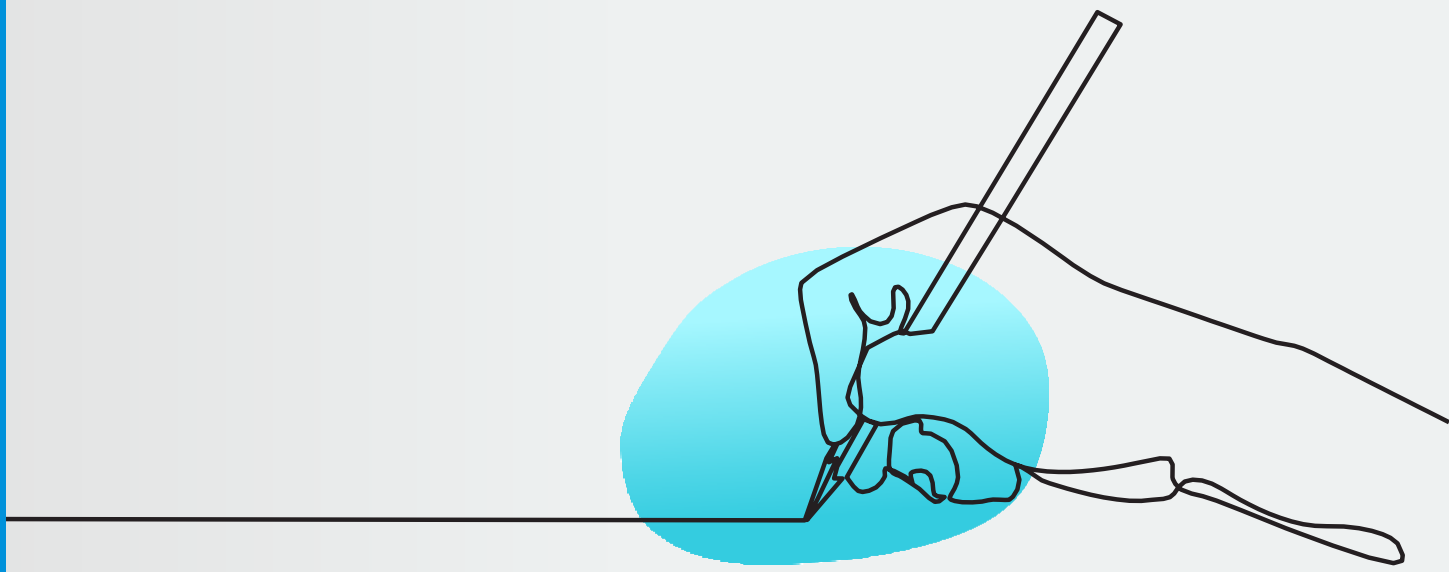
COVID-19: Overview of key federal credit support programs

KPMG Corporate Finance Inc.



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Summary of available financial support for businesses

- The Government of Canada has introduced various federal credit programs to assist Canadian businesses through the present climate of uncertainty and disruption caused by the COVID-19 outbreak. These various programs aim to provide businesses with access to financing in order to meet the liquidity constraints faced in the short to medium-term and are designed to support enterprises of different sizes, across all sectors and regions, that were generally financially viable prior to the COVID-19 outbreak.
- The primary avenues of support are through the Large Employer Emergency Financing Facility (LEEFF), which caters to Canada's largest employers and the Business Credit Availability Program (BCAP), which is targeted at medium-sized and small-to-medium sized enterprises (SMEs).
- LEEFF will be delivered by the Canada Development Investment Corporation (CDEV), in cooperation with Innovation, Science and Economic Development Canada (ISED) and the Department of Finance.
- The BCAP will be facilitated through the Business Development Bank of Canada (BDC) and Export Development Canada (EDC), and will provide up to $65 billion in direct lending as well as other types of financial support.
- In addition, there are further offerings from Crown corporations related to working capital solutions and rental assistance programs for businesses across all sectors, as well sector-specific offerings targeted at businesses in the agricultural and food processing sectors.
- BCAP includes six primary programs as outlined below and detailed in this document.

1. **Canada Emergency Business Account (CEBA)**
   Loans of up to $40,000 for small businesses to pay for immediate operating costs, 100% funded by the Government of Canada.
2. **BDC Co–Lending Program**
   Term loans of up to $12.5 million for SMEs for operational and liquidity needs, 80% funded through BDC and the remaining through their financial institution.
3. **EDC Loan Guarantee Program**
   Allowing financial institutions to issue operating credit and cash flow loans of up to $6.25 million to existing SME clients, supported by an EDC guarantee of 80% of the loaned amount.
4. **BDC Oil and Gas Sector Financing**
   Loan size between $15 million and $60 million for Canadian-based oil and gas producers, oilfield service companies and midstream providers.
5. **BDC Mid-Market Financing Program**
   Junior loans ranging between $12.5 million and $60 million for medium-sized businesses co-managed by BDC and their primary financial institution.
6. **EDC Mid-Market Guarantee & Financing Program**
   Loan size between $16.75 million and $80 million for medium-sized businesses with 75% guaranteed by EDC.

Large sized businesses

Large Employer Emergency Financing Fund (LEEFF)

Overview

- On May 11th the Government of Canada announced a new program, the Large Employer Emergency Financing Fund (LEEFF), designed to provide bridge financing to Canada's largest employers, whose needs during the pandemic are not being met through conventional financing. The objective is to protect Canadian jobs by helping large Canadian businesses weather the current economic downturn, and avoid bankruptcies of otherwise viable firms, where possible.
- LEEFF is open to large-for-profit businesses (with the exception of those in the financial sector), as well as certain non-profit businesses with annual revenues in the order of $300 million or more.
- To qualify for LEEFF support, eligible businesses must be seeking financing of about $60 million or more, have significant operations or workforce in Canada, and not be involved in active insolvency proceedings.
- In considering a company's eligibility, an assessment may be made of its employment, tax, and economic activity in Canada, as well as its international organizational structure and financing arrangements.
- Support is not intended to resolve insolvencies or restructure firms, nor will it provide financing to companies that otherwise have the capacity to manage through this crisis.
- LEEFF will be delivered through Canada Enterprise Emergency Funding Corporation (CEEFC), a subsidiary of CDEV, in cooperation with ISED Canada and the Department of Finance.

Additional details

- Companies must demonstrate how they intend to preserve jobs and maintain investment activities. Recipients will need to commit to respect collective bargaining agreements and protect workers' pensions.
- The program will not be available to companies that have been convicted of tax evasion.
- To ensure support across the Canadian economy, the financing is intended to be applicable to all eligible sectors in a consistent manner.
- To ensure timely support, the LEEFF program will apply a standard set of economic terms and conditions (see page 5 for further details).
- Applicants should register their interest at LEEFF-CUGE@cdev.gc.ca, and will then be contacted by both representatives of CEEFC and ISED Canada to begin the process.

Large sized businesses (cont'd)

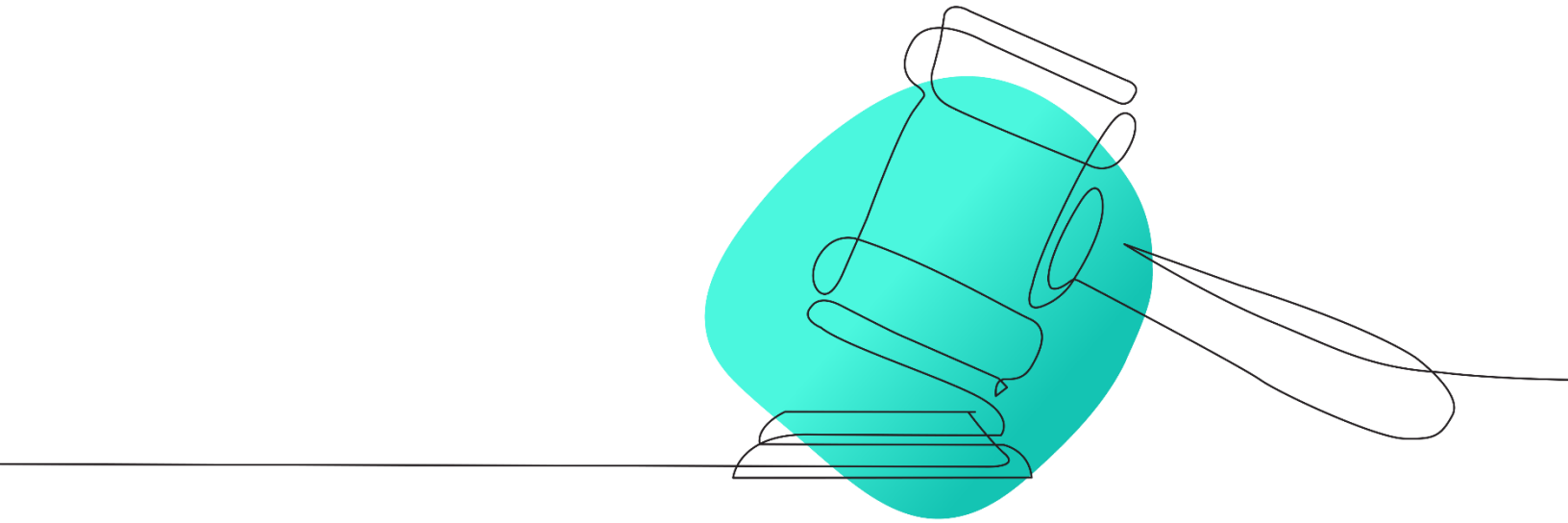
LEEFF – Terms and conditions

- Size/principal amount:
  - The loan is to be provided through two facilities: an unsecured facility equal to 80% of the aggregate loan and a secured facility equal to 20% of the aggregate loan amount. The minimum aggregate loan will be $60 million and will be advanced in tranches over 12 months.
- Interest rate:
  - Unsecured facility: cumulative at 5% per annum payable quarterly in arrears, increasing to 8% per annum on the one-year anniversary and by a further 2% per annum each year thereafter. Interest may be paid in-kind for the first two years of the loan.
  - Secured facility: interest based on the rate of the borrower's existing secured debt.
- Term:
  - Unsecured facility: 5 years;
  - Secured facility: to match that of the borrower's existing secured debt;
  - No prepayment penalties.
- Operating requirements:
  - Prohibitions on dividends, capital distributions and share repurchases;
  - Certain executive compensation restrictions.
- Affirmative covenants:
  - Performance of obligations under existing pension plans;
  - Performance of material obligations under applicable collective bargaining agreements; and
  - Publishing an annual climate-related financial disclosure report disclosing corporate governance, strategies, policies and practices that will help manage climate-related risks and opportunities (see page 6 for additional background).
- Governance:
  - CEEFC will reserve the right to appoint an observer to the board of the borrower.
- Warrants/additional fees:
  - If the borrower is a Canadian public company (or the private subsidiary of a Canadian public company), the borrower must issue warrants with the option to purchase the borrower's (or public parent company's) common shares totaling 15% of the principal amount or receive cash consideration equivalent to the value of the warrants.
  - These warrants may be settled with the borrower prior to being exercised or sold to third party buyers after the loan is repaid.
  - Borrowers without publicly-traded shares will be required to provide CEEFC with compensation in the form of additional fees at a level commensurate to the value of the warrants for public company borrowers.
- Other conditions:
  - Certain conditions will need to be satisfied before the initial advance of funds, which will include certain waivers from existing lenders or bondholders of the borrower.

Large sized businesses (cont'd)

LEEFF – Climate related disclosure

- The LEEFF bridge financing program announcement indicates recipient companies will be required to commit to publish an annual climate-related disclosure report consistent with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), in addition to addressing how future operations will support environmental sustainability and national climate goals.
- Canada's goal under the Paris Agreement is to reduce emissions by 30% from 2005 levels by 2030 and to achieve a net zero position by 2050.
- The TCFD recommendations were an outcome of a request by G20 Finance Ministers and Central Bank Governors to enhance transparency regarding climate risks and to align climate-related disclosures under a common framework.
- Larger Canadian reporting issuers have, in many instances, already started to introduce TCFD disclosures to their public reporting. However, these generally will not be tied to Canada's national climate goals.
- There will also be a number of mid-tier and private companies with over $300 million in revenues for which these disclosures will be a new and potentially significant commitment.
- The recommendations cover:
  - **Governance:** The organization's governance of climate-related risks and opportunities.
  - **Strategy:** Actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.
  - **Risk management:** Processes used by the organization to identify, assess and manage climate-related risks.
  - **Metrics and targets:** Metrics and targets to manage relevant climate-related risks and opportunities.
- Further details, including the timing and location (e.g. Annual Report) of disclosures, are expected to be announced at a future date.



Medium sized businesses

Business Credit Availability Program (BCAP)

– On May 11th the Government of Canada announced a significant expansion of the BCAP so as to provide increased access for medium-sized businesses, by providing the opportunity for businesses to access loans of up to $60 million per company and guarantees of up to $80 million.

– Similar to the existing BCAP for SMEs (see page 8), both the BDC and EDC will work with the financial institutions to support access under the loan and guarantee programs. Further details are to be released. A summary of currently available information is presented below:

BDC Mid-Market Financing Program:

- Junior loans ranging between $12.5 million and $60 million for medium-sized businesses particularly impacted by the COVID-19 pandemic, co-managed by BDC and their primary financial institution, to cover operational liquidity needs and business continuity.
- BDC anticipates that qualifying companies will have annual revenues in excess of $100 million.
- To qualify, a business must have been financially viable and in good standing as of March 1, 2020.
- To access the program, businesses must apply through their primary financial institution.

EDC Mid-Market Guarantee & Financing Program:

- EDC will provide funding to financial institutions so that they can issue new operating credit and cash flow term loans ranging from $16.75 million up to $80 million.
- The program will bring liquidity to companies that tend to have revenues between $50 million to $300 million.
- These loans will be 75% guaranteed by EDC, with an expected tenor of 12 months.
- Available to all businesses that were financially viable prior to the COVID-19 outbreak.
- The approval process for the guarantee is subject to additional debt lending requirements through a business' existing financial institution.

Small to medium sized businesses

Business Credit Availability Program (BCAP)

- The BCAP is being facilitated through the BDC and EDC, which are working with private sector financial institutions to coordinate on credit solutions for individual businesses, including in sectors such as oil and gas, air transportation, exports and tourism.
- There is up to a maximum of $18.75 million available to businesses under BCAP's two main programs: BDC Co-Lending and EDC Guarantee. Both programs are now available at various financial institutions.

BDC Co-Lending program:

- To qualify, a business must be a Canadian based commercial enterprise that has been impacted directly or indirectly by COVID-19 and was financially viable prior to the impact from COVID-19 (i.e. prior to March 1, 2020).
- Available to existing clients of qualifying financial institutions.
- Facility will be made available via a Term Loan with 80% of the total amount provided by BDC and 20% provided by the financial institution.
- Availability:
  - Sales < $1 million, up to $315,500
  - Sales > $1 million < $50 million, up to $3.25 million
  - Sales > $50 million, up to $12.5 million.
- The purpose of the facility will be to finance the operational and liquidity needs of a business only, which may include paying scheduled interest on the financial institution's existing debt. It cannot be used for repayment of other term debt and it is expected that (any) existing RCF limits would remain in place.
- Pricing will be set at commercial rates.
- Tenor up to 10 years and amortization up to 20 years (interest only period is limited to 12 months from the start of the loan, followed by up to a 19-year amortization period).

EDC Guarantee program:

- An eligible business will be a domestic and/or export-oriented Canadian business who has been impacted directly or indirectly by COVID-19 and was financially viable prior to the impact of COVID-19.
- Available to new and existing clients of qualifying financial institutions.
- Facility will be made either via a Term Loan or a Revolving Line of Credit.
- Availability:
  - Up to $6.25 million, of which EDC will guarantee 80% (CAD facilities only).
- The purpose of the facility will be to finance the operations and liquidity needs of a business only (no dividend payouts, shareholder loans, bonuses, stock buybacks, option issuances, increases to executive compensation or repayment or refinancing of debt).
- Pricing will be a fixed 1.8% annual guarantee fee on the full loan, to be paid quarterly. Fee can be deferred based on schedule.
- Tenor up to 12 months. Potential for 12 months renewal at the discretion of the financial institution.

Other conditions for both programs:

- Businesses must be in good standing at the time of funding and not go into default as a result of the loan.
- Businesses are subject to the financial institution's standard underwriting guidelines.
- Facility is subordinated to existing senior debt.
- Further security may be requested (e.g. guarantees).
- Other conditions apply (limitations on further indebtedness, no bonuses/dividends/salary increases, etc.).
- Companies may access both BDC Co-Lending and EDC Guarantee.
- Some entities are excluded – see financial institution/EDC/BDC for additional details.

Small to medium sized businesses (cont'd)

Additional support for businesses

Canada Emergency Business Account (CEBA)

- CEBA is being implemented by eligible financial institutions, in cooperation with EDC.
- Provides interest-free loans of up to $40,000 to small businesses and not-for-profits that had an annual payroll of less than $1.5 million in 2019.
- Applicants with payroll less than $20,000 are required to have the following:
  - a business operating account at a participating financial institution;
  - a CRA business number, and to have filed a 2018 or 2019 tax return; and
  - eligible non-deferrable expenses (e.g. rent, property taxes, utilities and insurance) between $40,000 and $1.5 million.
- Repaying the loan balance on or before December 31st, 2022 will result in a 25% loan forgiveness (up to $10,000). If the loan is not repaid by this date, the remaining balance will be converted to a three-year term loan at 5% interest.

Other BDC COVID-19 programs

- **BDC Working Capital Loan:** Loans of up to $2 million, with flexible terms and payment postponements for up to 6 months for qualifying businesses (i.e. businesses that were financially sound pre-COVID-19 and are in need of short-term liquidity funding). Please see Appendix I for further details.
- **BDC Oil and Gas Sector Financing:** Loan size between $15 million and $60 million for Canadian-based oil and gas producers, oilfield service companies and midstream providers that were financially viable prior to the current economic environment. Funds are to be used for operational cash flow and business continuity purposes. More details to be made available.

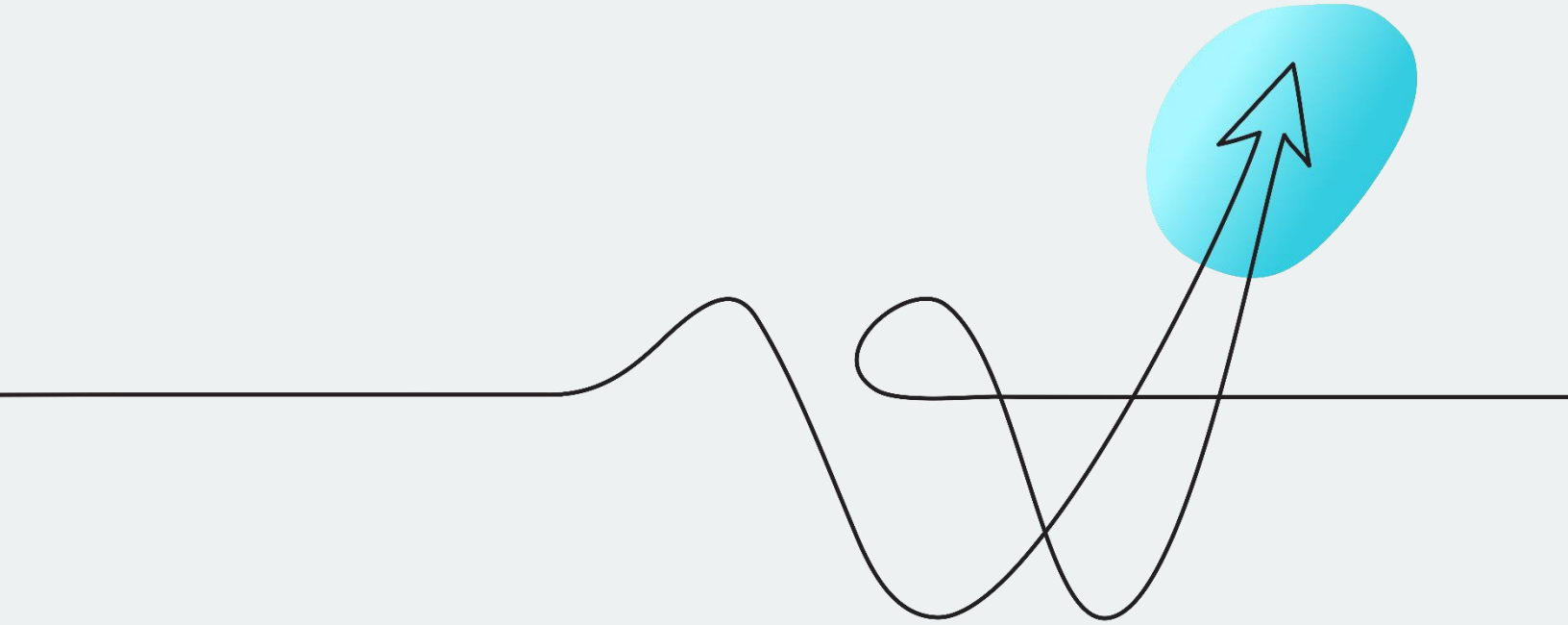
Canada Emergency Commercial Rent Assistance (CECRA)

- Aimed at providing loans to commercial property owners to cover 50% of the rent owed by small business tenants retroactive from April 1st for the months of April, May and June. Loans will be forgiven if the mortgaged property owner reduces a tenant's rent by at least 75% for the above period. The tenant would cover the remainder, up to 25%, of the rent.
- Applies to mortgaged commercial property owners and eligible small business tenants (including non-profits and charities) paying less than $50,000 per month in rent and experiencing at least a 70% drop in pre-COVID-19 revenue.
- Please see Appendix II for further details.

Farm Credit Canada (FCC) programs

- **Payment deferrals and credit line program:** To support producers, agribusinesses and food processors:
  - a deferral of principal and interest payments up to 6 months; or
  - a deferral of principal payments up to 12 months for existing loans
  - access to an additional credit line of up to $500,000, secured by general security agreements or universal movable hypothec (Québec only).
- **FCC Term Loans**: Loans of up to $2.5 million, with no fees and an 18-month interest-only option available over a 10-year amortization. Funds can be used for working capital and to modify production due to the impacts of COVID-19.

Appendix



Appendix I: Additional BDC support

Working capital loan

Overview

- Working capital loans of up to $2 million, with flexible terms and payment postponements for up to 6 months for qualifying businesses (i.e. a business that was financially sound pre-COVID-19 and is in need of short term liquidity funding).
  - Pricing: Floating only (Based on Base Rate minus 1.75%);
  - Initial capital extension of 12 months;
  - 24-month amortization excluding initial extension;
  - 40% payable over the term of the loan following initial extension;
  - 60% payable at the end with balloon payment;
  - Standard fees (loan processing, legal fees, waiting fees) apply;
  - For current BDC clients with a loan commitment of $1 million or less, BDC offers flexible repayment terms, such as capital payment carryovers for up to six months;
  - Reduced rates on new eligible loans.

Additional details

- Possible required documentation:
  - Most recent three years of accountant prepared, year-end financial statements;
  - Most recent interim financial statements;
  - Projections and a cash flow forecast;
  - An organizational chart to the beneficial ownership level;
  - Application and Statement of Personal Affairs for each shareholder over 25%.
- Expected due diligence:
  - Understanding the potential cash flow impact on businesses over this period, in addition to understanding the measures taken to date;
  - Ability of the business to operate at appropriate levels of operational capacity;
  - Anticipated sales demand;
  - Supplier agreements/ability to source raw materials;
  - Projected cash needs and understanding key carrying costs.

Appendix II: Canada Emergency Commercial Rent Assistance

CECRA

Overview

- Canada Emergency Commercial Rent Assistance (CECRA) is intended to provide rent relief for eligible small businesses experiencing financial difficulties, arising from the impact of COVID-19.
- CECRA offers unsecured forgivable loans to qualifying landlords in order to reduce the rent owed by their impacted small business tenants by at least 75% retroactive to April 1st, covering April, May and June, 2020.
- The program is to be managed by the provinces/territories and will be administered by the Canada Mortgage and Housing Corporation (CMHC) and is available until August 31st, 2020.
- Landlords will be able to make applications through the CECRA portal from May 25th, 2020 (see https://www.cmhc-schl.gc.ca/en/finance-and-investing/covid19-cecra-small-business for more details).
- Note: The CMHC has provided a general framework as to how CECRA will work, along with qualifying and eligibility criteria, as outlined in this document. However, there may be differences to the final CECRA programs launched in each province/territory.

How the program will work

- CMHC will provide forgivable loans to qualifying landlords.
- Loans to cover 50% of the landlord's gross rent owed by the eligible small business tenant during the three-month period of April, May and June 2020.
- The loan will be forgiven if the landlord complies with all applicable program terms, including reducing the small business tenant's monthly rent by at least 75% for the three-month period.
- Landlords can still apply for assistance once the three-month period has ended, if they can prove eligibility during the above mentioned period.
- Landlords must refund any amounts paid by the small business tenant for the three-month period, if rental payments were received at the time of CECRA approvals.

Appendix II: CECRA (cont'd)

Qualifying & eligibility criteria

Qualifying landlords

- To qualify for CECRA, the landlord must meet the following requirements:
  - Is the owner of the commercial real estate property that generates rental income where the impacted small business tenants are located (commercial properties with a residential component and multi-unit residential mixed-use properties would equally be eligible with respect to their small business tenants);
  - Has entered or will enter into a rent reduction agreement (including a moratorium on eviction) for the period of April, May and June 2020, that will reduce impacted small business tenants' rent by at least 75%;
  - Has declared rental income having entered into a lease with the eligible tenant prior to April 1st, 2020;
  - Landlords will also be required to obtain an attestation for each impacted tenant seeking relief under the program.
- Landlords with or without a commercial mortgage against the property are eligible to apply.
- Landlords and tenants who are not at arm's length may also be eligible for CECRA if a valid and enforceable lease agreement, set at market rates, is in place.
- CECRA does not apply to any properties owned by the federal, provincial, or municipal governments. However, there are certain exceptions where there are long-term commercial leases with third parties operating the property, including:
  - Airports;
  - Post-secondary institutions;
  - Hospitals;
  - Pension funds;
  - First Nations and any indigenous organizations and governments;
  - Crown corporations with limited appropriations, designated as eligible under CECRA by CMHC.

Eligible small businesses

- In order to be eligible for CECRA, a tenant (or a sub-tenant) must be a business, non-profit or charitable entity that:
  - Opened prior to March 1st, 2020;
  - Pays monthly gross rent not exceeding $50,000 per location (as defined by a valid and enforceable lease agreement);
  - Generates no more than $20 million in gross annual revenue, calculated on a consolidated basis (at the ultimate parent level); and is,
  - A business that has temporarily ceased operations or has experienced at least a 70% reduction in pre-COVID-19 revenue (determined by comparing revenue in April, May or June to the same month in 2019 or alternatively compared to average revenue for January and February 2020).
  - Note: Revenue must consist of revenue earned from ordinary activities in Canada and is calculated using the business' normal accounting method, excluding revenue from extraordinary items. For registered charities and non-profit organizations, the calculation would exclude revenues from non-arm's length persons.

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Ask a question »

For more information visit the KPMG COVID-19 Resource Centre.

Note: Information presented as at May 21, 2020.