



MEMORANDUM

TO: Mayor and Council

FROM: Sylnovia Holt Rabb, Acting Director, Economic Development *SHR*

DATE: May 18, 2020

SUBJECT: Austin Economic Injury Bridge Loan Program Guideline Changes

Summary:

The Austin City Council approved Resolution 20200326-088 on March 26, 2020 authorizing the creation of a temporary Austin Economic Injury Bridge Loan Program and guidelines to permit the use of available U.S. Department of Housing and Urban Development (HUD) Section 108 Loan Guarantee Assistance Program (Section 108) funding to provide economic injury disaster loans to small and non-profit businesses. In accordance with approval requirements, the City sought HUD's review and approval of the proposed changes, which were made in response to the COVID-19 pandemic's effects on Austin's small business community. HUD responded to the City's request on April 8, 2020. HUD approved the City's proposed revisions, except for including assistance to non-profit businesses.

The proposed guideline modifications presented to the City Council for consideration on May 21, 2020 incorporate the revisions from HUD's approval letter. The proposed changes also reflect updates to federal programs, which have evolved since the City Council adopted the original resolution in March. The table below summarizes all the proposed revisions to the Austin Economic Injury Bridge Loan Program.

Table One: Proposed Guideline Changes

| <u>Location of Proposed Change</u> | <u>Proposed Guideline Change</u> | <u>Rationale for Proposed Change</u> |
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| Throughout the document | Remove all references for "non-profits" from the guidelines. | HUD's letter excludes non-profits from this program. |
| II Program Requirements A) Guidelines | Replace this language: <i>SBA Economic Injury Loan Program</i> with this language: <i>and criteria used by SBA for its Disaster Relief Loan Program</i> | The new language mirrors HUD's approval letter. |

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| II Program Requirements B) National Objectives | <p>Replace this language:</p> <p><i>meet the urgent needs of the community and provide economic stability during disasters for small businesses and non-profits</i></p> <p>with this language:</p> <p><i>benefit low- and moderate-income persons through job retention activities pursuant to 24 CFR 570.208(a)(4)(ii)</i></p> | The new language mirrors HUD's approval letter. |
| III Program Details A) General Terms and Conditions 3. Program Operating Period | <p>Added this language:</p> <p><i>or until all funding has been exhausted</i></p> | The new statement allows the program to end upon reaching the expiration date or exhausting all funds, whichever comes first. |
| III Program Details A) General Terms and Conditions 4. Additional Requirements | <p>Removed this language:</p> <p><i>Personal Credit Score under 575 will require an exception.</i></p> | This score is not in conformance with SBA underwriting guidelines. A credit score of 620 or greater is within guidelines. |
| III Program Details A) General Terms and Conditions 4. Additional Requirements | <p>Replaced this language:</p> <p><i>Approved applicants shall be required to submit proof that a completed application was submitted to the SBA Economic Injury Loan Program prior to funding.</i></p> <p>with this language:</p> <p><i>Approved applicants shall be required to submit proof that a completed application was submitted to the Federal Disaster Assistance Program including but not limited to SBA Economic Injury Disaster Loan Program, Paycheck Protection Program or any other future federal disaster assistance program.</i></p> | This is language is in accordance with HUD requirement of meeting SBA underwriting requirements. |

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| <p>III Program Details</p> <p>A) General Terms and Conditions</p> <p>4. Additional Requirements</p> | <p>Replaced this language:</p> <p><i>Repayment Ability – Business must be able to show repayment ability based on last quarter financials.</i></p> <p>with this language:</p> <p><i>Repayment Ability – Business must be able to show repayment ability based on last two years operating history.</i></p> | <p>This language is in accordance with HUD/SBA requirement of meeting underwriting requirements.</p> |
| <p>III Program Details</p> <p>A) General Terms and Conditions</p> <p>5. Ineligible businesses include companies involved in:</p> | <p>Added the following to the list of ineligible businesses:</p> <ul style="list-style-type: none"> • <i>Are engaged in illegal activities</i> • <i>Are an agricultural enterprise</i> • <i>Derive revenue from sexual depictions or products</i> • <i>Derive more than a third of their annual revenue from gambling activities</i> • <i>Are in the business of lobbying</i> • <i>Are a government entity</i> • <i>Non-profits</i> • <i>Companies with past due tax liabilities or tax liens or currently in bankruptcy (Corporate or Personal)</i> | <p>The new language is in accordance with the Small Business Administration Economic Injury Loan Program Standard Operating Procedures Manual.</p> |
| <p>III Program Details</p> <p>A) General Terms and Conditions</p> <p>6. Program Restrictions</p> | <p>Replaced this language:</p> <p><i>Interest rate and terms. The applicant and EDD will discuss the appropriate rate and terms for the declaration.</i></p> <p>with this language:</p> <p><i>Interest rate and terms. 12 month term at a rate of 3.75%, or up to 60 month maximum for applicants that can evidence a decline for federal assistance</i></p> | <p>This language is within HUD language for allowable terms and is intended to provide borrowers declined by the SBA flexible terms to mitigate loan program defaults due to inability to meet repayment obligations.</p> |

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| III Program Details A) General Terms and Conditions 7. Eligible Applicants | Replaced this language: <i>Qualified small business applicants must be an employer business with 1 to 100 employees</i> with this language: <i>Qualified small business applicants must be an employer business with less than 500 employees</i> | This is language is in accordance with HUD requirement of meeting SBA small business standards. |
| III Program Details B) Loan Interest Rate | Removed reference to non-profit interest rate of 2.75% | HUD letter excludes non-profits from this program. |
| III Program Details C) Terms of Loans | Added this language: <i>Failure to secure federal disaster assistance – Should an applicant complete an application and make a good faith effort to secure federal disaster assistance, but fail to secure funding the following terms shall be applied:</i> <i>Working Capital – for a maximum of a 5-year term from the original closing date (i.e. loan closed April 1, 2020 and decline for federal disaster assistance received July 1, 2020, the remaining term is 57 months to maturity).</i> | This language is within HUD language for allowable terms and is intended to provide borrowers declined by the SBA flexible terms to mitigate loan program defaults due to inability to meet repayment obligations. Note this is only if SBA declines the federal loan application. |
| III Program Details F) Underwriting | Added this language: <i>furnish a company interim financial statement</i> | This is language is in accordance with HUD requirement of meeting SBA underwriting requirements. |
| III Program Details F) Underwriting 1. Underwriting Criteria (Cash Flow) | Replaced this language: <i>A 1.2 coverage cash flow coverage shall be required</i> with this language: <i>While not required, those achieving a 1.2 coverage will receive preference</i> | This is language is in accordance with HUD requirement of meeting SBA underwriting requirements. |

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| III Program Details F) Underwriting 3. Collateral | Added this language: <i>(d) Collateral Coverage of 1.2 shall be provided preference with an exception allowance of 1.0</i> | This is language is in accordance with HUD requirement of meeting SBA underwriting requirements. |
| III Program Details F) Underwriting 4. Character | Replaced this language: <i>(d) Resumes on all owners in the business shall be required.</i> with this language: <i>(d) Resumes on all 20% or more ownership interests in the business shall be required.</i> | This is language is in accordance with HUD requirement of meeting SBA underwriting requirements. |
| III Program Details F) Underwriting 6. Financial Ratios | Removed this language: <i>debt service coverage ratio: 1.2:1:00</i> | This language is redundant to information provided under underwriting criteria section (g). |
| III Program Details F) Underwriting 7. Credit History | Amended this language: <i>The credit investigation will be run by the primary lender when participating in the project and by EDD when the AEIBL is the only source of funding.</i> to state: <i>The credit investigation will be run by the primary lender when participating in the project and by EDD or its designee when the AEIBL is the only source of funding.</i> | This language allows for 3 rd party vendor to process credit score requests on behalf of EDD loan program staff. |

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| <p>IV. Program Administration B) Obtaining Loan Review Committee Approval</p> | <p>Amended this language:</p> <p><i>If approved and, when applicable, following City Council approval, the loan package shall be filed for HUD review.</i></p> <p>to state:</p> <p><i>If approved and, when applicable, following City Council approval, loans shall be documented and reported to the HUD San Antonio field office in accordance with field office requirements.</i></p> | <p>This language reflects guidance provided by the HUD field office in San Antonio.</p> |
| <p>IV. Program Administration D) Loan Acceptance</p> | <p>Added a second bullet to state:</p> <p><i>Borrower shall agree as a condition of loan acceptance to apply proceeds from a Federal Disaster Assistance Program to repay any and all outstanding AEIBL balance in full immediately upon receipt of such funding</i></p> | <p>This language is in accordance to the nature of the “bridge” loan program design to compel repayment once long-term federal assistance has been secured.</p> |