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COVID-19: New Programs to Access Capital

Overall federal government strategy

Individuals: Wage replacement for those laid off, wage supplement for those working in health care and other essential service workers, individual loans, tax deferral, work-sharing programs, supplemental unemployment insurance benefits, temporary support for quarantined or sick, extra child benefits, mortgage deferrals and rent relief.

Businesses: Reductions in notice or pay in lieu for short-term layoff periods, tax deferral, wage supplements, duty and customs tariff relief and extension of time for repayment credit insurance, accessing capital through grant and credit programs, commercial rent relief.

Specific business sectors or groups of individuals: Programs vary by sector, e.g., oil and gas, tourism, transport, retail, aviation, broadcasting, agriculture, northern business, tech and innovation sector and/or by composition of individual groups, e.g., Indigenous, seniors, students, homeless, women, caregivers, health care workers

1. Interest free loans under Canada Emergency Business Account (CEBA)

- Program is for small employers with up to $1.5 million in total payroll in 2019.
- If your business has a payroll less than $20,000, then it must have non deferrable expenses of between $40,000-1.5 million.
- Sole proprietors who receive income directly from their business, businesses that rely on contractors and family-owned corporations that pay employees through dividends are eligible.
- Your financial institution to provide interest free loan of up to $40,000 with 0% interest if the loan is paid by December 31, 2022. Up to 25% of loan (with a cap of $10,000) will be forgiven.
- If loan is not repaid by December 31, 2022, the amount outstanding will be converted to a three-year loan at 5%.

2. BDC Programs (a) Loan Co-Lending Program for Smaller Businesses

- Available from your financial institution. Financial institution to structure, underwrite, document, authorize and service the term loan.
- Can be used for operational and liquidity needs including interest on existing debt.
- Business can co-lend with only one institution but can access other programs at same time as BDC co-lending program. **Can therefore stack small and large loans and guarantees under different programs.**
- Loans are interest free for first 12 months but the loan can be repayable up to 10 years.
- **80% of loan to come from BDC. Total max of $6.25 with up to $5 million from BDC.** Business must have been financially viable before COVID-19.
- Available until September 30, 2020.

2. BDC (a) Details of BDC Co-Lending

BDC has recently announced more details on the parameters of the program:

- Repayment terms of up to 12 months interest only with principal and interest thereafter.
- Variable rate of base minus 1.75% (as of March 20, the variable rate was 5.05%, so the effective rate was 3.30%). Initial capital payment postponement of 12 month.
- 40% payable over the term of the loan following initial postponement with balance of 60% payable at the end with a balloon payment.
- Standard fees regarding processing and legal apply.
- Amortization period is a maximum of 20 years **vary by size of business**.
- Loans up to $312,500 to business with revenues of less than $1-million loans up to $3.125 million for business with revenues between $1-$50 million loans up to $6.25 million for business over $50 million.

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2. BDC (b) Working Capital Loans

- Smaller loans intended to supplement an existing line of credit.
- **Up to $2 million with flexible terms and principal payment postponement for up to six months for certain businesses.**
- Other flexible repayment options such as principal postponement for existing BDC clients with a total BDC loan commitment of $1 million or less.
- Can be used to cover fixed assets, fund marketing or start-up fees, a franchise purchase or advisory services.
- Reduced rates (unspecified).
- Fast turnaround on approvals.
- Available until September 30, 2020.
- No study fees.
- Available from BDC and not your financial institution.

2. BDC (c) Oil and Gas Sector Loans

- Additional support for Canadian-based oil and gas producers, oil service companies and midstream providers.
- Primarily focused on mezzanine financing.
- Not available for downstream production nor is it available for new-build infrastructure.
- To be used for operating cash flow and business continuity purposes.
- Companies had to be financially viable and in good standing prior to COVID-19.
- 24-75% of loan guaranteed to the financial institution (BDC will provide guaranteed tranche amount which will be a function of the excess over the bank's spring 2020 borrowing base).
- **Credit available is between $15 million-$60 million per borrower.**
- **Repayable within 4 years.**
- Commercial interest rates will apply.
- Note that this program has a maximum loan below the LEEF program for large companies discussed in part 4 below.

2. BDC (c) Oil and Gas Continued…
Other Federal Funds Available

- Up to $750 million to an emission reduction fund (ERF) to provide repayable loans to both conventional and offshore oil and gas firms toward greenhouse gas emissions reduction efforts.
- In addition to loans and grants, the Canada will be providing up to 1.72 billion to Alberta, Saskatchewan and British Columbia to clean up inactive oil and gas wells.

2. BDC (d) Mid-Market Financing Program

- This program provides junior **loans ranging between $12.5 and $60 million for medium-sized businesses**, co-managed by BDC and your financial institution.
- Eligibility criteria of annual revenues in excess of approximately $100 million.
- Not sector specific.
- No further details available at this time but likely it will be subject to same 80/20 split and other terms of the BDC co-lending program outlined above

3. EDC Programs (a) Loan Guarantee, both Small- and Medium-Sized Businesses

- For small and medium sized enterprises, guarantee of 80% of total loan.
- Initially this fund was to a max of $6.25 million per business but on May 11, the amount was increased to cover off mid-sized businesses. **It now includes guarantees of up to $80 million.**
- For mid-market guarantee, company must have revenues between $50 and $300 million. EDC to provide guarantee of 75% on loans ranging from $16.75-$80 million.
- Note that the **mid-market guarantee fund is available for exporters, international investors and businesses that sell their products or services within Canada.**
- Maturity date of 12 months with option to renew for an additional 12 months.
- Repayment terms of interest only and 100% due at maturity.
- To be eligible, company will have to meet specific requirements,, e.g., Canadian-based, executive pay suspended, used for sustaining costs, suspend equity distributions, meet certain pre-crisis ratings and current monthly cash flow forecasts, compliance with climate change policies, etc.
- Anecdotal evidence that EDC has been working with Canadian companies issuing mid-sized guarantees at 75% and taking subordinate security to secure the debt.

3. EDC Programs (a) Loan Guarantee Continued…

- Money to be used for operational expenses, e.g., rent, payroll but not for dividend payouts, shareholder loans, bonuses, stock buy-back, option issuance, increases in executive compensation or bonus.
- Business must have been revenue generating prior to COVID-19 outbreak EDC fee is 1.8% per annum paid quarterly with ability for some deferral.
- Your financial institution should be ready to provide this loan but it and EDC will have to do due diligence. Actual money might not flow for a couple of months.
- Simplified administration. Online application to EDC to confirm eligibility and once eligibility confirmed, financial institution to decide on terms of loans.
- Anecdotal evidence is that banks are not keen to take on risk of their portion of loan unless company meets fairly stringent assessments of ability to pay.

3. EDC Programs (b) Expansion of Existing Programs

- Under the Export Guarantee Program, EDC will provide additional working capital and a temporary liquidity injection of a six-month deferral for all existing customers and new ones who qualify under the new federal EDC guarantee program.
- **For those existing clients of the EDC credit insurance program:**
  - will provide payment relief on an as needed basis and will move expeditiously;
  - will increase appetite for risk with new policies;
  - will make allowances where there has been credit deterioration; and
  - with credit insurance, can seek further loan from financial institution.
- For next three months, EDC will eliminate the time limit for claims which allows companies to submit a claim and receive a payment earlier than prior approach.

3. EDC Existing Programs (c) Letters of Credit for New Clients

- EDC provides 100% guarantee on a letter of credit.
- There is no risk to a bank and operates instead of a surety.
- Process is two step: obtain letter from EDC and then use it to secure a loan from financial institution.
- This is a useful tool, especially if private lender does not want to share risk of a co-lending or partial guarantee program. It can be obtained expeditiously and used to secure other loans.

3. EDC Guarantee - Oil and Gas

- EDC has committed to backstop up to 75% of a bank loan to a maximum of $100 million for the oil and gas sector.
- The program targets companies that pump 100,000 barrels of oil or less per day.
- Small- and mid-sized oiled service companies and firms that ship, process and store are also eligible.
- Typically oil and gas producers negotiate credit lines based on size of reserves, oil and gas prices and other variables, twice a year. Due to the fall in those values, EDC has indicated it will guarantee a portion of loans that are no longer covered by the reserve value.

4. Large Employer Emergency Financing Facility (LEEFF)

- Program to help large businesses defined as having “significant operations” in Canada with a “significant workforce" in Canada and approximately **$300 million or more in annual revenues.**
- **Not sector specific** but financial institutions not eligible.
- Companies will have to commit to minimizing loss of employment and sustaining domestic business and will have to show that the LEEFF funds are part of an overall plan to return to financial sustainability.
- Intended as a **bridge loan** and not a bailout. Therefore company had to be financial stable prior to COVID-19.
- Must be **seeking $60 million or more** in loans/guarantees and not be in active insolvency proceedings.
- Actual loan size will be based on cash flow needs for the next year.
- This program will be open as long as “the current economic situation persists.”
- Program to be **managed by the Canada Enterprise Emergency Funding Corporation**, a subsidiary of Canada Development Investment Corporation, (same organization that manages Trans Mountain and Hibernia), in cooperation with the Department of Finance and Department of Innovation, Science and Economic Development.
- Company will have to demonstrate how it **maintains active business** and will be subject to an assessment on its international structure and financing arrangements. It will also have to disclose its financial records and impose limits on dividends and executive pay.
- Not available to companies convicted of tax evasion.

4. LEEFF Continued…

On May 20, new information was released. Interested companies should register at LEEF-CUGE@cdev.gc.ca. A government official will then respond and discuss your request. **Each file will be dealt with on a case-by-case basis.**

- Additional terms include:
  - Loans will be provided with **two loan facilities**: an unsecure loan equal to 80% of aggregate and a secured loan equal to 20% of aggregate.
  - The **interest rate** on the unsecured facility is 5% per annum and will increase each year thereafter. Interest may be paid in kind for first two years on the unsecured facility. The maximum duration will be five years.
  - For the secured portion, interest rate tied to existing secured debt and duration will be same as existing loans.
  - **Restrictions to be placed on operations** relating to dividends, capital distributions, share repurchases and executive compensation.
  - Borrower will be subject to **affirmative covenants** relating to: pension plans, collective agreements, climate change disclosures that demonstrate company is **managing climate-related risks** and contributing to Canada's commitments under the Paris Agreement and the goal of net zero in 2050.
  - The lender responsible reserves the right to appoint an **observer to the board**.
  - **Waivers** may be required from existing lenders or bondholders of the borrower.
  - Additional requirements to compensate lender. For Canadian public companies and private subsidiaries of a Canadian public company, it will be required to issue warrants that can be converted to shares that would enable the government to share in the upside of the borrower's recovery. Non publicly traded companies will be required to provide fees at a level commensurate to the value of warrants had it been a public company.

5. Other Programs (a) Relief Recovery Funds

- To be delivered by the six regional economic development offices.
- Intended to provide loans and grants that target small- and medium-sized businesses that are unable to access other supports.
- Envelope of $962 million, of which $675 million will support regional economies and $287 million will support the national network of Community Futures Development Corporation projects. On May 12, the government indicated that of the regional fund, $211 million dollars will go to Quebec, $304.2 will go to the West, $242.4 to Southern Ontario and $49.2 to Fednor.
- Canada has indicated it will be particularly helpful for SMEs in tourism, seasonal industries and entertainment sectors as well as rural businesses.
- For those with an existing relationship, there will be possibility of deferral of payments and additional funding.

5. Other Programs (b) CMHC and Mortgage Relief

- Canada has purchased $50 billion of insured mortgage pools through the Canada Mortgage and Housing Corporation (CMHC).
- As a result, CMHC is permitting financial institutions to allow for payment deferral, loan re-amortization and special payment arrangements on mortgages.

5. Other Programs (c) Commercial Emergency Rent Assistance (CECRA)

- Lowers rent for eligible tenant by 75% for three months (April-June).
- **Voluntary program that requires landlords to absorb and tenants to pay 25% of rent in return for provincial and federal governments providing the remaining 50% rent in forgivable loans.**
- Administered by CMHC, applications accepted until September 30.
- Landlord cannot evict during the three months of the program.
- Eligible tenants must pay less than $50,000 in monthly rent OR have temporarily ceased operations OR had a 70% drop in revenues.

5. Other Programs (d) Sectoral Capital and Liquidity Supports

- There are a series of programs related to the food supply chain. These include credit enhancements and deferral of principal and interest payments for agricultural producers and grants to purchase PPE equipment.
- Community futures fund for rural businesses.
- Futurpreneur for young (18-39) entrepreneurs.
- Industrial research assistance program enhancements for start-ups.

6. Private Investors

- Bennett Jones can assist in helping to match clients with **private investors in both Canada and the United States.**
- **Private equity investors** can invest via an all out buy-out transaction or through majority or minority share investments. The terms of the investment are flexible and can involve buying common equity or preferred shares or requiring seats on boards or veto rights on certain transactions.
- **Private debt investors** will extend credit to companies although some terms may not be as favourable as posted rates from traditional lenders. Such terms can include higher interest, a second lien on security or seats on boards. Nevertheless, there is greater flexibility and creativity available in terms of the availability of the loan.

7. Conclusion: Strategic Considerations

1. The programs are primarily designed **to relieve immediate liquidity problems.**
2. It is important to note that some **programs can be stacked.**
3. **Smaller loans** can be accessed very quickly (e.g., CEBA, BDC small operating loans).
4. **Sector specific programs** will be helpful primarily for agricultural and innovation/IT companies. The provinces will administer significant grants to deal with orphaned and abandoned oil and gas wells.
5. Consider an **existing EDC program** as these will be available more expeditiously than a co-loan with a financial institution and can be used as surety when you approach your financial institution.
6. Speak to your financial institutions about **joint loan/guarantee programs with EDC and BDC**. These programs provide the largest potential pool of capital for small- and medium- businesses. The amount of the loan/guarantee is now significant as the government has recently increased the maximum to $60 million for a co-loan and $80 million for a guarantee.
7. For large clients, the **new LEEF program** will likely provide the greatest amount of credit. There is no cap at present on the potential size of the loan. There will be, however, significant scrutiny and oversight of the company.
8. For companies prepared to reconsider their corporate structure or pay higher interest on loans, **private equity and private debt** is an option.
9. If there is no program available, then contact your local **regional development office** which has been allocated funds for organizations not eligible for the mainstream programs.