

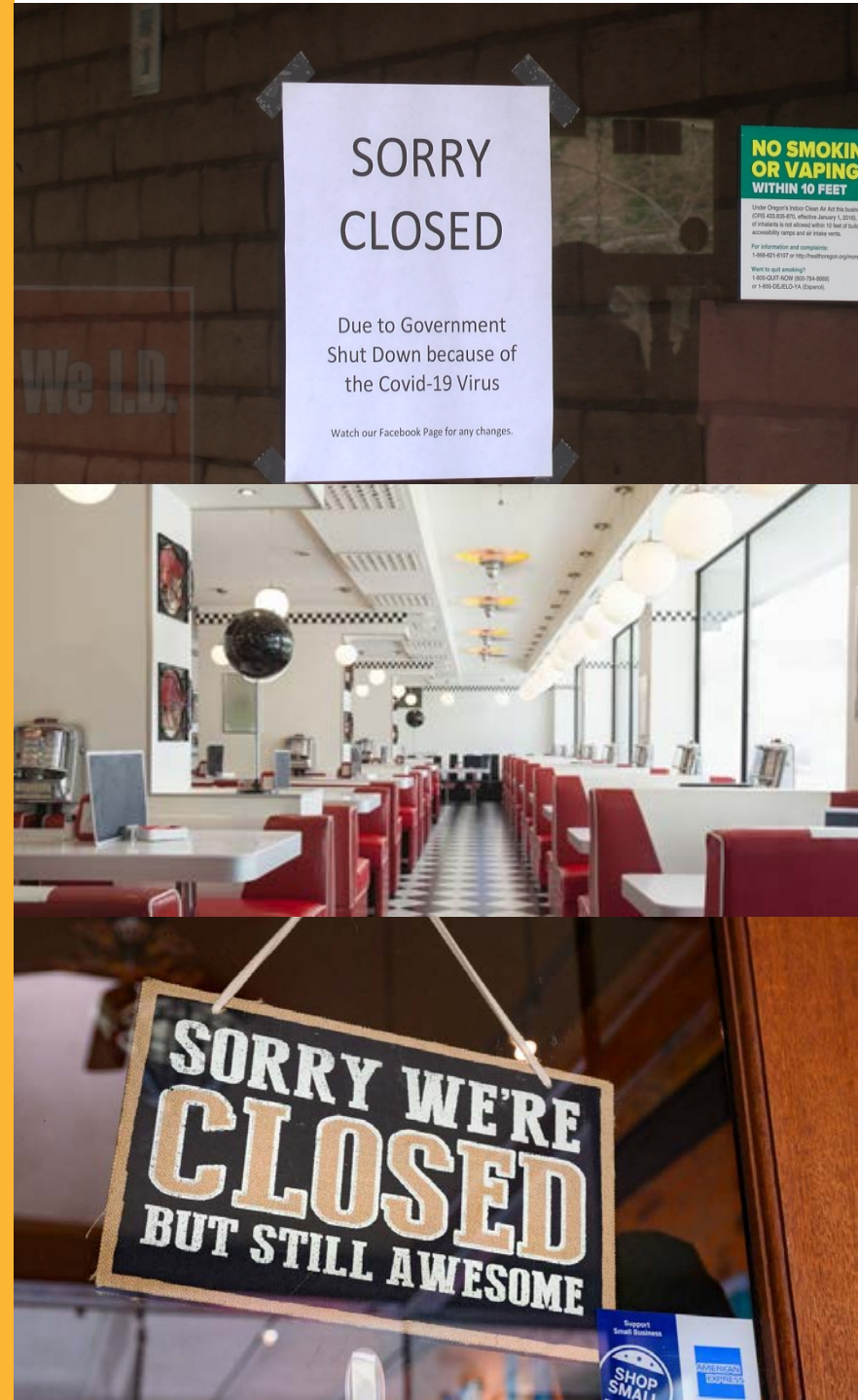


**HOMES
JOBS
COMMUNITY**

Small Business Recovery & Local Revolving Loan Funds

National Development Council
April 9th, 2020

www.ndconline.org



HELP IS ON THE WAY...BUT...

- ...You may need to act locally to buy your small business community time to connect with federal assistance
- **What's Here and What's Coming from the Feds:**
 - Economic Injury Disaster Loan (EIDL)
 - Paycheck Protection Program (PPP)
 - Federal Reserve Main Street Lending Program
- **Connect your entrepreneurs – both for-profit and non-profit social enterprises – with federal assistance**
- **Design Revolving Loan Funds (RLFs) to bridge gaps between federal response and local needs**

Federal Assistance Updates

PPP to EIDL Comparison	Paycheck Protection Program (PPP)	Economic Injury Disaster Loan (EIDL)
Who can apply?	Small businesses and nonprofits - 501(c)(3)s, including religious organizations, with 500 or fewer employees; self-employed individuals and independent contractors*	Small businesses and nonprofits - 501(c)(3)s - with 500 or fewer employees*
Maximum Loan Amount	Up to \$10 million	Up to \$2 million
Covered Period	2/15/2020 to 6/30/2020	1/31/2020 to 12/31/2020
Rate	1.00% Fixed	3.75% fixed for-profits 2.75% fixed non-profits
Term	Up to 2 years	Up to 30 years
Security / Collateral	No	Yes. If the loan is more than \$25,000
Eligible Uses	Payroll, health benefits, paid sick or medical leave, group health insurance premiums; mortgage and rent payments; utilities; interest on certain debts. Note: payroll estimates limited up to \$100,000 per employee	Working capital for expenses that could have been paid had the disaster not occurred, including payroll and other operating expenses.

- Business in certain industries can have more than 500 employees if they meet applicable SBA size standards for those industries.

Federal Assistance Updates

PPP to EIDL Comparison (cont.)	Paycheck Protection Program (PPP)	Economic Injury Disaster Loan (EIDL)
Forgiveness provisions	Up to 100% - but forgiveness amounts are decreased for reductions in number of employees or in wages of employees from base period.	Not for loan. An Advancement of up to \$10,000 Emergency Grant for every applicant does not have to be repaid.
Apply...	...through SBA-approved lenders	...directly to SBA
Underwriting criteria	Must provide documentation verifying the number of employees on payroll and pay rates, including IRS payroll tax filings and State income, payroll and unemployment insurance filings.	Must have acceptable credit history and demonstrate ability to repay.
Eligibility requirements	Operating on 02/15/2020 with paid employees; certify need for funds during COVID-19 emergency; certify use of funds to retain workers.	Operating on 1/31/20; certify need for funds during COVID-19 emergency.

Federal Assistance Updates (cont.)

- **Entrepreneurs are applying for both EIDL and PPP**
 - **Inventory isn't eligible under PPP – it is under EIDL**
 - **Expenses can't be duplicated**
 - **EIDL is up and running – PPP still getting there**
 - **Independent contractors are not considered to be employees and must apply for PPP separately**
 - **75% of PPP loan must be used for payroll related expenses**

Nonprofits Are Eligible for PPP and EIDL

- Nonprofits - including religious organizations - with 500 or fewer employees – can apply for PPP and EIDL loans.
- Organizations should have their 501(c)(3) designation – or, in the case of religious organization – be 501(c)(3) eligible.
- PPP can be sized to 250% of an employer’s average monthly payroll – including fringe expenses.

Nonprofits Are Eligible (cont.)

- **Nonprofit Example - Midwestern Hospice**
- **Applying for:**
 - Average monthly (gross) payroll times 2.5 months
 - Employer share of health insurance premiums and 401K match
 - Total ask is \$662,000
- **The hospice expects most of its payroll costs will ultimately be covered by grant reimbursements, but:**
 - Reimbursements will be slowed by COVID-19
 - PPP can be used like an inexpensive line of credit rather than a forgivable loan.

Federal Assistance Updates (cont.)

- **Federal Reserve Main Street Lending Program**
 - For businesses with up to 10,000 employees or revenue less than \$2.5 billion
 - Businesses must make “reasonable efforts” to maintain payroll and retain workers
 - 4-year loans, with payments deferred for 1 year
 - Loans will be issued through banks, which can sell 95% to the Main Street Facility (up to \$600 billion)

Connecting Small Businesses & Nonprofits to Federal Assistance

- Identify SBA Lenders who are participating in your area
 - Regional SBA Websites
 - Outreach to area banks, credit unions and CDFIs
- Stay updated on guidance and resources
 - [SBA.gov/coronavirus](https://www.sba.gov/coronavirus) - first place where SBA updates are posted
 - [Home.Treasury.gov/CARES](https://www.home.treasury.gov/CARES)
 - www.sba.gov/updates - sign up for email updates
 - Twitter: @SBAgov – and check for regional SBA Twitter feeds
 - [NDOnline.org](https://www.ndc.org)

Connecting Small Businesses & Nonprofits to Federal Assistance (cont.)

- **Manage misinformation**
 - Before sharing information, verify that it came from the SBA or Treasury (check websites)
- **Assist small businesses in preparing complete applications**
 - **Connect to Small Business Development Centers through national listings at:**
<https://www.sba.gov/tools/local-assistance/sbdc/>
 - **Check the resource tab for this webinar for additional guidance**

Help is on the way, but...

- Right now, loans are only being originated by existing SBA bank lenders, who have historically only provided 5% of their loans to Black borrowers, 9% of their loans to Hispanic borrowers, and 3% of their loans to businesses in low-income neighborhoods (SBA, 2018)
- Many lenders have stated that they will only approve loans to their current clients, immediately eliminating the under- and un-banked businesses that need cash the most
- You may need to act locally to buy your small business community time to connect with Federal assistance
- **Local Revolving Loan Funds (RLFs) can be an effective economic development strategy**

Local RLFs: Identify the Target Market

- You have limited funds
- Already COVID-19 emergency RLFs across the nation have run out of funds because they did not identify a target market for their program
- They used a first come first served model.

Local RLFs: Identify the Target Market (cont.)

- **First come first served?**
- **Main Street/BID only**
- **Hospitality – restaurants, hotels, etc.**
- **Non-profits**
- **Target can be restricted - or driven - by the sources of capitalization for the RLF**

Local RLFs: Identify the Target Market (cont.)

- **Businesses that:**
 - **Were operating prior to COVID-19 shut-downs**
 - **Can demonstrate a multiplier impact on other key industries/businesses**
 - **Provide “essential services” for COVID-19 response (e.g., Can play a key role in the city/county strategic supply chain)**
 - **Pay above city/county average wages**
 - **Employ full time workers**
 - **Can demonstrate solvency prior to the COVID-19 crisis - expedited underwriting necessary**

Local RLFs: Sources of Funds

- **\$1.5B in new CARES funds for EDA to be available through the Economic Adjustment Assistance Program. NOFA release TBD.**
- **Community Development Block Grants (CDBG)**

Eligible Use	Activity
Provision of assistance to private, for-profit entities, when appropriate to carry out an economic development project. See section 105(a)(17) (42 U.S.C. 5305(a)(17)); 24 CFR 570.203(b).	Provide grants or loans to support new businesses or business expansion to create jobs and manufacture medical supplies necessary to respond to infectious disease.
	Avoid job loss caused by business closures related to social distancing by providing short-term working capital assistance to small businesses to enable retention of jobs held by low- and moderate-income persons.
Provision of assistance to microenterprises. See section 105(a)(22) (42 U.S.C. 5305(a)(22)); 24 CFR 570.201(o).	Provide technical assistance, grants, loans, and other financial assistance to establish, stabilize, and expand microenterprises that provide medical, food delivery, cleaning, and other services to support home health and quarantine

Local RLFs: Sources of Funds

- **Other Local Government and Federal Funds**
 - Repurpose existing EDA and CDBG-funded RLFs
 - New local government resources
- **Nonprofit and Philanthropic**
 - CDFIs
 - Chambers of Commerce
 - Community Foundations / United Way
- **Other**

Local RLFs: Uses of Fund

- **Payroll/Wages/Salaries and healthcare costs**
 - Determine need for certification/verification on number of employees, actual costs
- **Cover costs not addressed by PPP**
 - General Operations (utilities, rents, etc.)
 - Interest on secured debts (check deferrals)
 - Other
- **Driven by funding sources**

Local RLFs: Loan Size

- Most local efforts have set limits between \$10-20k
- Options for sizing based on employment e.g.
 - Businesses with 5 or fewer full-time equivalent (FTE) employees – max loan \$5,000
 - Business with 6 to 25 FTEs – max loan \$1,280 per FTE

Local RLFs: Rate, Term & Payments

- Term – 12 to 60 months – some are going longer
- Rate – 0% to 12%
 - Can increase over time (e.g., 0% for Year 1, 1% for Year 2, etc.)
 - Often set by the source of RLF funds e.g.
EDA funds rate is fixed for the term at lower of 75% of WSJP or 4% (2.44% today)
- Payments
 - Can be deferred for first 3-6 months or longer
 - Interest-only following deferral period
 - Principal payments can be back-loaded vs. straight amortization

Local RLFs: Collateral & Guarantees

- **Non-recourse or Recourse**
 - Waive all collateral and guarantee requirements?
 - Requirements can be waived for loans under a set limit (e.g., \$5,000)
 - Require full personal guarantee of owners with stake of 20% or more?

Local RLFs: Application

- **KISS! (Keep It Simple, Stanley)**
- **Examples of required documentation**
 - Most recent tax returns, 941s, etc.
 - Current City of X Business License
 - W-9 (verify # of employees)
 - Include evidence of impact e.g. 3/31/20 vs 3/31/19 income statement (signed to prove hardship)
 - Credit available elsewhere test?
 - Last 3 months bank statements for owners and business
 - Personal credit report
- **Piggyback on PPP requirements?**

Local RLFs: Servicing the Loan

- If loan is forgivable, determine if performance or compliance is necessary
- If loan is to be repaid, create billing and collection process
- Designate staff person to handle servicing of loans
- Establish "Rule of Two" for signatures to implement internal control
 - One person is prohibited from making an independent/arbitrary decision

Local Recovery RLF Case Studies

- **Case #1 – Coffee Shop around since 2012**
 - Revenue increased but business was not profitable in 2018 or 2019
 - Loss in 2018 was \$101K and \$91K in 2019 based on internal numbers with some items, like interest expense, missing
 - SG&A and COGS as a percentage of sales went up from 2018 to 2019 by about 8%
 - Net Worth is negative, even after adding the small amount of Officer Debt
 - There is about \$425K in outstanding loans on the business, most very high interest and short term
 - Result – loan was denied. This business had problems prior to COVID-19 and the \$10K loan will not help to solve those problems

Local Recovery RLF Case Studies (cont.)

- **Case #2 – Coffee Shop around since 2014**
 - Revenue grew about 3% and business was profitable in both years
 - SG&A and COGS as a percentage of sales went down from 2018 to 2019 by about 2%
 - Net worth was positive
 - There are about \$50K in outstanding loans on the business, of which \$22K are from credit cards that are paid off monthly and the other is a car loan
 - Result – loan was approved. The business was growing and well managed prior to COVID-19. This business has been able to continue some of its revenue by allowing take-out, however it has still seen a significant decrease in revenue due to COVID.

Other Resources from NDC

- NDC has 25+ years of experience lending directly to small businesses and assisting local governments and nonprofit agencies in designing small business assistance programs.
- For Technical Assistance in establishing or modifying RLFs to assist with COVID-19 recovery efforts, contact:

<https://ndconline.org/technical-assistance/staff/>

Q&A