

NH BFA Small Business Relief Package

COVID-19 has wreaked havoc on the New Hampshire economy. Bank lending has been substantially curtailed outside of PPP, businesses are closing their doors, unemployment claims have spiked dramatically, and non-profits are being stretched beyond their maximum. The consequences to our economy are already severe and immediate action must be taken to mitigate further damage. Federal programs delivered via the SBA have helped some companies, but certainly not all that need it. A state-level response is imperative to support small businesses and non-profits across New Hampshire.

Our goal is to reduce the number of firms that close as a result of COVID-19 fueled economic disruption, and ensure that surviving companies are not so financially impaired that they cannot restore prior employment levels once the pandemic subsides. We also want to ensure that non-profits have access to both grant and loan resources required to continue delivering essential services during the crisis and subsequent recovery.

In the past few weeks alone the BFA has received requests from over 150 businesses and non-profits who need capital support. The total amount of loan requests exceeds \$45,000,000 to date and grows each day. Based on reports previously provided to GOFFER, the amount needed to support small businesses across the state is potentially several hundred million dollars.

The primary components of a NH Small Business Relief Package include investments in:

1. Bridge Loans and Grants for NH Businesses and Non-Profits Affected by COVID-19
2. Encouraging the Resumption of Bank Lending to Local NH Businesses
3. Entrepreneurship Support for New Companies

Rapid and effective delivery system:

The BFA can quickly deliver targeted support with the highest degree of impact. Our programs to support small businesses and non-profits are immediately available, have a proven track record, and can be delivered directly to organizations facing challenges across the state. During the 2008 financial crisis the BFA was the recipient of federal SSBCI funds for exactly those reasons. What is required is an infusion of capital that matches the scale of the COVID-19 crisis.

The NH BFA has strong internal systems that perform the following functions:

- Outreach networks to identify businesses and non-profits in need
- Loan underwriting & vetting
- Loan servicing and support
- Reporting and tracking capacity to ensure compliance with federal requirements
- Combining state resources with other resources from the public, private, and philanthropic sector
- Mechanisms to ensure smaller businesses have priority access to available funding support

Experience with Federal Requirements:

The BFA has substantial experience with complex federal funding programs, and the associated need for transparency, data reporting, and interfacing with the federal Office of Inspector General's auditing mechanisms. During the 2008 financial crisis, the BFA was the recipient of substantial federal relief funds

for small businesses in New Hampshire. We successfully deployed those funds according to highly complex federal guidelines and received a 100% compliance rating as a result of an OIG audit process.

The BFA also managed a federal New Market Tax Credit allocation on behalf of economic development projects across the Granite State. This program is one of the most complex federal funding sources available. We managed the process successfully, deployed all funds, navigated complex reporting requirements, and again were in 100% compliance with all federal guidelines for the funds. The BFA is an excellent delivery vehicle for the CARES act relief funds due to our combination of speed, effectiveness, deep knowledge of the business and non-profit landscape, and capacity to report on and comply with federal funding requirements.

Component 1: Broad Business Support **\$75,000,000**

There are several essential programs that will blunt the negative impact of COVID-19 on today's economy, while also promoting a robust recovery in a post-pandemic environment. Some of these encourage the resumption of normal bank lending while others ensure businesses have access to flexible loan repayment terms as they recover. Capital support will be deployed flexibly across these program areas to match the needs of businesses across the state.

1. BFA CAP Program:

Capital Access Programs (CAP) exist across the country, managed by each state's finance authority. CAP is a tool whereby loans of \$200,000 or less are provided to Main St. businesses by participating local banks. The BFA's role in CAP is to help matching funds for loan loss reserves provided cooperatively by the banks and the borrowers. These reserves serve as fuel for banks to make loans they otherwise would not be able to. The BFA has facilitated almost 5,000 CAP loans in our history. But in order to induce banks to lend now, and during the recovery, extra reserve contributions will be required until banks resume normal lending activity. This capital is "reusable" in that once those loans are repaid to the bank, the reserve funds are used over and over to facilitate future loans to other local New Hampshire companies.

Each dollar deployed via CAP loan is turned into over 10x that amount in lending. Using real life numbers, the BFA has deployed approximately \$20,000,000 in CAP funds resulting in over \$230,000,000 in lending to NH companies. This amplified impact is a key feature of BFA programs and will multiply the power of allocated funding for NH businesses and non-profits. The CAP program has impacted more than 36,000 jobs in the state and will be essential to assist during the COVID-19 pandemic.

2. BFA Loan Guarantees:

A key function of the BFA is to guarantee loans made by banks to New Hampshire companies. These guarantees allow banks to support companies that otherwise would not receive capital, yet are creditworthy companies who are important to NH's economy. We have provided over \$246,000,000 in guarantees to date, impacting over 10,000 jobs.

Our economy will recover faster and more broadly with the resumption of bank lending to support our local businesses. With a capital infusion the BFA can broaden the scope of companies eligible

to receive BFA guarantee support. Specifically, many companies affected by COVID-19 lack the collateral base needed to secure traditional financing. Funding capital reserves that secure these guarantees is all that is needed to allow this program to have an immediate impact on businesses across the state.

3. *BFA Bridge Loans*

The BFA has authority to make temporary loans to businesses in an amount up to \$2,000,000 per borrower. These loans catch businesses and non-profits who “fall through the cracks” of state and federal programs. The loans have flexible repayment schedules to accommodate the needs of businesses and are designed to be complementary to other resources, such as those provided by the SBA, with the primary NH differentiators being response time, nimbleness, and flexibility to create custom solutions vs. a one-size fits-all federal program.

The BFA’s Temporary Loan Program is highly effective program and has a proven track record. However the scale of need spawned by the crisis, with over \$45,000,000 in requests received to date, far exceeds the BFA’s pool of lendable capital.

Component 2: Targeted Industry Relief **\$250,000,000**

It comes as no surprise that certain industries have been hit particularly hard by the COVID-19 crisis. These industries include, but are not limited to, restaurants, hospitality, and local retail. And yet many of these businesses have been shut out of the programs that were supposed to help them. Ensuring the survival of these businesses is critical to NH’s ability to generate state revenue, and, these businesses comprise the heart of New Hampshire’s downtowns and are essential to communities both large and small.

Given the nature of COVID-19’s impact on these areas of our economy, larger and different solutions are required.

The BFA’s lending programs have the capacity to deploy grant/loan combination financing. We have the capacity to deploy a relief package where smaller local companies get first access to available funds, and receive a proportionally higher share of grant support. Larger companies would not be shut out entirely, but the focus of the relief is squarely on those NH businesses who are in most need. This is accomplished in the following way:

1. Phased application process:

Applications would be accepted by the BFA in stages that prioritizes small businesses in New Hampshire. The first phase would only accept applications from businesses who need \$100,000 or less in financing. Once applications are received, the next phase would accept applications for businesses who need \$250,000 or less in financing. If funding is still available, the next round would be open for companies who need larger amounts.

Applicants would need to demonstrate that their business was viable prior to the COVID-19 pandemic, that they have been negatively affected in a financial manner, and are using the funds for legitimate business purposes. In this way we are ensured that these programs serve who they are intended to serve.

2. Targeted grant support:

Smaller businesses may not be able to borrow their way out of this crisis. Therefore loans made via this relief package will be up to 50% forgivable, with a maximum forgiveness of \$50,000. This amount of grant is extraordinarily meaningful to a locally-owned NH business, but is not so large that it will attract interest from large companies who may not require the assistance. Mid-sized companies would be eligible for this grant support, but the proportion of grant to loan would be much smaller when compared to their smaller counterparts. This is a pragmatic and fair approach to the distribution of these funds.

It is important to structure these loan/grant combinations in a manner that encourages repayment of the non-forgivable loan portion. The BFA's experience in this area will be helpful. The forgiveness/grant will only occur once the business has fully paid back the non-forgivable "regular" portion of the loan, and importantly, supplied all needed information to allow the BFA to comply with federal reporting requirements.

3. Flexible Loan Terms

To be impactful, loan terms will be flexible for the borrower. Interest rates will be low and repayment time horizons will be patient. The BFA suggests that GOFFER avoid being overly specific in this area however. This is because the BFA should have the flexibility to have certain borrowers pay back loans more quickly if they can afford to do so. However the general guidance should instruct the BFA to provide affordable loans, patient repayment schedules, and flexible underwriting standards.

Component 3: Entrepreneurship **\$25,000,000**

In a post-pandemic environment the state will face a situation where many companies have gone out of business despite the best efforts of all involved. It will be critical to support new business formation to replace the lost economic opportunity caused by COVID-19. Capital providers will be in a "risk-off" mode for some time to come, and new businesses may not be able to access the capital they need to get started. By providing capital to support new companies the economic recovery will be quicker and spread more broadly across the state.

The BFA has extensive experience supporting the development of new companies in New Hampshire. We were the originators of the Granite Fund, NH's first state-focused venture capital fund. That fund invested in many NH success stories, one notable example being Dyn in Manchester NH. The BFA since went on to invest in a bio-technology specific fund, as well as partner with 40 New Hampshire Angel Investors to provide essential start-up capital and mentorship opportunities for companies across the state.

During the recovery phase of this initiative, investments to support entrepreneurship in NH would include:

- Capital to support the formation of new businesses
- Specialized matched-savings accounts for low-income entrepreneurs starting a business
- Grants for technical assistance and entrepreneurial support

We wanted to again thank you for your continued leadership and support during these extraordinarily trying times. We fully believe that the State of NH is doing all that it can to support both the citizens and businesses of New Hampshire as we navigate these uncharted waters. With the allocation of federal support as described above, the BFA be a highly effective partner in mitigating the economic damage being caused by COVID-19.

Regards,

A handwritten signature in blue ink, appearing to read 'James Key-Wallace', with a long horizontal flourish extending to the right.

James Key-Wallace
Executive Director
NH Business Finance Authority