06/19/2020

Re: Main Street Lending Program- Nonprofit Organization Facilities

On behalf of Colorado Nonprofit Association and its more than 1,400 members, I appreciate the opportunity to submit comments about the proposed Nonprofit Organization Loan Facilities. Colorado Nonprofit Association’s mission is to lead, serve, and strengthen Colorado’s nonprofit community to improve the quality of life throughout our state. Colorado’s 23,000 nonprofit organizations ordinarily contribute $40 billion to the state’s economy and account for 9% of Colorado’s workforce in direct and indirect jobs. More than 80% of Colorado’s nonprofits have annual budgets less than $1 million.

Even though nonprofits tend to be small and resilient, COVID-19 is tasking nonprofits to do much more with even less. Demand for services has skyrocketed as more Coloradans turn to nonprofits for help with meeting basic needs, finding work, accessing physical and mental health services, practicing their faith, and more. At the same time, nonprofits are coping with financial losses due to closures of public spaces and offices, cancelled fundraising events, and the sudden economic downturn. With all these challenges, keeping employees working, safe, and healthy is the primary concern for nonprofit leaders.

We appreciate the efforts of the Federal Reserve to provide assistance to nonprofit organizations through the Main Street Lending Program. While this proposal could be helpful for hospitals and universities with revenues based largely on transactions (e.g. tuition, fees for services, etc.), the benefit of the program is limited for most nonprofits that rely heavily on individual donations and serve the public at no charge. This program ought to equally support nonprofits that rely on donations to provide their essential services and not place financial requirements that are simply not applicable to them. Along with our colleagues at National Council of Nonprofits, we request that the Federal Reserve make the following changes to the proposal to address the concerns of our members and nonprofits throughout the country.

1. **Ask Congress to ensure mid-sized nonprofits are eligible for loan forgiveness.** A nation-wide survey by Independent Sector found that 92% of nonprofits with 50 to 500 employees identified forgivable loans as the most helpful form of assistance that could be provided by the federal government according to Independent Sector’s nationwide survey.

   Providing forgivable loans is especially important because many charitable nonprofit organizations do not have steady streams of commercial income and have limited capacity for loan and interest repayment. Congress must recognize the vital services nonprofits provide to communities by including loan forgiveness in the next round of COVID-19 relief.

2. **Remove the requirement for nonprofits to have less than 30% of revenue from donations.** This criterion keeps many charities from being eligible when all 501(c)(3) nonprofits that meet the employee size requirement should be eligible. Nonprofits with
missions related to the arts, environment, and animals, for example, tend to rely largely on donations while human services organizations rely more on fees and government funds.

3. **Make loan terms more favorable to charitable nonprofit organizations.** This proposal imposes liquidity, asset, and reserve requirements that are not required in the Main Street New Loan Facilities available to for-profit businesses. The Federal Reserve should make changes for the final proposal that not only treat nonprofits equitably but avoids requirements that make the program less beneficial for nonprofits. We recommend the following changes:

   a. **Reduce or eliminate the profit margin requirements.** Nonprofits typically operate at lower profit margins because profits are used to augment mission-related services rather than build up reserves. For example, a recent report by Seachange Capital Partners found that the median social services nonprofit has a margin of 1.0% and that fewer than 20% of large nonprofits have 6 month or more of operating reserves.

   Profits are also limited for nonprofits receiving government funds because their contracts frequently do not cover the full costs of delivering services. Governments often reimburse nonprofits after services are delivered which can affect a nonprofit’s cash flow, especially when payments are late.

   b. **Borrower requirements 7 and 8 should be lessened significantly or eliminated entirely.** Requiring nonprofits to have 30 days of cash on hand and reducing the loan origination ratio to 40-50%, for example, would better reflect current economic realities.

   c. **More flexibility on fees and repayment terms would make the program more attractive for borrowers**
      
      i. LIBOR plus 300 basis points is unfavorable compared to Paycheck Protection Program (1.0%) and Economic Injury Disaster Loan (2.75%) interest rates;
      
      ii. Reducing loan origination and service fees would make borrowers more willing to pay costs associated with borrowing;
      
      iii. Having a 70% balloon payment at the end of the fifth year will be off putting for many nonprofits. Allowing nonprofits to renegotiate the loan at market rates would make this program similar to existing loan programs with balloon payments. Extending the amortization to 7 years could also lessen payments.
      
      iv. Allowing borrowers to have access to engage with derivatives (change to a fixed rate) without the minimum swap requirements would be helpful.

4. **Reduce and revise the ratio of adjusted 2019 earnings before “EBIDA”.** As proposed, borrowers must have a ratio of adjusted 2019 earnings before interest, depreciation, and amortization (“EBIDA”) to unrestricted 2019 operating revenue that is greater than or equal to 5%. We recommend that the 5% requirement be reduced to zero if not eliminated entirely. At 5%, this excludes nonprofits that run on tight margins in order to devote net revenues to services and those who run deficits in certain years to enable growth in future years. Loan
applicants should be able to provide a statement explaining any deficits so that a negative ratio does not mean automatic ineligibility.

We also recommend clarifying the calculation methodology with respect to capital and restricted funds. Many nonprofits include funds for capital improvements and upgrades in their annual budgets which is different than donations to a capital campaign. Also, excluding restricted revenue from the calculation of operating revenue is problematic because this excludes funding from government contracts, making it harder to meet the 5% ratio.

5. **Clarify terms related to employee retention.** We endorse the analysis of the National Council of Nonprofits on the issue of employee retention and recommend the following:
   a. “Reasonable efforts” should consider not only the general economic environment in the communities where the borrower operates but also factors including workforce, fundraising ability, revenue-generating activities, and overall demand for the nonprofits’ services. One option would be to add “mission-based” as a qualifier.
   b. “Maintain its payroll” and “retain its employees” are vague. Nonprofits participating in the Main Street loan program generally should endeavor to pay and keep full-time equivalent staff at the same or increased levels for the duration of the loan. The employee retention provision should begin on the date loan funding is received.
   c. For the loan period, nonprofit borrowers should not be penalized for decisions of employees to decline rehire, resign, reduce schedules, or give cause for termination.

6. **Remove the 50-employee minimum.** The 50-employee minimum is not required in Main Street facilities available to for-profit businesses. This Federal Reserve gives no rationale for this arbitrary exclusion of most nonprofits from eligibility. Many small nonprofits are on the frontlines of helping families meet their basic needs due to the COVID-19 pandemic.

7. **We request additional clarifications and recommendations:**
   - **Endowments:** What resources should be included in endowment calculations? Does it include restricted endowments? Does it extend to include cash on hand?
   - **Collateral:** Flexibility on collateral is requested. The loan should be able to be approved with no more than 50% Loan to Value (LTV) if collateral is needed.
   - **Other Debts:** The proposal requires that borrowers, “refrain from repaying the principal balance of, or paying any interest on, any debt until the Eligible Loan is repaid in full, unless the debt or interest payment is mandatory and due.” We request that this exclude lines of credit and other debt assumed to provide financial liquidity related to COVID-19.

Thank you for considering our feedback to ensure this program supports the work of nonprofits to strengthen communities throughout Colorado and the United States.

Mark Turner, Senior Director of Public Policy

---

Serving nonprofits. Strengthening communities.
789 Sherman Street | Suite 240 | Denver, Colorado 80203 | (303) 832-5710 | (800) 333-6554 | ColoradoNonprofits.org