A View of PPP from the Inside:

Financing, Financial Performance, and Operations of CDFI Paycheck Protection Program Lenders

Brent Howell, Alexander Carther, and Adrienne Smith

December 2023

Through the Paycheck Protection Program (PPP), banks and financial institutions distributed nearly $800 billion in forgivable loans to businesses to help them and their employees weather the pandemic. A large and growing body of research has emerged to examine the program's implementation, effectiveness, and impact. There is also a unique opportunity to examine how PPP affected the boots-on-the-ground lenders that deployed loans — especially smaller, mission-driven lenders, such as community development financial institutions (CDFIs).

This brief examines the financing activity, financial performance, and efficiency and operations of Opportunity Finance Network's member CDFIs that served as PPP lenders. These members devoted a substantial portion of their fiscal year 2021 lending activity to PPP, had higher self-sufficiency and change in net assets than non-PPP lenders, and achieved high rates of operational efficiency. In the short term, PPP provided an essential economic lifeline to businesses and communities. It may have also enhanced the enduring ability of CDFIs to advance mission impact.

Introduction

Through the Paycheck Protection Program (PPP), banks and financial institutions distributed nearly $800 billion in forgivable loans to businesses to help the businesses and their employees weather the pandemic's economic impact.[1] Created as part of the Coronavirus Aid, Relief, and Economic Security Act, PPP was a central economic instrument in the U.S. government's response to the COVID-19 pandemic. PPP was designed to provide prompt relief to businesses. Its focus was job retention, but PPP loans could also be used to cover other expenses.[2]

PPP and its outcomes represent a unique opportunity to study the effectiveness of a large-scale governmental cash infusion into businesses in response to an economic and public health emergency. Given PPP's unprecedented scale, a large and growing body of research has emerged to examine the program's implementation, effectiveness, and impact. To date, most research has focused on PPP's effects on borrowers, including whether PPP loans improved business and financial outcomes[3] and whether the program benefits

---

1 U.S. Small Business Administration. 2021. "Paycheck Protection Program (PPP) Report: Approvals through 05/31/2021." https://sba.gov/sites/sbagov/files/2021-06/PPP_Report_Public_210531-508.pdf.

2 PPP loans were uncollateralized and nonrecourse, meaning that none of the businesses' other assets were at risk in case of default. PPP loans were forgiven if the borrower maintained employee and compensation levels and spent funds on payroll and other eligible expenses (at least 60 percent of funds had to go to payroll). Organizations eligible for PPP loans included any business, nonprofit, veterans' organization, or tribal business with fewer than 500 employees, with some exceptions based on industry. Sole proprietors, independent contractors, and self-employed people were also eligible for the program. PPP loans were dispersed across three rounds. The first round began just after the declaration of a national emergency in April 2020. The program ended on May 31, 2021. See U.S. Small Business Administration, "PPP Loan Forgiveness." https://www.sba.gov/funding-programs/loans/covid-19-relief-options/paycheck-protection-program/ppp-loan-forgiveness.

3 Glenn Hubbard & Michael R. Strain, 2020. "Has the Paycheck Protection Program Succeeded?," Brookings Papers on Economic Activity, vol 2020(3), pages 335-390.

outweighed the costs.[4] Researchers have also studied the program's reach, particularly the extent to which PPP dollars flowed to communities that are most vulnerable and under-resourced.[5,6]

In addition to understanding PPP's effects on businesses, employees, and communities, there is a unique opportunity to examine how PPP affected the boots-on-the-ground lenders that deployed loans — especially smaller, mission-driven lenders.

Community development financial institutions (CDFIs), which operate throughout the country in the low- and middle-income areas that experienced the harshest negative economic effects of the pandemic, were among the most prominent and targeted PPP lenders. In 2020 and 2021, CDFIs played an instrumental role in distributing government support to struggling businesses that larger financial institutions had difficulty reaching. CDFIs were well-equipped to deploy PPP dollars because they are specialized lenders that have long-term, trusting relationships with people and businesses and deep knowledge of the communities they serve.

Indeed, community financial institutions — including CDFIs, Minority Depository Institutions (MDIs), Small Business Administration microlenders, and Certified Development Corporations — made more than $34 billion in PPP loans,[7] large proportions of which were targeted to low-income communities and communities of color.[8,9]

Many members of Opportunity Finance Network (OFN), the leading national network of CDFIs, dispersed PPP loans. In FY 2021, 48 members reported making nearly $1.3 billion in PPP loans.[10] Three members ranked in the top 10 of all 2021 PPP lenders by volume.[11] What were the financing activities, performance, and operations of CDFIs that participated in PPP? How did their activities and performance compare to similarly situated CDFIs that did not participate in the program?

CDFIs, MDIs, and other community lenders made more than $34 billion in PPP loans.

This brief examines the financing, financial performance, and efficiency and operations of OFN member PPP lenders. We compare two groups of members focused on small business and microenterprise financing — the first group participated in PPP in fiscal year 2021 and the second did not. This comparative analysis offers analytical leverage to determine how serving as PPP lenders may have affected CDFIs.[12]

[4] Autor, David, David Cho, Leland D. Crane, Mita Holdar, Byron Lutz, Joshua Montes, William B. Peterman, David Ratner, Daniel Villar, and Ahu Yildirmaz. 2022. "The $800 Billion Paycheck Protection Program: Where Did the Money Go and Why Did It Go There?" *Journal of Economic Perspectives*, 36(2): 55-80.

[5] Schweitzer, Mark E. and Garrett Borawski. 2021. "How Well Did PPP Loans Reach Low- and Moderate-Income Communities." *Economic Commentary*, https://www.clevelandfed.org/publications/economic-commentary/ec-202113-reach-of-ppp-loans-in-lmi-communities.

[6] Cassell, Mark, Michael Schwan, and Marc Schneiberg. 2023. "Bank Types, Inclusivity, and Payroll Protection Program Lending During COVID-19." *Economic Development Quarterly*, https://journals.sagepub.com/doi/10.1177/08912424231163485.

[7] SBA, 2021.

[8] Cassell et al. 2023.

[9] Romer, Carl and Anthony Barr. 2023. "Minority Depository Institutions Paycheck Protection Program (PPP) Lending Insights." National Bankers Association, https://www.nationalbankers.org/_files/ugd/93bce2_ca290c3ce15b417eb5d7e612321827c0.pdf.

[10] As of November 2023, OFN has 409 total members, which comprise 382 loan funds, 16 credit unions, six venture capital funds, and five banks and bank holding companies.

[11] SBA, 2021.

[12] OFN did not separate PPP loans from other types of loans closed in its FY 2020 data collection. Therefore, a longitudinal analysis of PPP lending activity is not possible. However, in coming months, OFN's research team intends to examine longer-term trends in the financing activity, performance, and operations of members that were PPP lenders.

Our analysis relies on data from OFN's Annual Member Survey — a robust and comprehensive data source on our members collected annually since 1994. In its current form, the survey captures data on CDFI lending, financial performance, capitalization, staffing, and outcomes.

Among the brief's key findings are:

1. For members that were PPP lenders, a substantial portion of their FY 2021 financing activity was related to PPP.
2. Self-sufficiency and change in net assets were higher among members that were PPP lenders.
3. The deployment ratio for PPP lenders was like that of non-PPP lenders.
4. PPP lenders achieved high rates of operational efficiency.

Data and Analysis Strategy

Our analysis relies on OFN's FY 2021 Annual Member Survey data to compare the financing activity, financial performance, and operations of OFN members that engaged in PPP lending to small business and microenterprise lenders that did not make PPP loans. OFN fields the survey to all members annually.[13] In our FY 2021 dataset, 280 members provided sufficient data to be categorized into primary financing sectors. These sectors are business, commercial real estate, community services, housing to individuals, housing to organizations, intermediary, microenterprise, and consumer.

- **Member FY 2021 PPP lending volume:** In FY 2021, 48 OFN members made more than $1.3 billion in PPP loans to 61,559 borrowers.[14]
- **Sectors of focus:** PPP loans made up 55 percent of the 48 members' lending activity whereas other lending to small businesses and microenterprises comprised 31.5 percent. The remaining lending went primarily to housing to organizations and commercial real estate. When excluding PPP lending, of the 48 PPP lenders, 38 lent primarily to small businesses and microenterprises while the remaining 10 primarily lent to commercial real estate and housing to organizations.
- **Analytical sample:** Examining members that did not make PPP loans, 94 members lent primarily to small businesses and microenterprises. For the sake of comparability, we restricted the analysis to the 38 PPP lenders that lent primarily to small businesses and microenterprises compared to the 94 non-PPP lenders in the same sectors.[15]

Across the two group types, we analyzed data in three categories: financing activity, financial performance, and efficiency and operations. Several variables are presented in each category.

[13] Survey data are reported for the Fiscal Year (FY) in question. Members report data according to their own FYs, typically with end dates of March 31, June 30, September 30, and December 31 of a given year.

[14] Certain prominent PPP lenders that are members did not respond to the FY 2021 Annual Member Survey. This includes one of the 10 largest PPP lenders. Members that did not submit FY 2021 survey responses are not included in the analysis.

[15] We also ran the analysis on all 48 members that were PPP lenders, which yielded similar findings.

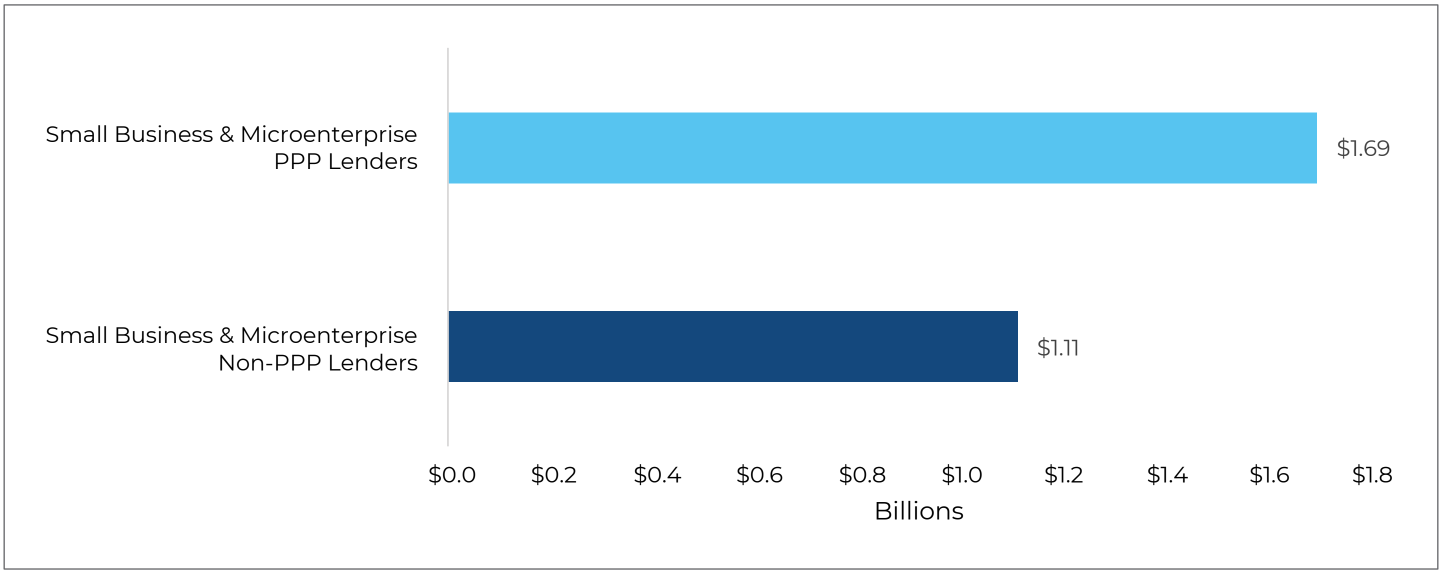
Financing Activity

OFN member PPP lenders closed a substantial volume of loans compared to similarly focused members that did not participate in PPP.

Figure 1 shows that the 38 small business and microenterprise PPP lenders closed $1.69 in loans in FY 2021.[16] In comparison, the 94 small business and microenterprise lenders that did not participate in PPP deployed nearly $1.11 billion in loans.

FIGURE 1

Total Dollar Amount of Direct Financing Closed, PPP and Non-PPP Lenders



Note: Loans closed includes loans, investments, and debt with equity investments made during FY 2021 that were closed on or before the end of the fiscal year, even if the funds have not yet been fully drawn down. N is 38 for small business and microenterprise PPP lenders and 94 for small business and microenterprise non-PPP lenders. Data source is OFN's FY 2021 Annual Member Survey.

The large volume of PPP activity among members is also reflected in the number of loans closed, defined as loans, investments, and debt with equity investments that were closed before the end of FY 2021, even if the funds were not fully drawn down (Table 1).

Small business and microenterprise lenders that did not participate in PPP closed 117,599 loans, which was more than the subset of small business and microenterprise lenders that closed PPP loans (69,810). However, this difference is likely attributable to the fact that 94 small business and microenterprise lenders did not participate in PPP whereas only 38 did. Additionally, the non-PPP lenders were likely participating in other governmental and philanthropic programs designed to help borrowers and communities during the pandemic.

[16] This amount includes PPP loans closed plus loans closed in other sectors.

On average, PPP loans were smaller than other types of loans closed.

The average size of loans closed for small business and microenterprise PPP lenders was $39,298, whereas non-PPP lenders' average loan size was $95,086. According to the SBA, the average size of 2021 PPP loans was around $42,000, which is on par with that of members.[17]

TABLE 1

Total Number and Average Size of Loans Closed, PPP and Non-PPP Lenders, FY 2021

	Small Business & Microenterprise PPP Lenders	Small Business & Microenterprise Non-PPP Lenders
Total Number of Loans Closed (#)	69,810	117,599
Average Size of Loans Closed	$39,298	$95,086
N	38	94

For members that were PPP lenders, a substantial portion of their FY 2021 financing activity was related to PPP.

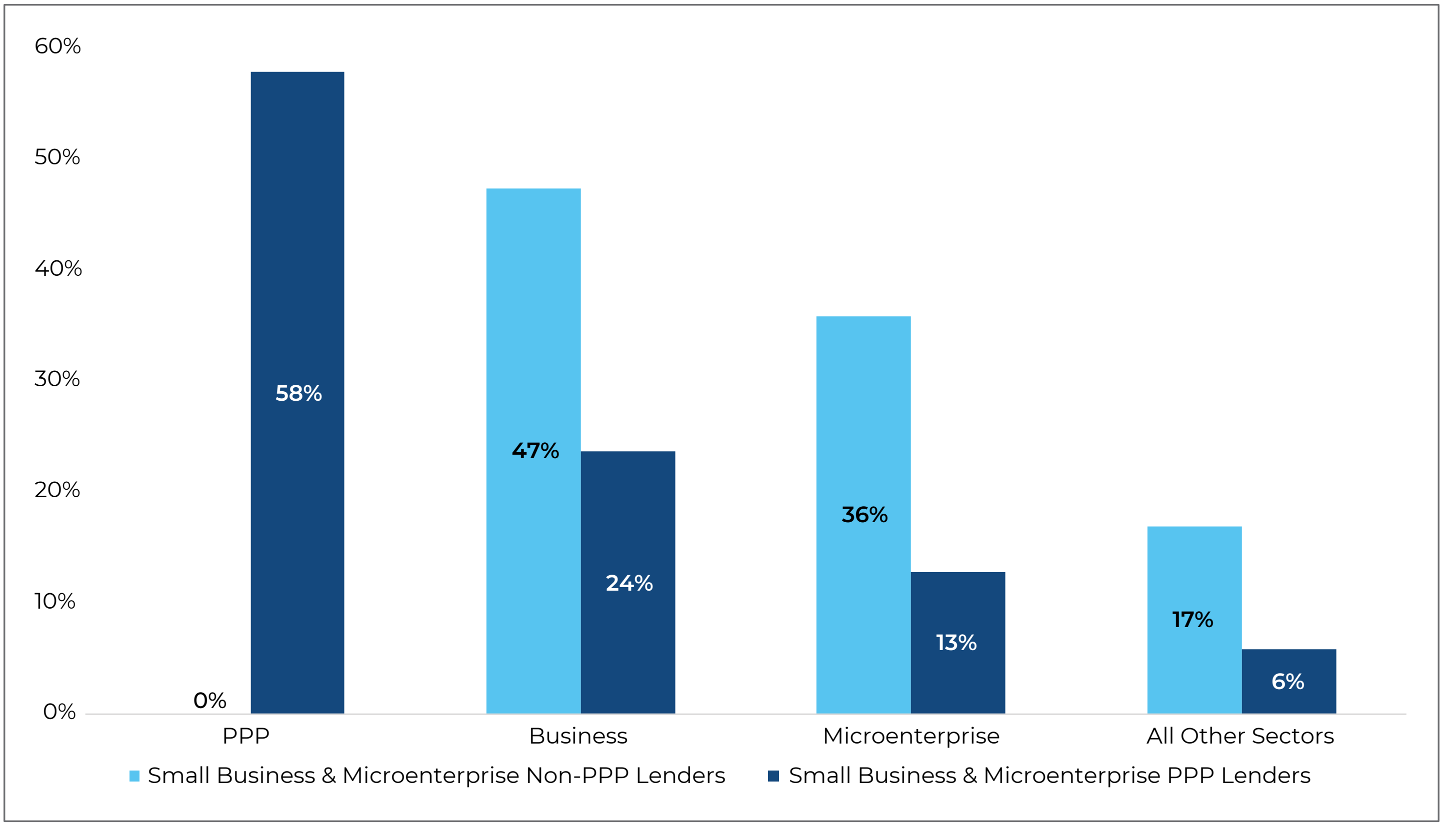
Figure 2 shows the percentage of direct financing closed in dollars by sector. The dollar amount of PPP loans closed comprised 57.8 percent of small business and microenterprise PPP lenders' activity. The next largest category of financing closed for this group was non-PPP small business loans, at 23.6 percent. In contrast, small business comprised nearly 47.3 percent of direct financing for non-PPP small business and microenterprise lenders.

The high proportion of PPP loans may indicate that participating in PPP diverted members' lending activities away from the small business and microfinance loans they typically deploy towards this unique and timely program. These lenders also likely increased their overall lending volume to meet the pandemic moment as PPP lenders.

[17] SBA 2021.

FIGURE 2

Percentage of Direct Financing Closed ($) by Sector, PPP and Non-PPP Lenders



Note: Loans closed includes loans, investments, and debt with equity investments made during FY 2021 that were closed on or before the end of the fiscal year, even if the funds have not yet been fully drawn down. N is 38 for small business and microenterprise PPP lenders and 94 for small business and microenterprise non-PPP lenders. Data source is OFN's FY 2021 Annual Member Survey.

Financial Performance

Small business and microenterprise PPP lenders had a much higher self-sufficiency ratio than non-PPP lenders in the same sectors.

Self-sufficiency measures whether a CDFI's earned revenue can cover its expenses. A self-sufficiency ratio of 100 percent means that the CDFI can cover all its expenses without additional support provided through grants or other contributions. However, most CDFIs provide low-cost loans and technical support that rely upon subsidies from private or public sources.

Figure 3 shows the self-sufficiency and deployment ratios for small business and microenterprise PPP lenders compared to non-PPP small business and microenterprise lenders in OFN's membership. The self-sufficiency ratio for the former group was 126.0 percent, whereas the ratio for the latter group was 55.6 percent. In comparison, the FY 2021 self-sufficiency ratio for all members was 71 percent.[18]

[18] Howell, Brent, Adrienne Smith, and Alex Carther. 2023. "Trends Toward Equity: Five Years of OFN Member Data." Washington, DC: Opportunity Finance Network, https://www.ofn.org/resource-access/?resource=trends-toward-equity

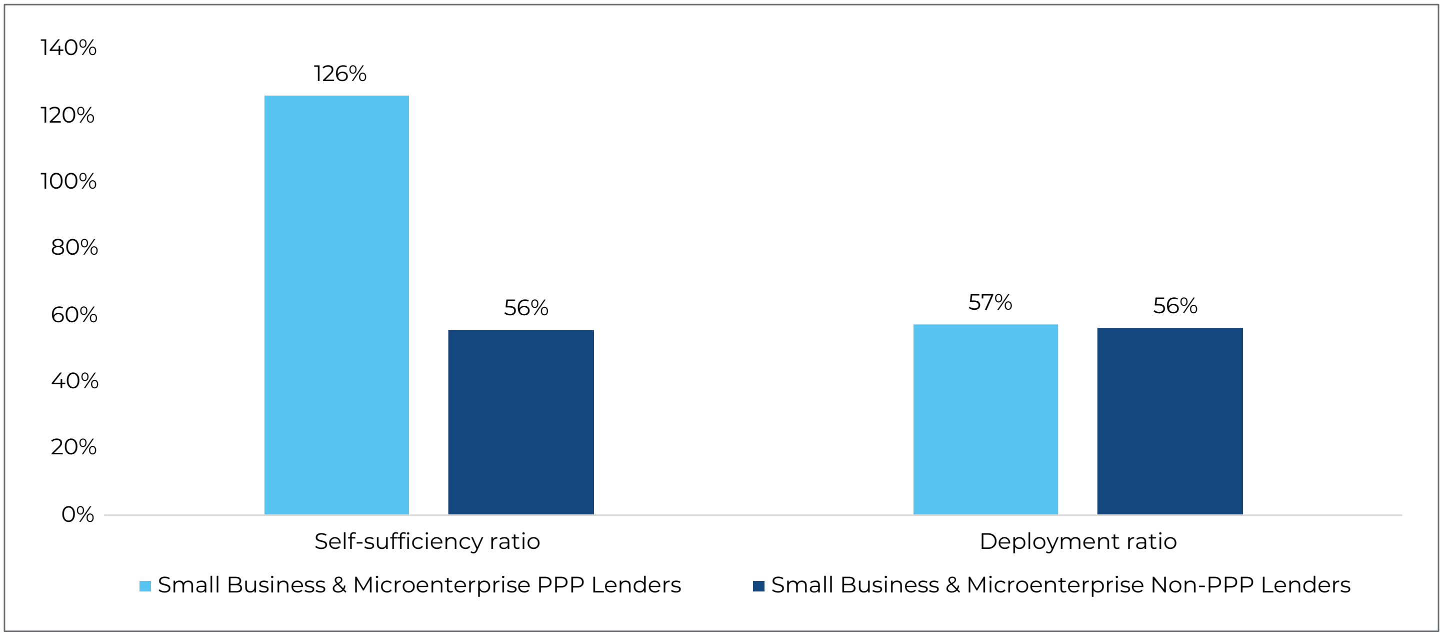
Through participation in PPP, members gained more independence, likely through fees they collected in closing loans.

Having a larger amount of earned revenue reduces reliance on support from funders and investors that sometimes restrict the use of grants and contributions. This, in turn, provides members more freedom in how they choose to operate. However, because these fees were one-time occurrences, the self-sufficiency ratio for PPP lenders may not surpass non-PPP lenders by such a large margin in future years.

Non-PPP lenders were likely responding to the pandemic in other ways, such as by deploying grants to targeted areas through local government initiatives. Members that administered these relief programs, which are considered contributed revenue, would not benefit from higher self-sufficiency. Contributed revenue includes unrestricted grants and donations and temporarily restricted grants released from restricted. Indeed, it is possible members' expenses to administer such programs would have increased relative to their earned revenue, resulting in lower self-sufficiency. Using pass-through grants as an example, members that administered non-PPP relief grants to small businesses would likely have seen an increase in expenses without experiencing additional earned revenue through fees and interest that PPP lenders received.

FIGURE 3

Performance Ratios, PPP and Non-PPP Lenders



Note: The deployment and self-sufficiency ratios are weighted averages. The self-sufficiency ratio measures the extent to which members are covering expenses through earned revenue. The deployment ratio measures the percentage of total capital that is being deployed by members. For small business and microenterprise PPP lenders, the deployment ratio includes PPP loans outstanding. N is 38 for small business and microenterprise PPP lenders and 94 for small business and microenterprise non-PPP lenders. Data source is OFN's FY 2021 Annual Member Survey.

Despite economic instability, deployment ratios were similar for PPP and non-PPP lenders in OFN's membership.

The deployment ratio measures the amount of loans outstanding as a proportion of the CDFI's total capacity to lend at the end of the fiscal year. Efficiency in deploying capital allows CDFIs to reach and serve their communities and increases their capacity to generate earned revenue through origination fees and interest on loans. During a pandemic and amid the resulting economic shock, it is possible that non-PPP lenders experienced decreased demand for traditional lending products, as well as staffing constraints that prevented them from identifying eligible borrowers.

PPP lenders' average deployment ratio was 57 percent compared to 56 percent for non-PPP lenders. This suggests the ratio of capital members deployed was unrelated to whether the member was making PPP loans or traditional small business and microenterprise loans.

It is difficult to surmise why the deployment ratios of PPP and non-PPP lenders were so similar. It could be that PPP lenders raised capital from sources unrelated to PPP, which pushed their deployment ratios to be on par with non-PPP lenders. Future research should examine and seek to explain these trends.

PPP lenders experienced a much larger increase in unrestricted net assets than non-PPP lenders.

As a result of participating in the program, PPP lenders saw an average increase in their unrestricted net assets of $5,215,161 (not shown). In comparison, for small business and microenterprise non-PPP lenders, the average change in unrestricted net assets was $2,719,591. PPP lenders' net asset growth is likely attributable to the increased earned revenue generated through PPP fees that also resulted in a corresponding increase in self-sufficiency.

For PPP lenders, the revenue generated can help provide financial flexibility for future years, as well as potentially provide additional access to capital for lending or as leverage to raise capital. Either way, the sizable change in net assets increases flexibility for PPP lenders to maximize mission impact.

Efficiency and Operations

The cost per loan closed was far lower for PPP lenders than non-PPP lenders.

PPP lenders achieved high rates of operational efficiency (Figure 4). Small business and microenterprise PPP lenders averaged a cost of $0.67 for each dollar of a loan closed compared to non-PPP small business and microenterprise lenders which averaged $3.42. For PPP lenders, the average cost to close one loan was $16,875 compared to $175,981 for non-PPP lenders.

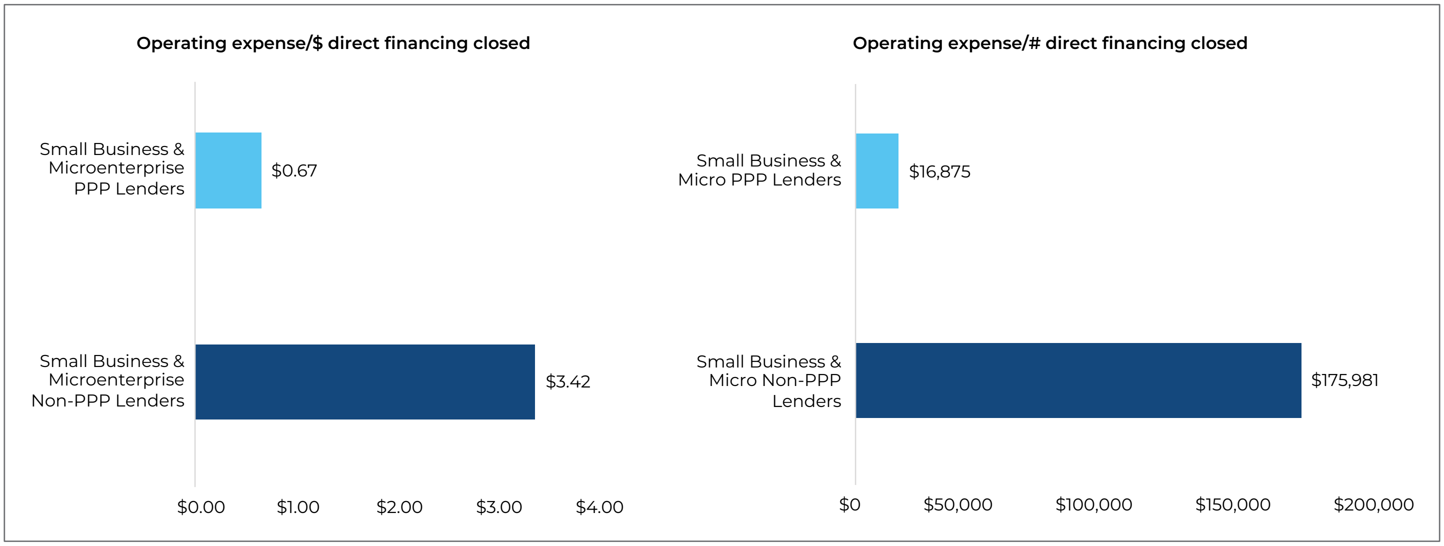
PPP lenders achieved high rates of operational efficiency.

The differences in the cost of administering PPP loans compared to traditional small business loans are attributable to the parameters of originating PPP loans. PPP loans were designed to provide a quick infusion of cash to stabilize small businesses through the economic downturn. PPP was a standardized product; PPP lenders could provide customers with easy underwriting guidelines and swift approval when they met the program criteria.

In contrast, traditional small business lending administered by CDFI loan funds requires a significant amount of time devoted to training and technical assistance to prepare borrowers for underwriting. This idea of "capital plus" is a core tenet of the CDFI loan fund business model and key to promoting financial inclusion. The underwriting guidelines for small business lending at CDFIs tend to be more rigorous and less standardized to provide maximum flexibility. And they require additional documentation to determine ability to repay.

FIGURE 4

Operating Expense per Dollar and Number of Financing Closed, PPP and Non-PPP Lenders



Note: N is 38 for small business and microenterprise PPP lenders and 94 for small business and microenterprise non-PPP lenders. Data source is OFN's FY 2021 Annual Member Survey.

Small business and microenterprise PPP lenders had more financing personnel on staff than non-PPP lenders.

There were 13.3 financing full-time equivalents (FTEs) for PPP lenders compared to 6.3 financing FTEs for non-PPP lenders. The distinct nature of traditional CDFI small business lending compared to PPP lending also resulted in large differences in the capacity of PPP and non-PPP lending staff.

On average, each financing staff at PPP lenders closed $901,654 in loans compared to $1,047,804 for non-PPP lenders. The average number of loans underwritten by FTEs at PPP lenders was 203.7 compared to 30.3 at non-PPP lenders. Thus, whereas the average financing FTE at a PPP lender closed a lower dollar amount of loans, they closed a larger number of loans compared to non-PPP lenders.

PPP loans required less time and effort on the part of lenders to process, allowing them to close a much higher volume of loans. The program requirements of PPP were designed for rapid deployment. The findings reflect tireless work on the part of member staff combined with a program intentionally designed for rapidly responding to a crisis.

TABLE 2

Number and Dollar of Loans Closed, Underwritten, or Packaged Per Financing Full-Time Employee, PPP and Non-PPP Lenders, FY 2021

	PPP Lenders	Non-PPP Lenders
$ Direct Financing Closed & Loans Underwritten or Packaged /Financing FTE	$901,654	$1,047,804
# Direct Financing Closed & Loans Underwritten or Packaged /Financing FTE	203.7	30.3
N	38	94

Conclusions and Implications

The PPP lending trends presented in this brief show that members devoted a substantial portion of their FY 2021 lending activity to PPP deployment — both in terms of amount and volume of loans. This activity had consequences for PPP lenders' financial performance. On average, self-sufficiency and change in net assets were both higher for PPP lenders than non-PPP lenders. PPP and non-PPP lenders alike exhibited similar trends with respect to deployment; members, in general, must continue to focus on strong deployment in the wake of infusions of capital during the pandemic and racial justice movement. PPP lenders worked hard to meet the goals of rapidly deploying the capital, and thus measures of operational efficiency were strong.

The findings have several implications for CDFIs and industry stakeholders, including:

- **Flexing to meet the pandemic moment.** PPP was atypical in its size, scope, design, and pace. Members that were PPP lenders had to adjust their standard operating procedures and strategies to meet the goals of this unique but important program. That flexing is evident in the findings presented here. Members' performance as PPP lenders demonstrates that CDFIs are a strong tool for responding to the country's most pressing economic challenges and they can expand to meet crisis moments.
- **Anticipating long-term benefits of PPP participation.** PPP affected members' performance and operations in FY 2021. The substantial change in unrestricted net assets means that PPP lenders have increased flexibility to lend more or leverage additional capital — all of which is good for mission impact in the future. In the short term, PPP provided an essential economic lifeline. In the midterm and long term, it may also enhance the enduring ability of CDFIs to advance their mission.
- **Continuing to track trends and produce research.** Given that members' involvement in PPP and other pandemic-era programs will have downstream effects, OFN will continue to track trends in member financials, performance, and mission impact. Next, OFN's research team plans to conduct an analysis comparing the financing activity, performance, and operations of PPP lending members before and after the pandemic (in FY 2019 versus FY 2022). More generally, we will continue to produce empirical research that sheds light on industry trends, informs policy advocacy efforts, and builds knowledge about and for the industry.

About OFN Research

OFN's research team conducts research that examines CDFIs and their value and impact and builds knowledge about and for the CDFI industry. We aim to be a trusted, objective source of data and research on CDFIs.

Suggested Citation

Brent Howell, Alexander Carther, and Adrienne Smith. 2023. "A View of PPP from the Inside: Financing, Financial Performance, and Operations of CDFI Paycheck Protection Program Lenders." Washington, DC: Opportunity Finance Network.

Acknowledgments

We are grateful to OFN members that submitted their data to the Annual Member Survey, particularly those that served as Paycheck Protection Program lenders. Seth Julyan at OFN and Anthony Barr and Carl Romer at the National Bankers Association provided helpful feedback on earlier drafts of this brief. We also thank Sacha Adorno, Lisa Chensvold, and Caroline Valvardi for reviewing, editing, and assisting with the brief's production.

About OFN

Based in Washington, D.C., OFN is the leading national network of CDFIs, with more than 400 members. A financial intermediary between CDFIs and government agencies, corporations, banks, foundations, and other investors, OFN helps our public and private sector partners invest in CDFIs to catalyze change and create economic opportunity in low-income, low-wealth rural, urban, and Native communities. Visit OFN.org for more.