SEDCO Emergency Loan Program

A potential new program of the Sherman Economic Development Corporation (SEDCO) to help qualified Type A eligible companies located in Sherman, Texas, which, by no fault of their own, are experiencing severe negative financial effects related to the recent economic shift caused by COVID-19.

Purpose:

To help small Type A eligible companies (under 50 employees) in Sherman maintain a minimum level of employees for 30-60 days until federal and/or state assistance becomes available.
(List what Type A eligibility is here)

Eligibility:

Company must be Type A eligible, as defined by Texas Local Government Code. Company must have been in good financial condition before the recent events surrounding the COVID-19, as determined by the SEDCO Staff and Board of Directors.

Amount:

A company can receive a loan of up to $____________ (208,000?), which may be disbursed in one lump sum, or in installments, as determined by the SEDCO Board of Directors. Amount will be determined and based on demonstrated need.

Qualified Uses:

Company may use the loan proceeds to payroll and/or payroll related expenditures (i.e. healthcare premiums).

Terms:

The loan will be a 0% interest free loan payable in annual installments of 1/10th of the final loan amount over a ten-year period of time. The first payment shall begin on the ____(1st annual anniversary date?) of the initial loan disbursement to the company.

Notes:

32 hours per week = 1,664 hours per year x $15/hr = $24,960/employee

A company with 50 employees at $15/hr ($24,960/yr) = $1,248,000 total annual payroll

$1,248,000 / 12 months = $104,000 monthly payroll x 2 months = $208,000 for 2 months payroll

$208,000 x 10 companies = $2,080,000 SEDCO Amount Available (?) Too much?

IMPORTANT:

State unemployment is a max of $465/week. The model above contemplates $480/week. Suggest we pull back or rate to State rate of $465/week.

Compiled Responses without Attribution

SEDCO Board Responses

I'm all for supporting our small businesses through this. If someone doesn't, we'll have a lot of unemployed people.
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Ok…so we can loan companies money.
Who will monitor, document and fund?
I like helping, but wow…where would it end?

My response:
We can loan companies money. In fact, when we give incentives through our 5% capex grant, we (or I) have started styling that as a 0% forgivable promissory note. I do that because it is the easiest way to maintain our performance agreements. And the easiest way to "clawback" a lack of performance on the part of the company.

Example:

A company project spends $10 Million and SEDCO pays them a 5% incentive, or $500,000.

We would make the company sign a $500,000 promissory note at 0% interest with annual payments of $100,000 over 5 years.

Every year the company maintains (for example) 100 employees and maintains operations in Sherman, SEDCO forgives that annual payment of $100,000. However, if the company closes after say year 2 of the agreement, they would owe us $3/5^{th}$s of the $500,000 loan back because that would be the unforgiven amount of the loan. Thus, we would demand a payment from company of $300,000.

Or, let's say the company falls short of 100 employees in year 3 – let's say they maintained an average of 90 employees that year. They would owe us a deficiency payment of $10,000 and we would forgive $90,000 of that annual payment. Deficiency being defined as annual payment/annual required employment or $100,000 / 100 employees = $1,000 per employee deficient. Thus $1,000 x 10 employees deficient in year 3. They can still receive the full forgiveness for years 4 and 5 as long as they get their employment back up to 100 for those years.

Depending on how much we set aside for this program and what the cap is for each applicant, that will determine how many companies could get a loan and for what amounts. My first draft was a rough stab at it. I think only companies with 50 employees or less would be eligible, otherwise it becomes to big a bite for SEDCO's resources. I guess I would estimate maybe 10 of our Type A eligible companies might qualify. That is why I put that they would have to be financially healthy BEFORE this calamity hit us, as determined by SEDCO staff and Board.

We have to anticipate there will be some companies who WANT or THINK they are eligible, but are not. They would have to disclose their last years complete financials to us for review. I think a committee of 2 board members and staff could review the applications. And finally, when/if we hit the allocated amount set aside for this program, that would be it. Of course the Board has the authority to consider adding to this allocation if they felt inclined, but I think being pretty strong about an established amount and publicizing that amount up front could help quell a push to go over the initial allocation.

As far as servicing the loan, I think we make them easy to service. Security agreements could be as simple as a personal guarantee by the owner, or additional collateral such as equipment and machinery which is currently owned free and clear.

Believe me, this is not my first choice of programs to try and roll out – I hate being a bank because EDC's are NOT set up to service loans. I am just trying to think outside the box on how SEDCO might could help some of our smaller, good manufacturers.

Thanks for the feedback!

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I think the idea is great. I would recommend maybe having (a bank) help with application process, underwriting with (bank's) credit analyst and coming up with a general checklist needed to qualify. I think we would need to have guidelines or more of a line of credit vs. one lump sum payment so we could police that the money is being used properly monthly.
My only fear is that people get wind of the program and they all apply so what is the criteria or deciding factor on who gets the help?
Again, great idea and think you are on to something.
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Great capability to be able to effect to aid our local firms, no doubt. It assists those in need and continues to build good relationships. A few questions:

1) Would want to confirm our ability to do this within our charter/bylaws/state law.
2) Loan or Grant? If loan, any interest charged?
3) Who do we help? There could be overwhelming need before it's all said and done. Do we reach out equally to all, go back to those we've recruited or helped with retention and expansion only? Do we limit benefits?

Onboard to learn more and try to get something in place for those that need it.

Maybe our next thought is how much of our funds we would want to make available.

Thanks for thinking of this, Kent.
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Other EDC Responses

Kent,
We're struggling with how to do something like this in an equitable way. I think something is better than nothing—but mitigating our risks for backlash is certainly a key consideration.
I'll be interested on where you land.
Good Luck!

My Response:
Not sure I understand "mitigating risks for backlash". You mean 1) in case a company closes and cannot repay the loan, or 2) competing with local banks, or 3) helping some companies and not all companies which qualify under your rules?

Their response:
All 3. Including, what happens when the money runs out, but the need doesn't. Is it a competitive loan or is it first come first serve?
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Kent,
We are being asked this same question "what is the EDC going to do to help our local businesses"? My concern is where does it start, where does it end. The number of "small businesses" here is huge and that number on the amount of $$ could get extremely large. I don't know whether to be a before or after pill for this and that is my biggest concern.
Do not want to be perceived as inattentive but also have to be aware of the Type A requirements and if that gets waived or not and then who do you not include. That will bring its own set of issues.
Just thoughts.

My response:
Enjoyed the conversation yesterday! Our board may meet next week. Between now and then, we may start piecing together a plan. I loved your idea of this being a "case by case" situation though.
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We are 4B - and thinking about a revolving loan - same type deal, but using BCL.
Thanks for sharing this. Hope you are well and stay that way.
Best regards,

My response
Thanks. What's BCL?

Their Response:
Non - profit lender based in San Antonio. They do revolving loan programs. Known this group for a long time. https://bcloftexas.org
Best regards,
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Hi Kent,
I don't want this to sound negative, but, I told the board when I got to (town) two years ago that "we aren't bankers" and don't need to be in the loan business.
Collecting monthly payments was taking lots of staff time…..(some content deleted)…….
As I said, banking just wasn't for us. I would much rather offer a GRANT and forget about it!
Just my thoughts. GOOD LUCK!
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Kent
I applaud your creativity. I think it is a great idea to respond to the needs of the smaller companies. This I think is especially true for consumer products.   The only things I suggest that you consider

- How do you monitor the employees to make sure they are not also trying to get unemployment at the same time
- I would suggest that you consider a quicker pay back, maybe 5 years.
- I assume you will give the company a set payment and due date.   I know from some of the things we have done here we sometimes have the payments less in the beginning and more towards the end.
- You might give them a grace period to get on track say 6 months to one year before first payment is made.

I think this is a great idea. In fact I may steal it. I think this is a Workforce Award winning project.

My response:
Thanks – great feedback!

I know that form I put it in wasn't the easiest to read. I think I had in there the first installment payment would be 1 year after the initial loan was disbursed. Thinking about putting in something like, "even though first payment is due 12 months after loan is disbursed, company is encouraged to start repayment sooner if viability allows", or something like that.
I agree with moving it from 10 years to 5 year, especially if we go with 0%.
Had a thought this morning of how do we ensure SEDCO's money is actually used for payroll or payroll related items like healthcare premiums? We may do it like we do other projects where the company has to provide us with documentation they just made the payment for payroll or

healthcare premiums, essentially making for a reimbursement transaction…does that make sense?

Thanks again! Always appreciate your feedback.
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Additional Thoughts Since Yesterday

Running through many of the feedback and comments from yesterday and today, it occurred to me that maybe I was looking at this from the wrong angle. Comment were made, and I have known for years, that EDC's should not be in the "banking" business – we are simply not set up to underwrite and service loans. This got me to thinking.

If we worked with local financial institutions, we could leverage SEDCO dollars much more efficiently and effectively. For instance, if a local manufacturer went to one of our local financial institutions and got a $200,000 loan at 5% fixed for 5 years with annual payments, the annual payment would be $46,195 (rounded). Total of all 5 payments would be $230,975. If SEDCO bought the interest on this note, we would be out $30,975 over 5 years. The company would still get a $200,000 interest free note.

Some of the comments from my peers across the state (written and over the phone) was that with an interest free note, they would like to shorten up the term from 10 years to 5 years. If this truly is a bridge note to get the otherwise healthy company through the next few months to a year, then the company should not have problem with a shortened amortization schedule, especially interest free.

This solves one other major issue: SEDCO is not having to underwrite, originate and service these loans – the financial institutions are! This partnership arrangement lets SEDCO participate in the process, not fully take over the process.

I would love to hear your thoughts on this.

Thanks,

Kent