

## **Covid-19 Business Sustainability & Continuity Funding Programme – April 20<sup>th</sup>, 2020**

### **Bermuda Government's \$12M Aid for BEDC Funding for Local Small and Medium Enterprises (SMEs)**

#### **Overview of Programme**

##### **What is the Business Sustainability & Continuity Funding Programme?**

This Business Sustainability & Continuity Funding Programme is one of BEDC's key business financing tools created in response to the significant impact of Covid-19 on Bermuda's local small and medium-sized businesses. The Bermuda Government, BEDC's Board of Directors, and BEDC recognize the economic impact Covid-19 has had with local businesses, and in response, has developed this additional funding programme.

This streamlined funding programme totals \$24M consisting of \$12M in aid from the Bermuda Government and \$12M within BEDC's existing guarantee capacity. The funding programme is designed to assist as many viable local businesses as possible to tread water and stay afloat, while our Island perseveres through the State of Emergency; Shelter in Place; and Social Distancing requirements necessary to contain the spread of Covid-19 throughout the Island.

The relief funding programme consists of a portfolio of financing products for businesses to take advantage of such as:

1. BEDC direct micro loans inclusive of BEDC direct relief micro grants;
2. BEDC guarantees for overdrafts from Banks; and
3. BEDC guarantees for loans from external entities (such as Banks; Credit Unions; Private Companies; and Individuals).

In order to best leverage the total funding provided and assist as many viable businesses as possible, the funding programme is designed for businesses to be utilize a combination of financial products as oppose to just one. It also envisions in some cases, a combination of BEDC financial products, Bank financial products, and financial products from other external partner entities who meet BEDC's AML/KYC when those partnerships are finalized and ready to be onboarded.

This funding programme will be in place for at least the next 9 months from April to December 2020 or until the support funds are extinguished, whichever comes first. Funds have been allocated to provide support to general business owners; existing clients who have BEDC products, and new clients seeking financial support. Approved applications will be provided based on genuine need related to Covid-19 impact on businesses. The funding is to provide support to businesses to assist them with covering immediate necessary business expenses like payroll, rent and other mandatory costs associated with operating that have been impacted as a result of Covid-19.

### **BEDC Direct Loan and Grant Relief Programme**

After conducting a jurisdictional review of what 17 other countries, regions, and cities were providing to assist small and medium-sized businesses impacted by Covid-19, the review indicated that the vast majority of the jurisdictions were providing loans to businesses and where grants were provided they were very small grants, some for specific industries, and were combined with loans to provide the best relief to businesses.

After digesting the programmes from other jurisdictions, analysing survey data collected from business between March 20<sup>th</sup> and April 16<sup>th</sup>, 2020, assessing the near 100 applications for financial support received thus far to BEDC up until April 16<sup>th</sup>, 2020, and running scenarios on how to divvy up the \$12M the Government has provided in financial aid, BEDC determined that the \$12M would have the greatest impact through providing a total package of direct funding from BEDC to businesses made up of 50% in loan funds and 50% in grant funds per successful business.

BEDC determined that solely providing direct grants would not be the best use of the funds, but if grants were allocated as part of the overall loan financing package, small businesses would have some relief for payables or arrears accrued as a result of Covid-19. For all intents and purposes, it could be looked as a relief from the Government in exchange for reliefs of taxes.

BEDC also determined that the total amount of funding would be determined based on the businesses annual revenue or number of employees in order to segment requests between small businesses and medium-sized businesses and that medium-sized businesses would not be eligible for the grant relief as they would be in a better position to take advantage of BEDC's other Covid-19 financing support with external entities such as the Banks through guaranteeing bank loans and overdrafts.

As such, funding thresholds were divided into 5 bands of financing with the first 4 allocated to small businesses as defined in BEDC's legislation and the last band allocated to medium-sized businesses as defined in BEDC's legislation. Funding would be distributed in tranches based on an agreed-upon schedule within between BEDC and the business with a minimum 6-week and maximum 3-month period. The disbursement of the last tranche tied to ensuring the business meets its conditions with regards to retaining and/or re-employing a percentage of its Bermudian staff. See matrix below.

Bands	Business Size (Based on BEDC Act 1980)	Annual Revenue	Number of Employees	Maximum Funding Allocated (Max request can be determined by Employees or Revenue)	Maximum Grant Relief Portion of Total Funding Approved (50% will be grant funds with exception of Band 5)	Disbursement Tranches of Approved Funds Over 3 Period		
						Tranche 1	Tranche 2	Tranche 3
1	Small	\$1 - \$100,000	1 - 3	\$10,000	\$5,000	50%	30%	20%
2	Small	\$100,001 - \$250,000	1 - 5	\$15,000	\$7,500	50%	30%	20%
3	Small	\$250,001 - \$500,000	1 - 7	\$20,000	\$10,000	50%	30%	20%
4	Small	\$500,000 - 1,000,000	1 - 10	\$30,000	\$15,000	50%	35%	15%
5	Medium	\$1,000,000 - \$5,000,000	11 - 50	\$40,000	N/A	50%	40%	10%

## Small and Medium Enterprises (SMEs)

### Who can apply?

The Business Sustainability & Continuity Funding Programme is available to all small and medium-sized businesses, island wide; including vendors and those businesses located in a designated Economic Empowerment Zone.

Under BEDC's legislation, a "Small business" is defined as Bermudian-owned and owner-operated business enterprise with -

- Gross annual sales revenues of less than \$1,000,000; or
- An annual payroll of less than \$500,000

Likewise, a "Medium sized business" is Bermudian- owned and owner-operated business enterprise with at least 3 of the following attributes -

- Gross annual revenues of between \$1 million and \$5 million
- Net Assets of less than \$2.5 million
- An annual payroll between \$500,000 and \$2.5 million
- Between a minimum of 11 and a maximum of 50 employees; and
- Been in operation for a minimum of 10 years

Although available to all businesses who meet the criteria, BEDC desires to support as many of Bermuda's small and medium enterprises (SMEs) as possible. As such, we reserve the right to prioritize applications based on our assessment of need.

## Scope and Details of Programme

### How Businesses will be Assisted with the New \$12M

BEDC's existing microloan product was amended and streamlined to provide this Business Sustainability & Continuity Funding Programme to assist businesses with covering necessary business expenses like payroll, rent, and other mandatory costs associated with operating that have been impacted as a result of Covid-19. Your assigned BEDC Officer can provide invaluable free assistance as you develop the plan for your business' needs and help you to achieve your business financing goals as quickly as possible.

The details of the combined loan and relief grant financing programme are as follows:

- Applications are processed by BEDC Officers with BEDC Directors or Executive Director approving.
- Approved financing packages are 100% guaranteed by the BEDC.
- No credit check fee required.
- Repayment terms are up to 42 months.
- First repayment of loan is on the last day of the month 3 months after the month in which the approved funds were first drawn down
- Interest-only repayment periods will be automatically applied for the first 3 months once payment commences followed by principal and interest (P&I) payments.
- Interest-only payments can be extended on a case-by-case basis for an additional 6 months.
- For seasonal businesses, interest-only periods can be available periodically throughout the life of the loan.
- In addition to the combined loan and relief grant, small businesses can also be approved for a BEDC guaranteed bank overdraft subject to a maximum of \$70K in combined funding of loan, grant, and overdraft.
- BEDC will only approve loan funding for medium-sized businesses to a maximum of \$40K, however the first expectation is that medium-sized businesses will be assisted through BEDC's \$12M Guarantee Fund to guarantee bank loans and overdrafts.
- If a medium-sized business is approved for a BEDC administered loan, in addition to that loan, they can also be approved for a BEDC guaranteed bank overdraft and BEDC guaranteed external loan subject to a maximum of \$300K in combined funding of BEDC's direct loan, BEDC's bank overdraft guarantee, and BEDC's guaranteed loan.
- The funding must be used for immediate operating/working capital payables such as:
  - rent
  - payroll
  - utilities
  - insurance
  - fees

- immediate inventory payables or supplies needs can be considered on a case-by-case basis (e.g. shelter-in-place exemptions approved by the Government for businesses to open).
- There will be very limited use of funds under this programme for capital purposes - must be clearly tied to generating revenue or sustaining revenue during and post Covid-19 (e.g. shelter-in-place exemptions approved by the Government for businesses to open)
- Processing and approval will take place within 10 business days (reduced from standard 15 business days) from receipt of a complete application. BEDC is endeavouring to process applications faster due to the unprecedented need noting that demand is high, and resources are stretched.
- Disbursements will be made 1 business day after approval is received through either online transfer to the business' bank account or to the bank accounts of the service providers/vendors/suppliers the financing is approved to cover.
- BEDC will phase disbursements to assist businesses in managing cashflow as well as meeting the programme's condition of rehiring staff.

### **Application Fees and Interest Rates**

Interest rates for the programme have been reduced significantly by 1.5% from BEDC's existing micro-loans in order to provide further relief for businesses impacted by Covid-19 and are currently the lowest financing interest rates on island. Likewise, BEDC has reduced all application fees for its products by 50% as a result of Covid-19. Businesses applying for this funding package will pay the following fees once the application is approved and if the application fee is difficult to pay, it can also be added to the funding package for repayment with the financing.

#### **Economic Empowerment Zone Businesses and Island Vendors**

- Application Fee – \$50 or 0.5% of the approved funding amount whichever is greater
- 3% interest rate compounded annually over the life of the funding

#### **All other Small and Medium-sized Businesses**

- Application Fee – \$75 or 0.75% of the approved funding amount whichever is greater
- 3.5% interest rate compounded annually over the life of the funding

## **Qualifications and Obligations**

As with any financing programme businesses will have meet certain criteria to qualify and will have conditions attached to any approved funding. BEDC recognizes the challenges businesses are facing currently and the stress a business owner can be under. As such, our goal is to deliver a financing programme that is clear, simple, efficient, and attainable as possible. Below lays out the criteria and conditions of the programme.

### **Programme Criteria**

- Applicable to existing businesses only.
- For businesses younger than 12 months old the business must demonstrate a significant decline in revenue attributable to Covid-19 for the 3-month period between March and May 2020 compared with the 3 months prior to March 2020.
- For businesses older than 12 months the business must demonstrate at least a 30% decline in revenue attributable to Covid-19 for the 3-month period between March and May 2020 compared with the same period during the previous year.
- Businesses must submit copies of the last 2 payroll tax filings (October 2019 and January 2020) to confirm payroll and size of business – it is understood that the April 2020 filing most businesses will probably not have been filed.
- Businesses must demonstrate that they are compliant and up to date with payroll tax and social insurance. If in arrears they must have an agreed upon payment plan that they are keeping up to date with.
- Businesses must provide evidence of trying to negotiate for overhead reductions, deferrals, and delays where possible.
- Businesses must provide evidence of applying for the unemployment benefit (and approval if received) for their employees and/or themselves if self-employed to reduce the amount of funding needed for payroll purposes through this programme. Approval under this programme will not result in double-dipping for the same amount of funds. This programme will supplement any shortfall in payroll by the unemployment benefit.
- Businesses must provide bank statements, previous business financials, and a cash flow projection – further details of what is required when applying can be found in the application checklist.
- Businesses must sufficiently demonstrate what their plan is to survive during Covid-19 and their recovery plan post Covid-19.

### **Funding Conditions**

- For small businesses the business must retain or re-employ at least 1/4 of existing Bermudian staff during/post Covid-19. Failure to meet this condition without a reasonable explanation may result in all or part of the grant being converted to loan funds.
- For medium sized businesses the business must retain or re-employ at least 1/3 of existing Bermudian staff during/post Covid-19. Failure to meet this condition without a reasonable explanation may result in all or part of the grant being converted to loan funds.
- Disbursement for funding will be distributed in thirds over an agreed amount period
- Evidence of payments made must be received before next disbursements
- Businesses will have to supply copies of bank statements in repayment phase
- Businesses will have to provide business financials on a regular basis in repayment phase
- Businesses will be required to meet with BEDC officers on an agreed upon schedule in repayment phase
- Businesses will sign a funding agreement letter and funding approval contract.

## Other Options for Businesses

As a result of receiving this \$12M aid package from the Government, BEDC now has the flexibility to reallocate the funds it had been using thus far (March 20<sup>th</sup> to April 16<sup>th</sup> 2020) for direct Covid-19 micro loans back to its \$1M portfolio of direct lending (a) General Micro Loan, (b) Debt Consolidation Micro Loan, and (c) Sports Club Micro Loan programmes. These funding programmes can be accessed for tangible new startups who are meeting a need during and post Covid-19 (e.g. new delivery service) or for existing businesses who don't need funding for the above identified immediate overhead/working capital needs. BEDC also has a full range of other products from tax reliefs to duty deferments that businesses can take advantage of if they of benefit to the business and they qualify. BEDC's staff can advise of those products during consultation of your business' needs.

## **Covid-19 Business Sustainability & Continuity Funding Programme – April 20<sup>th</sup>, 2020**

### **Existing \$12M BEDC Guarantee for External Loans and Guarantees**

#### **Overview of Programme**

##### **BEDC Guaranteed Loan and Overdraft Programme**

This Loan and Overdraft Guarantee Programme is a funding programme to supplement the BEDC Direct Loan and Grant Relief programme outlined above in order to deploy a total of \$24M in financial assistance to Bermuda's local small and medium-sized businesses impacted by Covid-19.

This streamlined loan and overdraft guarantee programme, grafted from BEDC's traditional 40-year loan guarantee programme, works in conjunction with a partnering local bank (or approved external entity) that acts as the lender, with BEDC acting as a guarantor. Your assigned BEDC Officer can provide invaluable free assistance as you develop the plan for your business' needs and help you to achieve your business financing goals as quickly as possible.

#### **Scope and Details of Programme**

##### **How does the Programme work with BEDC and my Lender?**

While not a bank, the BEDC can act as a Guarantor of a Bank (or other approved) loan for small and medium-sized businesses that are viable and where the credit worthiness of the borrower is sound. As a guarantor of last resort, in other words where the business has no other means of collateral, BEDC can guarantee up to 75% of the value of a bank loan and/or overdraft. While \$300,000 is BEDC's maximum guarantee to any one business and/or person, it can flexibly structure its guarantee in any number of ways to achieve business goals and at the same time, minimize BEDC risk. BEDC's loan and overdraft guarantee currently works with your bank of choice - HSBC, Butterfield or Clarien. Other lending entities will come on board once approved by BEDC.

- After internal bank approvals and with BEDC's guarantee factored within the banks' agreed-upon loan and overdraft underwriting terms, the bank then forwards the approved loan and/or overdraft funding to the business.
- BEDC remains a guarantor to the business until BEDC's guarantee is expired first with the business owners pledged collateral set to expire last or after BEDC's.
- The business then provides the Bank and BEDC with regular financial information to be informed of the business' financial health as required by the loan and guarantee conditions.

##### **Does BEDC's Guarantee Cover 100% of the Bank Loan?**

No. If needed, BEDC can guarantee or provide a collateral instrument to the bank to cover up to 75% maximum of the business loan with the Maximum repayment terms for loans up to 5 years. Please note that BEDC's guarantee will be confirmed after an Officer business analysis to be at any percentage of the business loan deemed right for the business.



In addition to BEDC's guarantee, the Bank will usually require the business to guarantee any remaining portion of the loan that BEDC does not cover; the business owner usually will place an asset (e.g. cash, property, marketable securities, another guarantor) to collateralize the balance of the loan. Every application is assessed on a case by case basis and as such, unsecured portions of a funding request can be considered based on the history and creditworthiness of the business. If you don't have any other collateral, please discuss with BEDC and/or the Bank asap.

**Can I Use BEDC's Guarantee for an Overdraft?**

Yes – BEDC's guarantee on a bank overdraft is 75%, up to a maximum guarantee dollar value of \$50,000. Maximum terms for guaranteeing overdrafts are up to 18 months unless converted to a term loan and then that criteria commences.

Any guarantee overdraft position (e.g. up to \$50,000 on a \$100,000 overdraft line of credit) will be considered with any term loan guarantee position so that the combined term loan guarantee and overdraft guarantee do not exceed \$300,000 for any one medium-sized business. Limited to a combination of BEDC loan, BEDC grant, and bank overdraft up to a maximum of \$70,000 for any one small business.

**What Can I Use Bank Loan Funds/BEDC's Guarantee For?**

Liquidity for wages, rent, vendor payables (working capital), capital purchases (e.g. equipment/renovations), inventory

**What is BEDC's Turnaround Time for Processing an Application?**

15 business days reduced from 25 business days for regular BEDC loan guarantee product. BEDC and your Bank of choice will provide you with a firm GO/No Go position on your financing request within 5 business days.

## **Business Options for Approval**

**(A) BEDC Expedited Approval**

Given the devastating impact of Covid-19, where guarantee applications come to BEDC to approve guarantees, the BEDC Board of Directors has delegated authority to the Executive Director to approve guarantee applications in order to speed up approval times. The Board has also delegated the Executive Director with the ability to delegate that down to the Management Team if needed based on demand. The BEDC Board will be notified weekly of guarantee approvals and the Finance Sub Committee of the Board will meet for special or unusual cases to consider beyond the caps presented or if BEDC staff need additional support, ideas, or suggestions regarding any matters or decision-making.

**(B) Bank Expedited Approval**

To deploy funds as soon as possible to businesses in need, as an added option for cutting processing times, the BEDC Board of Directors has approved the deployment of pre-approved guarantees to the 3 Banks. BEDC has allocated \$1M in guarantees per bank (\$3M total) in pre-approved loan and overdraft guarantees. In order to compress approval times, the bank desire flexibility in being given a pool of pre-approved guarantee funds to be able to apply to

applicants as they deemed fit subject to BEDC underwriting terms and conditions. Conditions for the pre-approved guarantees with the Banks are as follows:

- Businesses within the EEZs given preference
- Current and former BEDC bank guarantee clients given preference
- Businesses must be registered with BEDC - if the Banks' existing clients is not a member of BEDC, the client still applies to the Bank but must register with BEDC prior to the deal being finalized.
- Banks will provide discounted preferential interest rates for BEDC's increased guarantee and pre-approved guarantee sum – demonstrable evidence that this rate is less than the Banks' standard interest rate without a sovereign guarantee
- BEDC will charge a 50% reduced guarantee fee for all approvals - if the guarantee goes through the normal process with BEDC then BEDC will collect the fees. If it is one of the "pre-approved" guarantees that the Bank processes BEDC the Bank will inform the applicant, they still need to pay BEDC. BEDC will send the Bank confirmation of that payment prior to the Bank finalizing the deal.
- Banks shall not use the guarantee if adequate financial assistance is available to that business from other sources on reasonable terms
- Banks shall not use the guarantee for a loan or overdraft for the purposes of any business that is owned or controlled by the Government
- Banks shall not use the guarantee for a loan or overdraft for the purposes of a business that is not conducted for the profit of an individual or individuals
- Banks shall not use the guarantee for a loan or overdraft to a person not resident in Bermuda
- Banks shall not use the guarantee for a loan or overdraft to assist a business not being carried on within Bermuda, at the time the loan or guarantee is made
- Banks shall not charge interest, credit charges or fees more than what is currently being offered without the BEDC's guarantee.
- BEDC's guarantee declines proportionally as loan balance declines
- BEDC's guarantee on loans to be released when loan balance reaches 50% of original loan balance
- BEDC's guarantee on overdrafts to be released after 18 months unless converted into a loan then the loan criteria commences
- BEDC will honour it's called guarantee expeditiously, subject to receiving documentation of the effort made by the lender to realise all other forms of collateral first, resulting in BEDC's guarantee being realised last
- Banks provide list to BEDC weekly on how guarantees have been allocated and which businesses have received
- BEDC's guarantee is null and void if the banks do not provide keep BEDC informed of who they have approved for a guarantee.

### **Guarantee Fees**

The loan or overdraft guarantee fee is payable to BEDC upon approval of the application and signing of guarantee agreement documents. The financial institution or lender may have separate fees. Please note that overdrafts have maximum guarantee period of up to 18 months while guaranteed loans have a maximum period of up to 5 years. If restructuring an

existing loan guarantee, BEDC will charge an additional 0.25% on the total guaranteed amount.

<b>LOAN FULLY SECURED</b>	<b>TERMS</b>	
<b>GUARANTEED AMOUNT</b>	<b>0 - 3 YEARS</b>	<b>4 - 5 YEARS</b>
<b>\$1 - \$50,000</b>	0.75%	0.875%
<b>\$50,001 - \$100,000</b>	0.875%	1.00%
<b>\$100,001 - \$150,000</b>	1.00%	1.125%
<b>\$150,001 - \$200,000</b>	1.125%	1.25%
<b>\$200,001 - \$250,000</b>	1.25%	1.375%
<b>\$250,001 - \$300,000</b>	1.375%	1.5%
<b>LOAN WITH UNSECURED PORTIONS</b>	<b>TERMS</b>	
<b>GUARANTEED AMOUNT</b>	<b>0 - 3 YEARS</b>	<b>4 - 5 YEARS</b>
<b>\$1 - \$50,000</b>	0.875%	1.00%
<b>\$50,001 - \$100,000</b>	1.00%	1.125%
<b>\$100,001 - \$150,000</b>	1.125%	1.25%
<b>\$150,001 - \$200,000</b>	1.25%	1.375%
<b>\$200,001 - \$250,000</b>	1.375%	1.5%
<b>\$250,001 - \$300,000</b>	1.5%	1.625%

## Qualifications and Obligations

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- Businesses must submit copies of the last 2 payroll tax filings (October 2019 and January 2020) to confirm payroll and size of business – it is understood that the April 2020 filing most businesses will probably not have been filed.
- Businesses must demonstrate that they are compliant and up to date with payroll tax and social insurance. If in arrears they must have an agreed upon payment plan that they are keeping up to date with.
- Businesses must provide evidence of trying to negotiate for overhead reductions, deferrals, and delays where possible.

- Businesses must provide evidence of applying for the unemployment benefit (and approval if received) for their employees and/or themselves if self-employed to reduce the amount of funding needed for payroll purposes through this programme. Approval under this programme will not result in double-dipping for the same amount of funds. This programme will supplement any shortfall in payroll by the unemployment benefit.
- Businesses must provide business plan, bank statements, previous business financials, and a cash flow projection – further details of what is required when applying can be found in the application checklist.
- Businesses must sufficiently demonstrate what their plan is to survive during Covid-19 and their recovery plan post Covid-19.

### **Funding Conditions**

- For small businesses the business must retain or re-employ at least 1/4 of existing Bermudian staff during/post Covid-19. Failure to meet this condition without a reasonable explanation may result in the interest rate of the overdraft increasing and/or BEDC's guarantee being terminated early.
- For medium sized businesses the business must retain or re-employ at least 1/3 of existing Bermudian staff during/post Covid-19. Failure to meet this condition without a reasonable explanation may result in the interest rate of the loan or overdraft increasing and/or BEDC's guarantee being terminated early.
- Disbursement for funding will be distributed in thirds over an agreed amount period
- Evidence of payments made must be received before next disbursements
- Businesses will have to supply copies of bank statements in repayment phase
- Businesses will have to provide business financials on a regular basis in repayment phase
- Businesses will be required to meet with BEDC officers on an agreed upon schedule in repayment phase
- Businesses will sign a funding guarantee agreement letter before a guarantee agreement can be issued.