

Federal Reserve Waives Restriction on Wells Fargo to Allow Lending to Small Businesses

By Kaleb Nyegaard

Original post [here](#).

On April 8, the Federal Reserve temporarily [waived](#) a growth restriction on Wells Fargo & Co. so that it can provide additional lending to small businesses.

The growth restriction is part of an enforcement action that the Fed originally issued on February 2, 2018. It [forbids](#) Wells Fargo from expanding its balance sheet. It also removed a third of the company's board of directors.

The enforcement action outlined widespread consumer abuses, [including](#) opening millions of unauthorized customer accounts, forcing people to buy unnecessary auto insurance, and overcharging members of the military for their mortgages. The enforcement action is still in effect and will be “until [Wells Fargo] sufficiently improves its governance and controls.”

Wells Fargo, the nation's fourth-largest bank holding company by assets, [announced](#) on April 5 that it had committed \$10 billion to lend under the [Paycheck Protection Program](#) (PPP). It said this amount was the upper limit of what it believed it could lend without exceeding the growth restriction. [Some have argued](#) that Wells Fargo could have reduced lending in other areas to make funds available to issue additional PPP loans.

Congress created the PPP in the [CARES Act](#) to provide small businesses with access to inexpensive, fully-guaranteed, forgivable loans to help replace cash flow and pay expenses during this period of social-distancing-caused closures. Section 1102 of the CARES Act allocates \$349 billion to the program. For comparison, on April 7, Bank of America [indicated](#) that it had received applications for \$40 billion in PPP loans.

The Fed's April 8 announcement stated that the waiver will be narrow. Loans issued under the PPP or the [Main Street Lending Program](#) (another support program that is available to a wider range of businesses) will not count against the growth cap. The Fed also [required](#) that economic benefits from the PPP and the Main Street Lending Program be transferred “to the U.S. Treasury or to non-profit organizations approved by the Federal Reserve that support small businesses.” These benefits include processing fees that other banks are allowed to keep as part of the loan origination process under these emergency lending programs.

Shortly after the waiver was issued, Wells Fargo [committed](#) to expanding its participation in the PPP. However, [media reports](#) have indicated that it has not been able to process the large quantity of applications. The company sent a letter to small business customers who had applied but had not yet received funds indicating that they may want to apply elsewhere.

The waiver will last for the duration of the PPP and Main Street Lending Program.