers are providing to borrowers on their websites. These entities service over 90 percent of FHA-insured mortgages. They found the information on several websites regarding forbearance options under the CARES Act was incomplete, inconsistent, dated, and unclear." The Council urges steps to ensure the actions of lenders covered by the CARES Act will be monitored, and to ensure homeowners with lenders not covered by the CARES Act will be assisted. Also needed is clarity on how lenders plan to address the end of forbearance periods.

Vulnerable Communities Feel Magnified Impact of Pandemic

Group settings are the only options to provide cost-effective, safe housing and support services to vulnerable homeless, refugee, senior, disabled, and youth offender populations, and staff providing services cover a spectrum from medical care to family support. Even though they have more contact with at-risk individuals, these providers have been the last to have access to personal protective equipment (PPE), are more likely to be exposed to COVID 19, and fall into the LMI category because they are working in traditionally low-paying jobs. Donors are stepping up to address the need and redirecting donations to food insecurity, but the long lines at food banks, which now draw solidly middle-class families, is an indicator that access to food will remain a critical need for some time to come.

The Navajo Nation, spanning four Western states, suffers the third highest COVID-19 infection rate in the country. It was only in early April, weeks after issuance of stay-at-home orders in urban and rural areas that any testing, health-care, or social distancing protocols were directed to the needs of the Navajo Nation. Of a population of 360,000, 2,800 individuals have tested positive and 80 have died. Compare this to Utah with a population of 3.2 million people, 5,300 individuals testing positive, and 50 deaths, and Arizona with a population of 7.3 million people, 9,000 testing positive, and 362 deaths.

The digital divide has emerged as a foundational issue in the pandemic. Many LMI individuals and vulnerable populations do not have adequate internet access, especially in rural areas, in LMI communities, and among the senior population. Lack of reliable broadband internet access or home computers has exacerbated inequity for education, telehealth, socialization, and access to financial services, amongst other areas. Investments need to be made to extend broadband infrastructure to rural and LMI urban and suburban areas where coverage is lacking. Given long-term shelter-in-place orders, or a return of such orders in the fall without improvements, the educational disparity will only widen. An interesting note is that private entities are stepping up to try to assist with providing access.[8]

Financial literacy training and financial counseling will not be readily accessible for LMI communities because of social distancing, the inability for volunteers and staff to provide in-person counseling, and lack of internet access for LMI communities. With the extension of tax filings, individuals who qualify for Earned Income Tax Credits might not receive the benefit until mid to late summer.

Undocumented residents face many disadvantages in the pandemic. Undocumented workers are concentrated in some of the industries that have been hardest hit by the economic effects of COVID-19, but are unable to receive many relief provisions such as unemployment benefits. Many nonprofits that assist the undocumented, like many other types of nonprofits, are currently shuttered to comply with shelter-in-place and social distancing rules.

Overall, according to Health Management Associates, the COVID-19 pandemic could also have serious consequences for enrollment in Medicaid, the Affordable Care Act (ACA) Marketplaces, employer-sponsored coverage as well as the potential change in the number uninsured individuals. Assuming a range of unemployment rates from 10 percent to 25 percent, the number of people receiving coverage from an employer could decline by 12 million to 35 million, including workers and family members. This would disproportionately affect 58 million non-elderly individuals who have employer-sponsored coverage and earn less than $50,000 annually. Medicaid enrollment could increase from 71 million to between 82 million and 94 million LMI individuals (an increase of 11 million to 23 million across all states over the next several months). Uninsured numbers could increase to 40 million. While job loss will qualify many people for Medicaid in expansion states, one-third of all jobs are in non-expansion states.[9] Medicaid programs, among the larger budget items in many states, provide health insurance to roughly 70 million poor adults, children, disabled people, and pregnant women. Since Medicaid tends to account for a significant part of states' budgets, decreases in taxes will put a burden on states to make significant cuts to Medicaid. Health-care service providers receiving fees for service and providing charity care and insurance companies providing ACA policies also will need to prepare for impact on their organizational resources and revenue sources.

Concern for Rural America

While COVID-19 has been impacting communities across the nation, particularly major metropolitan centers, it is just starting to reach rural America. This is a major concern for several reasons:

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[8] See https://www.bizjournals.com/twincities/news/2020/05/06/land-olakes-switches-on-free-wi-fi-for-rural-areas.html.

[9] See https://documentcloud.adobe.com/link/review/?pageNum=1&uri=urn%3Aaaid%3Ascds%3AUS%3A16eb959e-7ecc-4867-b6b9-b766cef9d414.

(1) Overall, the population in rural and small town America is more vulnerable because it is older, is in poorer health (more underlying conditions), poorer, and has less access to quality health care.
(2) Fewer workers in rural America are able to work from home and thus unable to stay home to protect themselves from COVID-19.
(3) Many of the jobs in rural America, such as at meatpacking plants, have been classified as essential; so these plants are open, yet working conditions often place workers close together where social distancing is not possible;
(4) Most states (including many rural states such as Iowa, Nebraska, Kentucky, Mississippi, etc.) are opening up their economies just at the time that COVID-19 is reaching and spreading throughout these rural communities and there is little testing that is occurring–so the actual extent of the spread is unknown.
(5) Rural communities do not have the medical infrastructure to deal with a large number of cases: 63 percent of rural hospitals do not have ICU beds–18 million people live in counties with hospitals with no ICU, and 130 rural hospitals have closed in the last 10 years, resulting in medical deserts (defined as a populated region more than 60 minutes away from the nearest acute-care hospital). In all, 640 counties in the U.S. are considered medical deserts; this represents 21 percent of the nation's counties. Nearly 80 percent of rural America is considered medically underserved: rural America contains approximately 20 percent of the population but only 10 percent of the doctors. In addition, the states with the fewest doctors per 100,000 population are mostly rural–Idaho, Iowa, Mississippi, Oklahoma, and Wyoming.

Overall, rural America is not equipped to handle the large number of COVID-19 cases that the data show is coming their way.[10] Rural America suffers from a lack of hospitals, ICU beds, equipment (PPE, ventilators), medical staff, and overreliance on volunteer emergency medical services.

Other Sectors of the Economy Face Outsized Impacts

City, county, state, and federal workforces are now beginning to face furloughs, layoffs, and pay reductions. In Colorado, for example, the governor has begun to discuss a 10-20 percent reduction in the state workforce and a rollback of the 3 percent wage increase state employees won in 2019. In addition, Denver suburban governments have already laid off or furloughed more than 1,200 employees. The strain on city, county, and state governments is severe.

Colorado also offers an example of how different economic sectors are being affected. Construction in Colorado, despite being labeled an essential service, has begun to slow drastically. The health-care industry that had been such a boon to unemployment numbers before the COVID-19 pandemic has now seen hospital and clinical workers taking furloughs, layoffs, and pay cuts. The few industries that are hiring face significant challenges as workers doubt the ability to work safely in grocery stores, retail outlets, delivery warehouses, and food processing plants. In some cases, companies are offering as much as $4 above normal hourly wages, plus sign-on bonuses, but still cannot attract sufficient workers.

The Council would also like to highlight the very real threat to the 640,000 workers of the U.S. Postal Service—the most diverse workforce in the United States, which includes more than 100,000 veterans. Without financial intervention, the Postal Service faces insolvency by the third quarter of 2020. One potential step toward addressing this challenge, which would have the added benefit of providing

[10] See https://www.dartmouthatlas.org/covid-19/hrr-mapping/.

banking services in underbanked communities, is the establishment of postal banking in our rural and underbanked urban communities, a model that has worked well in other nations.

Farms have been devastated by the coronavirus shutdowns. Farm bankruptcies, already on the rise, have been increasing. Farmers have been dumping milk due to very low demand. Normally, a large amount of milk, cheese, and other dairy is purchased by school districts for lunches and by restaurants that are now either closed or have significantly reduced operations. U.S. corn prices have dropped about 15 percent since March. Soybean prices have fallen by 8 percent, hog prices are down 33 percent, and cattle prices have dipped 21 percent. The impact on farmers is emotional as well as financial, as they face the reality of destroying livestock and crops.

As identified above, many rural workers are unable to work from home or they work in essential services (including agriculture), so they are at work and often working in close proximity to one another. This includes manufacturing industries, meat processing plants, prisons, and nursing homes. For example, the Tyson plant in Perry, Iowa, has that reported 58 percent of its workforce has tested positive for COVID-19 and the Iowa Premium Beef plant in Tama reported that 39 percent of its workforce has tested positive for COVID-19. TPI Composites, a wind turbine manufacturing plant in Newton, Iowa, reported that 13 percent of its workforce has tested positive of COVID-19. Workers in institutional settings, such as prisons and nursing homes where major outbreaks have been reported, stand to spread the virus at home throughout their communities.

Communication and Informational Concerns

The Council further recommends that the Federal Reserve, SBA, and Treasury Department take measures to get clear guidance to their respective audiences, including banks, CDFIs, small businesses, the nonprofit community, state and local governments, and others, in order to address the above and other communication gaps.