

Highly Affected Sectors Credit Availability Program (HASCAP)

HASCAP Guarantee

January 2021

Agenda



- 1. Presentation and recitals**
- 2. Context**
- 3. Key program features**
- 4. Eligibility**
- 5. Role of financial institutions**
- 6. Other requirements**
- 7. Examples**

Presentation & Program Recitals



This presentation is not intended to be exhaustive in nature and is subject to all of the terms and conditions of the HASCAP Guarantee Agreement, which is to be in a form and substance satisfactory to the Business Development Bank of Canada (“BDC”).

Recitals

- a) This presentation does not create a contract or impose binding obligations on BDC, any of its affiliates or subsidiaries or the Government of Canada.
- b) Organizations and individuals receiving this presentation acknowledge that this presentation contains confidential financial and commercial information that belongs to BDC, is being provided on a confidential basis and is intended to remain confidential. The presentation and contents within can not be shared or discussed with any other party without the written permission of BDC.



Context

- The Highly Affected Sectors Credit Availability Program (HASCAP) Guarantee is a new COVID-19 relief program to help hardest-hit businesses from all sectors with additional financing.
- BDC will provide a 100% net loss guarantee to increase these businesses' ability to access additional liquidity.
- Proceeds of the loan (up to \$1 million) are exclusively meant to fund the operational cash flow needs of the business and ensure a degree of continuity of operations.
- **As a first step, business owners will be invited to contact their primary financial institution to determine whether the program is appropriate for them.**
 - Business owners can only apply to one financial institution, their primary lender.
 - If their primary lender is not participating in the program, only then may they apply via another financial institution.



Key program features

- Principles are broad access and predictable decisioning
- Loan amount between \$25,000 and \$1 million per legal entity
 - Maximum combined exposure of related legal entities of \$6.25 million
 - Loan proceeds cannot be used to pay down an existing debt/lease facility
- Up to 10-year repayment term
- 4% fixed interest rate
- Up to 12-month postponement of principal repayments at the start of the loan
- No personal guarantee will be taken to secure the loan
- Program will be available until June 30, 2021

Eligibility



An applicant business must:

- be a commercial enterprise whose intent is to generate revenue from the sale of goods or services that is at least sufficient to cover its operating expenses and service its debt
- have been financially stable and viable prior to the current economic environment
- not have an impaired loan (as determined in accordance with International Financial Reporting Standards) as at March 1, 2020, or the eligible loan closing date
- Other conditions/requirements apply; see appendices

Eligibility (cont'd)



Companies must also fall into one of the following categories:

- **If your business has received the Canada Emergency Wage Subsidy (CEWS) or the Canadian Emergency Rent Subsidy (CERS)**
 - You must provide Canada Revenue Agency attestation forms demonstrating a minimum 50% revenue decline, for at least 3 months, within the 8-month period prior to the date of your HASCAP Guarantee applications.
 - Your financial institution will require this information to process your request.
- **If your business did not receive CEWS or CERS and is eligible for it**
 - You must apply for CEWS or CERS.
 - Your financial institution will require this information to process your request.
- **If your business does not qualify for CEWS or CERS**
 - You must provide financial statements that reflect at least three months (which do not need to be consecutive) of monthly year-over-year revenue decrease of a minimum of 50% per month, within the 8-month period prior to the date of the HASCAP Guarantee application.
 - Your financial institution will require this information to process your request.

Eligibility (cont'd)



Adjudication criteria based on loan amount:

→ Segment 1

- Eligible loans between \$25,000 and \$100,000: Borrower (collectively with the other obligors, if required) meets the probability of default requirement prior to March 1, 2020

→ Segment 2

- Eligible loans between \$100,001 and \$250,000: Borrower (collectively with the other obligors, if required); (a) meets the probability of default requirement and (b) generated a minimum of \$500,000 in gross revenues in the 12-month period ending as at the date of the most recent annual financial statements of the relevant obligors prior to March 1, 2020

→ Segment 3

- Eligible loans between \$250,001 and \$1,000,000: Borrower (collectively with the other obligors, if required) meets the minimum debt service coverage ratio requirement of 1.10x (including the HASCAP loan) as of the most recent financial statements of the relevant obligors prior to March 1, 2020 and as a minimum S&P CCC+ rating prior to March 1, 2020



Role of financial institutions

- Originate, authorize and manage eligible loans as per the terms and conditions of the program
- Ensure that all documentation (including a completed HASCAP Guarantee Online ID Form and the business's CERS or CEWS number/payment proof) is provided by the client and retained by the financial institution
- Administer, service and monitor eligible loans as per standard practices and processes
- Manage all obligor requests as per the decision rights outlined in the HASCAP Guarantee Agreement
- Report monthly on transactions
- Enforce and realize on the financial institution's security and the loan security prior to requesting a payment under HASCAP

Other requirements



- Loans must meet the lender's standard lender processes, including but not limited to all anti-money-laundering and know-your-customer requirements, as required by FINTRAC, regulatory requirements, and the lender's policies and processes.
- Proceeds are to be an advance of a new term loan that is incremental to the lender's current exposure with the business and not to replace or refinance any of the business's existing credits.
- Normally scheduled monthly (i.e., excluding balloon) and not-yet-due principal and interest payments on the business's existing debt, as well as ordinary course-of-business lease, equipment or supplier financing payments, are permitted.
- Proceeds are not to be used to pay dividends, distributions, management fees, bonuses or similar instruments, except for a maximum of \$200,000 of distributions that are paid in lieu of a salary to the shareholders (and as per historical practices).



Example: Jill, retail store owner

Segment 1: Loan amount \$100,000

Client conversation	Initial eligibility verified	HASCAP Guarantee Online ID Form	Credit submission	Risk management approval	Document preparation	Document signing and submission
<ul style="list-style-type: none">✓ Financial institution (FI) representative (rep) speaks with the client to confirm a working capital need related to COVID-19 liquidity challenges✓ FI rep confirms that proceeds of loan will be used to sustain operations, not for purposes such as dividend payout or refinancing of existing debt	<p>FI rep confirms that the client:</p> <ul style="list-style-type: none">✓ meets FI's anti-money-laundering and know-your-client guidelines✓ meets probability of default requirement✓ applied and was eligible for CEWS or CERS	<ul style="list-style-type: none">✓ FI rep sends HASCAP Guarantee Online ID Form link to the client✓ Client provides high-level company information on the application form✓ Client receives an email confirmation with a unique ID code from BDC✓ Client sends confirmation and unique ID code to FI rep✓ Alternatively, FI Rep can complete form with client	<ul style="list-style-type: none">✓ FI rep follows all normal credit submission procedures for an operating loan or term loan, per defined FI processes✓ FI rep indicates that loan includes HASCAP Guarantee and attaches unique ID code email confirmation✓ FI manager includes client's CEWS/CERS number, as well as proof of payments (3 months)	<ul style="list-style-type: none">✓ FI risk management adjudicates credit submission, ensuring an acceptable standard of care is undertaken on transaction✓ Guarantee does not require BDC underwriting approval and relies directly on FI's underwriting and due diligence processes	<ul style="list-style-type: none">✓ FI back office completes document preparation, including loan agreement✓ Documents are sent to FI rep for client signature	<ul style="list-style-type: none">✓ FI rep gets client to sign all documents, including loan agreement✓ FI reports transaction details, including unique ID code, to BDC per its internal process for HASCAP Guarantee reporting



Example: Alli, advanced manufacturer

Segment 2: Loan amount \$200,000

Client conversation	Initial eligibility verified	HASCAP Guarantee Online ID Form	Credit submission	Risk management approval	Document preparation	Document signing and submission
<ul style="list-style-type: none">✓ FI rep speaks with the client to confirm a working capital need related to COVID-19 liquidity challenges✓ FI rep confirms that proceeds of loan will be used to sustain operations, not for purposes such as dividend payout or refinancing of existing debt	<p>FI rep confirms client:</p> <ul style="list-style-type: none">✓ meets FI's anti-money-laundering and know-your-client guidelines✓ meets probability of default requirement✓ generated a minimum of \$500,000 in gross revenues for 12 months ending as at date of last recent financial statement prior to March 1, 2020✓ applied and was eligible for CEWS and CERS	<ul style="list-style-type: none">✓ FI rep sends HASCAP Guarantee Online ID Form link to the client✓ Client provides high-level company information on the application form✓ Client receives an email confirmation with a unique ID code from BDC✓ Client sends confirmation and unique ID code to FI✓ Alternatively, FI Rep can complete form with client	<ul style="list-style-type: none">✓ FI rep follows all normal credit submission procedures for an operating loan or term loan, per defined FI processes✓ FI rep indicates that loan includes HASCAP Guarantee and attaches unique ID code email confirmation✓ FI manager includes client's CEWS/CERS number, as well as proof of payments (3 months)	<ul style="list-style-type: none">✓ FI risk management adjudicates credit submission, ensuring an acceptable standard of care is undertaken on transaction✓ Guarantee does not require BDC underwriting approval and relies directly on FI's underwriting and due diligence processes	<ul style="list-style-type: none">✓ FI back office completes document preparation, including loan agreement✓ Documents are sent to FI rep for client signature	<ul style="list-style-type: none">✓ FI rep gets client to sign all documents, including loan agreement✓ FI reports transaction details, including unique ID code, to BDC per its internal process for HASCAP Guarantee reporting



Example: Sally, hotel owner

Segment 3: Loan amount \$750,000 for three properties, total of \$2,250,000

Client conversation	Initial eligibility verified	HASCAP Guarantee Online ID Form	Credit submission	Risk management approval	Document preparation	Document signing and submission
<ul style="list-style-type: none">✓ FI rep speaks with the client to confirm a working capital need related to COVID-19 liquidity challenges✓ FI rep confirms that proceeds of loan will be used to sustain operations, not for purposes such as dividend payout or refinancing of existing debt	<ul style="list-style-type: none">FI rep confirms client:<ul style="list-style-type: none">✓ meets FI's anti-money-laundering and know-your-client guidelines✓ meets minimum debt service coverage ratio requirement of 1.10x as at date of most recent financial statements prior to March 1, 2020✓ applied and was eligible for CEWS and CERS	<ul style="list-style-type: none">✓ FI rep sends HASCAP Guarantee Online ID Form link to the client✓ Client provides high-level company information on the application form✓ Client receives an email confirmation with a unique ID code from BDC✓ Client sends confirmation and unique ID code to FI rep✓ Alternatively, FI Rep can complete form with client	<ul style="list-style-type: none">✓ FI rep follows all normal credit submission procedures for an operating loan or term loan, per defined FI processes✓ FI rep indicates that loan includes HASCAP Guarantee and attaches unique ID code email confirmation✓ FI manager includes client's CEWS/CERS number and proof of payments	<ul style="list-style-type: none">✓ FI risk management adjudicates credit submission, ensuring an acceptable standard of care is undertaken on transaction✓ Guarantee does not require BDC underwriting approval and relies directly on FI's underwriting and due diligence processes	<ul style="list-style-type: none">✓ FI back office completes document preparation, including loan agreement✓ Documents are sent to FI rep for client signature	<ul style="list-style-type: none">✓ FI rep gets client to sign all documents, including loan agreement✓ FI reports transaction details, including unique ID code, to BDC per its internal process for HASCAP Guarantee reporting