NDC Project:  Yonkers Public Library
Yonkers, NY
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

<table>
<thead>
<tr>
<th>PPP to EIDL Comparison</th>
<th>Paycheck Protection Program (PPP)</th>
<th>Economic Injury Disaster Loan (EIDL)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Who can apply?</strong></td>
<td>Small businesses and nonprofits - 501(c)(3)s, including religious organizations, with 500 or fewer employees; self-employed individuals and independent contractors*</td>
<td>Small businesses and nonprofits - 501(c)(3)s - with 500 or fewer employees*</td>
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<tr>
<td><strong>Maximum Loan Amount</strong></td>
<td>Up to $10 million</td>
<td>Up to $2 million</td>
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<tr>
<td><strong>Covered Period</strong></td>
<td>2/15/2020 to 6/30/2020</td>
<td>1/31/2020 to 12/31/2020</td>
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<tr>
<td><strong>Rate</strong></td>
<td>1.00% Fixed</td>
<td>3.75% fixed for-profits</td>
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<tr>
<td></td>
<td></td>
<td>2.75% fixed non-profits</td>
</tr>
<tr>
<td><strong>Term</strong></td>
<td>Up to 2 years</td>
<td>Up to 30 years</td>
</tr>
<tr>
<td><strong>Security / Collateral</strong></td>
<td>No</td>
<td>Yes. If the loan is more than $25,000</td>
</tr>
<tr>
<td><strong>Eligible Uses</strong></td>
<td>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</td>
<td>Working capital for expenses that could have been paid had the disaster not occurred, including payroll and other operating expenses.</td>
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- Business in certain industries can have more than 500 employees if they meet applicable SBA size standards for those industries.
Federal Assistance Updates

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<tr>
<th>PPP to EIDL Comparison (cont.)</th>
<th>Paycheck Protection Program (PPP)</th>
<th>Economic Injury Disaster Loan (EIDL)</th>
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<tr>
<td>Forgiveness provisions</td>
<td>Up to 100% - but forgiveness amounts are decreased for reductions in number of employees or in wages of employees from base period.</td>
<td>Not for loan. An Advancement of up to $10,000 Emergency Grant for every applicant does not have to be repaid.</td>
</tr>
<tr>
<td>Apply...</td>
<td>...through SBA-approved lenders</td>
<td>...directly to SBA</td>
</tr>
<tr>
<td>Underwriting criteria</td>
<td>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.</td>
<td>Must have acceptable credit history and demonstrate ability to repay.</td>
</tr>
<tr>
<td>Eligibility requirements</td>
<td>Operating on 02/15/2020 with paid employees; certify need for funds during COVID-19 emergency; certify use of funds to retain workers.</td>
<td>Operating on 1/31/20; certify need for funds during COVID-19 emergency.</td>
</tr>
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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 - first place where SBA updates are posted
  • Home.Treasury.gov/CARES
  • www.sba.gov/updates - sign up for email updates
  • Twitter: @SBAgov – and check for regional SBA Twitter feeds
  • NDConline.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)

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