

June 19, 2020

Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, DC 20551

Dear Federal Reserve Board of Governors:

Founded in 1896, the Independent Insurance Agents & Brokers of America (IIABA or the Big “I”) is the nation’s oldest and largest association of independent insurance agents and brokers, representing more than 25,000 agency locations, 50 state associations and numerous city/county associations under the Trusted Choice brand. Trusted Choice independent agents offer consumers all types of insurance—property, casualty, life, health, employee benefit plans and retirement products—from a variety of insurance companies.

We write to urge you to include Internal Revenue Code Section (Section) 501(c)(6) organizations, such as trade and professional associations, in the Federal Reserve’s Main Street Lending Program. These important organizations have not been included in the Paycheck Protection Program or similar Small Business Administration loan expansions.

The Big “I” is extremely grateful the Administration and Congress took swift action to help businesses, nonprofits and millions of Americans withstand the coronavirus pandemic, which jeopardizes our collective livelihood, welfare and safety. Provisions within the Coronavirus Aid, Relief and Economic Security (CARES) Act are providing vital support to help stabilize our economy and keep Americans safe. We are especially thankful significant relief is provided to our small business members and their clients through the Paycheck Protection Program (CARES Act; Section 1102) and the employer payroll tax deferral (Section 2302), among others.

The CARES Act does not, however, provide sufficient and critically needed emergency funds to trade and professional associations in desperate need of support. Section 501(c)(6) organizations can indeed access certain aid through an employee retention tax credit (Section 2301), and the Small Business Administration is accepting applications from 501(c)(6) organizations for expanded Economic Injury Disaster Loans (EIDL; Section 1110). While helpful, it will be challenging for members of our community to qualify for aid – particularly through Section 2301 – and secure the funds they need to avoid financial distress and in some cases bankruptcy. Moreover, statutory language for EIDLs is unclear in exactly how it treats associations.

Trade associations across the country, including the Big “I”, play an important role to train America’s workforce, create industry and professional standards, and disseminate essential information and resources to people in need – particularly during times of crisis. However, associations now face unprecedented financial losses from event cancellations and other programmatic losses. Without support, Section 501(c)(6) organizations will be unable to continue to provide the important services on which so many rely.

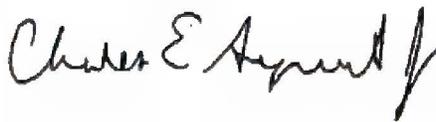
According to the Professional Convention Management Association, conferences and events account for roughly 35 percent of total annual revenue for associations. And according to a recent survey conducted by the American Society of Association Executives (ASAE) Research Foundation:

- 29% of respondents face \$100,001-\$500,000 in current and projected losses due to cancellations;
- 16% face \$501,000-\$1,000,000 in current and projected losses;
- 10% face more than \$1,000,000 in current and projected losses;
- 12% have partial insurance coverage for cancellations; and
- 52% have zero insurance coverage for cancellations.

Further, expected losses due to reduced membership and stunted programming, among other significant issues, compound this potentially catastrophic situation for associations. To help mitigate the coronavirus pandemic’s devastating impact on our economy and safety, we support giving associations access to the Main Street Lending Program.

The Big “I” appreciates your consideration of the above comments and your continued support of our country during this challenging time.

Sincerely,



Charles E. Symington, Jr.
SVP, Industry, External & Government Affairs



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Jerome Powell, Chairman
Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

June 22, 2020

Re: Main Street Lending Program—Nonprofit Organization Facilities

Dear Chairman Powell,

On behalf of the American Council on Education (ACE) and the undersigned higher education associations, we submit the following comments in regard to the Main Street Lending program (MSLP) non-profit organization facilities and the proposed terms and structure. For our nation’s colleges and universities, access to affordable capital is a necessary lifeline as they navigate the economic fallout from the COVID-19 crisis.

The financial impact of the novel coronavirus on institutions is extreme and the costs continue to mount. Institutions incurred additional costs to move instruction online early in the pandemic, are losing substantial auxiliary revenues, and face a range of further challenges that are unique to each campus. At the same time, many institutions of higher education provided significant refunds of expenses such as on-campus housing and meal plans. Academic medical centers and their associated faculty physician practices on the front lines of treating COVID-19 patients have lost significant revenue by halting elective procedures and non-urgent patient care visits during the pandemic. Lost summer revenue and looming losses in the fall, such as deep cuts in state funding for public institutions of higher education, as well as potential enrollment declines across higher education, compound their challenges. Moreover, as institutions make plans toward how to proceed in the fall, they will undoubtedly face additional costs to ensure a safe learning environment which will include, among other things, sufficient PPE for students and staff, campus COVID-19 cleaning, testing and tracking tools, and efforts to de-densify campus housing and learning facilities.

America’s colleges and universities have a major direct (and indirect) impact on their local, state, and regional economies. Universities are often one of the, if not the, largest employers for an area. The research activities at colleges and universities in diverse fields such as biotechnology, energy, and aerospace create jobs and businesses at a national level. Individual students, staff, and faculty also have a direct impact on local and regional economies via spending on housing, shopping, food services, construction, and local small businesses. This outsized economic impact is seen across all sectors of higher education.

We appreciate the efforts to create a new non-profit lending facility. As you seek to finalize its terms and structure, we offer the following comments to help ensure that all institutions of higher education can access this important program:

1. Ensure both nonprofit private and public colleges and universities are eligible for the nonprofit MSLP facility

Under the proposed terms for the new facility, “nonprofit” is defined as “a tax-exempt nonprofit organization described in section 501(c)(3) of the Internal Revenue Code (IRC).” The terms also note that “other forms of organization may be considered for inclusion as a Nonprofit Organization under the Facility at the discretion of the Federal Reserve.” Because of how public institutions of higher education are organized, most two-year and four-year institutions may not have separate 501(c)(3) status, but rather are organized as entities of the state.

Because the proposed terms note that other forms of organization may be considered for inclusion as nonprofit organizations, we urge the Federal Reserve to specify that both public and private nonprofit higher education institutions are eligible for these loans. We recommend that the final guidance on eligibility reference the definition of institutions of higher education as defined by Sec. 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a)). This clarification is critical because public institutions are unable to directly participate in the Municipal Liquidity Facility created to help state and local governments manage cash flow pressures.

2. Adjust the proposed list of qualifications for Eligible Borrowers

The proposed term sheet includes a list of eleven items for an organization to meet in order to be eligible to apply under the nonprofit facility. Our comments focus on proposed changes to those eligibility requirements, to make it easier for our colleges and universities to access these programs.

Point five states that an eligible borrower “has 2019 revenues from donations that are less than 30% of total 2019 revenues.” Footnote #3 notes that “donations include proceeds from fundraising events, federated campaigns, gifts, and funds from similar sources.” We ask that the final guidance clarify that “donations” as used in the proposed terms, only includes donations recognized or spent in the current year, and ensure that this does not include “promised” donations. Like many other nonprofits, colleges and universities often receive gifts that are disbursed over multiple years. We ask that additional language (underlined below) be added to footnote #3 and include that donations “include proceeds from fundraising events, federated campaigns, gifts, and funds from similar sources without restrictions in the current year and exclude endowment spending. Revenues in the requirement would be unrestricted revenues.”

Point six under eligible borrowers would require institutions to demonstrate eligibility using a ratio of adjusted “earnings before interest, depreciation, and amortization” (EBIDA) to unrestricted 2019 operating revenue greater than or equal to 5%. EBIDA is

not something generally used by institutions of higher education, and footnote #4 of the proposed terms explains the methodology for calculating EBIDA. In order for this to work for colleges and universities, we ask that the following language be included in footnote #4 (new suggested language underlined): “The Eligible Lender should calculate operating revenue as unrestricted operating revenue, excluding funds committed to be spent on capital, excluding changes in net assets related to pension and other postretirement benefits, and including a proxy for endowment income in place of unrestricted investment gains or losses.”

Point eight states “at the time of loan origination, [the eligible borrower] has a ratio of (i) unrestricted cash and investments to (ii) existing outstanding and undrawn available debt, plus the amount of any loan under the Facility, plus the amount of any CMS Accelerated and Advance Payments, that is greater than 65%.” This could be problematic because the balance sheets of colleges and universities have significant property, plant, and equipment with related debt and consequently could make the 65 percent a challenging threshold for our institutions. We recommend that this percentage be lowered to allow more of our institutions to participate in this facility.

3. Expand eligibility thresholds to ensure all colleges and universities can access the nonprofit MSLP facility

Even with the expansion of the program to nonprofits with up to 15,000 employees, some nonprofit institutions or systems of higher education will not qualify under the current threshold. This includes large institutions of higher education which may be among the top five employers within their states, such as the public flagship universities or the major private research universities. We ask that nonprofits of all sizes be made eligible for these loans, regardless of the number of their employees, given the importance and direct and indirect economic impact of these institutions to their communities and regions. We also support the removal of the minimum of 50 employees.

Further, hospital systems affiliated with universities should not be aggregated with universities for the purposes of any size cap. Both universities and their affiliated hospitals should separately be eligible to apply for funding. Academic medical centers are unique relationships between universities, medical schools, teaching hospitals, and faculty physician practice plans, which may or may not fall under the same 501(c)(3) nonprofit organization. As such, hospital systems and physician practice plans affiliated with universities should not be aggregated with universities for the purposes of any size cap. Universities, their affiliated hospitals, and physician practice plans should separately be eligible to apply for funding.

Likewise, the eligibility requirement of an endowment of less than \$3 billion will make some of our institutions both public and private ineligible. An endowment is not a single fund that can be used for any purpose like a checking or savings account. Rather, it is a collection of often thousands of gift funds permanently invested to support the charitable educational mission of an institution both in the present and the future. The bulk of university endowments—at many institutions, 70 percent or more—are

restricted funds that can only be spent in ways that meet the legally binding terms specified by the donor, enforceable under state contract law and attorneys general. For example, donors may endow a chair in a particular academic field, give money for specific library collections, designate gifts for academic research, or endow student aid. Endowments are not accessible as rainy-day funds and are ill-suited to patch emergency funding needs. In the final terms, we ask that you remove the \$3 billion endowment threshold from the eligibility requirements.

We continue to ask that all student workers (not just, but including, those working in the Federal Work Study programs) be exempted from the count of employees for the purposes of eligibility for this and any future Federal Reserve and Treasury programs. Many of our institutions employ student workers across campus as a part of their overall financial support to help pay for college and provide students with work experiences while keeping them close to campus for the purposes of their education. With the majority of our campuses closed for the spring semester and transitioned to online learning, all or most of these student employees have left campuses, and therefore should not be included in the employee headcount for the purposes of eligibility.

4. Expand and change the proposed loan terms to ensure they are a useful tool as colleges and universities respond to COVID-19

While we appreciate that the Federal Reserve has tried to keep the terms similar between the MSLP business program and the proposed MSLP nonprofit facility, we believe the terms in the MSLP nonprofit facility should reflect the unique nature of nonprofits. Accordingly, we believe the nonprofit facility should offer longer deferments and repayment terms than what is currently included in the proposed term sheet, given the financial cycle of nonprofits. For example, for colleges and universities, any enrollment declines at the start of fall 2020 will affect our institutions for at least an additional four years as that smaller class advances through their degree programs. A longer repayment period (at least 6-8 years) as well as a longer deferment period (2 years or longer) will help to ensure nonprofits are on better financial standing to make payments on these loans.

Under “eligible loans” item #2 “principal payments deferred for two years and interest payments deferred for one year (unpaid interest will be capitalized),” we ask that the capitalization of unpaid interest requirement be waived. Similarly, item #3 would require “principal amortization of 15% at the end of the third year, 15% at the end of the fourth year, and a balloon payment of 70% at maturity at the end of the fifth year.” In line with our recommendation to extend the repayment period, we ask that principal amortization occur evenly during the extended payment period rather than having a balloon payment at maturity. The balloon payment would be especially difficult for colleges and universities who are likely to be impacted for several years following the COVID-19 crisis.

We believe the interest rate on the MSLP nonprofit loans should be below the rate for the MSLP business loans, currently set at an adjustable rate of LIBOR + 300 basis points. Non-profits seek to serve their respective missions while remaining solvent,

compared to for-profit entities which work to maximize net revenues so as to generate a surplus through normal business activity to cover borrowing costs. Rather than LIBOR plus 3 percent, we propose that the Fed set the margin above LIBOR at a lower level for non-profit borrowers, ideally at a level sufficient to cover the costs of the program without generating a net gain for the Federal Reserve. An attractive and competitive interest rate will help colleges and universities access this important program and allow our institutions to manage their higher costs, lost revenue, avoid large-scale employee furloughs, and continue to play an essential role in their communities' long-term economic recovery.

We thank you for your consideration and look forward to working with you on this and other important loan programs as the Federal Reserve responds to the COVID-19 crisis.

Sincerely,



Ted Mitchell
President

On behalf of:

Achieving the Dream
ACPA - College Student Educators International
Alabama Association of Independent Colleges and Universities
American Association of Collegiate Registrars and Admissions Officers
American Association of Community Colleges
American Association of State Colleges and Universities
American College Health Association
American Council on Education
APPA, "Leadership in Educational Facilities"
Association for Biblical Higher Education
Association of Advanced Rabbinical and Talmudic Schools
Association of American Medical Colleges
Association of American Universities
Association of Catholic Colleges and Universities
Association of Chiropractic Colleges
Association of Governing Boards of Universities and Colleges
Association of Independent California Colleges and Universities
Association of Independent Colleges and Universities of Ohio
Association of Independent Colleges of Art & Design
Association of Jesuit Colleges and Universities
Association of Independent Colleges and Universities of Pennsylvania
Association of Presbyterian Colleges and Universities
Association of Public and Land-grant Universities

Association of Vermont Independent Colleges
Conference for Mercy Higher Education
Connecticut Conference of Independent Colleges
Council for Advancement and Support of Education
Council for Christian Colleges & Universities
Council of Independent Colleges
Council of Independent Colleges in Virginia
CUPA-HR: College and University Professional Association for Human Resources
EDUCAUSE
Georgia Independent College Association
Hispanic Association of Colleges and Universities
Independent Colleges and Universities of Missouri
Independent Colleges of Washington
International Association of Baptist Colleges and Universities
Kansas Independent College Association
Louisiana Association of Independent Colleges and Universities
Maryland Independent College and University Association
Minnesota Private College Council
NAFSA: Association of International Educators
NASPA - Student Affairs Administrators in Higher Education
National Association of College and University Business Officers
National Association of College Stores
National Association of Independent Colleges and Universities
National Association of Schools and Colleges of the United Methodist Church
National Collegiate Athletic Association
North Carolina Independent Colleges and Universities
State Higher Education Executive Officers Association
Transnational Association of Christian Colleges and Schools
UNCF (United Negro College Fund, Inc.)
UPCEA
Wisconsin Association of Independent Colleges and Universities



Kristen F. Soares, President

June 22, 2020

Jerome Powell, Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

Subject: Main Street Lending Program—Access by Nonprofit Organizations

Dear Chairman Powell:

On behalf of the Association of Independent California Colleges and Universities (AICCU), I am submitting the following comments regarding the Main Street Lending Program (MSLP) expansion to be accessible to nonprofit organizations, including nonprofit higher education institutions, and the proposed terms and structure.

AICCU is the organizational voice for 85 nonprofit higher education institutions in California. Together, our institutions serve 380,000 students, both undergraduate and graduate.

Institutions of higher education, often the largest or one of the largest employers in their local communities, are facing a major cash flow crisis in light of the reduced revenue and increased expenses due to the COVID-19 pandemic. Additionally, as institutions prepare for the safe return of students and faculty for the Fall term, they will undoubtedly face additional costs to ensure a safe learning environment which will include, among other things, sufficient PPE for students and staff, campus COVID-19 cleaning, testing and tracking tools, and efforts to de-densify campus housing and learning facilities.

We appreciate the Federal Reserve's effort to expand the MSLP to allow the participation by nonprofit organizations. As you seek to finalize its terms and structure, we offer the following comments to help ensure that all California nonprofit colleges and universities can access this important program:

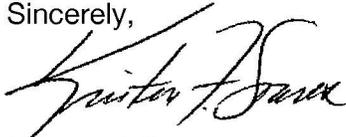
- We ask that *all* nonprofits colleges and universities, regardless of the number of employees, be made eligible for these loans, given the importance and direct and indirect economic impact of these institutions to their communities and regions. Further, hospital systems affiliated with universities should not be aggregated with universities for the purposes of any size cap. Both universities and their affiliated hospitals should separately be eligible to apply for funding.
- We ask that the \$3 billion endowment threshold be removed as a condition of eligibility. An endowment is not a single fund that can be used for any purpose like a checking or savings account. Rather, it is a collection of often thousands of gift funds designated for specific purposes ranging from endowed faculty positions to scholarships, both in the present and the future. Endowments are not accessible as rainy day funds and are ill-suited to patch emergency funding needs.
- We continue to ask that student workers be exempted for the purposes of the employee threshold for eligibility. Our institutions employ student workers across campus as a part of their overall financial

support to help pay for college and provide students with work experiences while keeping them close to campus for the purposes of their education. With the majority of our campuses closed for the Spring and Summer terms and have transitioned to online learning, all or most of these student employees have left campuses, and therefore should not be included for the purposes of the employee threshold.

- We believe the terms in the MSLP nonprofit program should reflect the unique nature of nonprofit organizations, particularly nonprofit higher education. The program should offer longer deferments and repayment terms than what is currently included in the proposed term sheet. For example, for colleges and universities, any enrollment declines at the start of the Fall term will affect our institutions for at least an additional four years as that smaller cohort advances through their degree programs. A longer repayment period (at least six to eight years), as well as a longer deferment period (two years or longer), will help to ensure nonprofits are on better financial standing to make payments on these loans.
- We believe the interest rate on the MSLP nonprofit loans should be below the rate for the MSLP business loans, currently set at an adjustable rate of LIBOR plus 3 percent. Nonprofit organizations seek to serve their respective missions while remaining solvent, compared to for-profit entities which work to maximize net revenues. Rather than LIBOR plus 3 percent, we propose that the margin be set above LIBOR at a lower level, ideally at a level sufficient to cover the costs of the program without generating a net gain for the Federal Reserve. An attractive and competitive interest rate will help colleges and universities access this important program and allow our institutions to manage their higher costs, lost revenue, avoid large-scale employee furloughs, and continue to play an essential role in their communities' long-term economic recovery.

It is vital to provide this access to low-interest loans to nonprofit colleges and universities financially devastated by the pandemic and struggling to continue to educate and assist students and employ faculty and staff. Thank you for the consideration and we look forward to working with you on this and other important loan programs as the Federal Reserve responds to the COVID-19 crisis.

Sincerely,



Kristen F. Soares



June 22, 2020

The Honorable Jerome Powell
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave NW
Washington, DC 20551

Re: The Nonprofit Organization Loan Eligibility Proposal

Dear Chairman Powell:

The American Lung Association appreciates the opportunity to submit comments to the Federal Reserve Board regarding the Nonprofit Organization Loan Eligibility Proposal.

The American Lung Association is the oldest voluntary public health association in the United States, currently representing the nearly 37 million Americans living with lung diseases including asthma, lung cancer and COPD. As such, the Lung Association is uniquely positioned to comment on the impact this proposed rule will have on our organization's ability to carry out our mission to save lives by improving lung health and preventing lung disease. Since the start of the COVID -19 pandemic, the American Lung Association has worked to educate the public, advocated on behalf of lung disease patients and promoted research on treatment cures.

The American Lung Association appreciates the opportunity to submit comment to the Federal Reserve about the Nonprofit Organization Loan Facilities. This proposal is aimed more at transactional nonprofits such as hospitals and institutions of higher ed. Many nonprofits like the Lung Association that have a larger reliance on donations from the public to support their missions are not eligible under the proposed terms. Indeed, many nonprofits pride themselves on offering their services at no charge. Recognizing that our business models are different, even if both types of charities are inherently organized around a public mission, many of the financial requirements included in this proposal simply are not applicable to organizations that rely on donations. With that in mind, the Lung Association respectfully requests the Federal Reserve to address the concerns and proposed changes outlined below.

1. Mid-Sized Nonprofits Must be Eligible for Loan Forgiveness

While it is a welcome development to see the Federal Reserve making its Main Street lending program available to some nonprofits, this assistance still falls short of what is most needed by nonprofit organizations – a provision that makes these loans forgivable. Congress must act ensure that mid-sized nonprofits have access to loan forgiveness.

In this critical time, nonprofits have stepped up to meet the unprecedented level of need in our country due to the COVID-19 pandemic. Even though they face many of the same economic challenges as other industries, nonprofits are not shutting down. Rather, they are straining to meet increasing demands in our communities on the frontlines, caring for the sick, feeding families, and keeping our communities connected. Furthermore, they will play an integral role as our nation recovers – providing childcare, job training, and other core supports.

Charitable nonprofits of all sizes and focus areas are struggling to maintain mission-critical operations despite enormous economic challenges. [Data released by Independent Sector](#) shows that nonprofits with between 500 to 5,000 employees, key to scaling relief efforts across the nation, have been severely impacted by this health and economic crisis. When asked “What types of additional assistance would be most helpful to your organization?” organizations overwhelmingly (92% of responses) suggested government support in the form of forgivable loans. Smaller nonprofits throughout the country have been hit equally hard.

Nonprofit organizations need funding so they can continue to meet the needs of their communities. Many charitable organizations do not have steady streams of commercial income and have little capacity for loan and interest repayment. Furthermore, nonprofits are the third largest employment sector and many hope to hire more workers as their organizations recover. America cannot afford to leave out such a vital part of the economy.

Recommendation: Vital services nonprofits provide to communities and the economy by including loan forgiveness. We urge the Federal Reserve to support loan forgiveness for nonprofits in the next round of COVID-19 relief legislation.

2. The Fed’s Proposal to Limit Loans to Mid-Size Nonprofits with Less than 30% of Revenue from Donations Disqualifies Many in Charitable Sector

The Federal Reserve’s criteria that organizations must have revenues from donations that are less than 30% disqualify many charities, including the Lung Association. Overall, this loan facility seems more applicable to for-profit entities, as well as educational institutions and nonprofit hospitals, but not most charitable organizations. The Lung Association received 60% from donations in 2019.

The thirty percent criteria is also inconsistent with current tax law for charitable organizations: to retain tax-exempt status under Section 501(c)(3) of the Internal Revenue Code, charitable nonprofits must meet a “public support” test showing they receive at least a third of their revenues via contributions from the general public, contributions or grants from other public charities, or from governmental agencies.

We raise money and receive donations from the public, foundations, corporations and others to fund research for treatments and cures for lung diseases, efforts to keep kids off tobacco, including e-cigarettes, and advocating for laws that protect the air we all breathe, and receive very little revenue from direct services. Charitable organizations play a fundamental role in strengthening civil society. Our organizations provide vital services for people with or at risk for lung disease, and pride ourselves on the donations we receive rooted in the trust and support that the public has of the sector.

Recommendation: Eliminate the requirement that no more than 30 percent of an organization’s 2019 revenues come from donations, and instead make 501c(3) organizations that are otherwise meet the employee size are eligible.

3. The Fed Needs to Make Loan Terms More Favorable to Charitable Organizations

The draft Nonprofit Loan Facility imposes certain liquidity, asset, and reserve requirements that are not required in Main Street New Loan Facilities available to for-profit businesses.

Nonprofit organizations typically provide services with low-profit margins. Indeed, social service organizations report an average aggregate margin of 1.5%. According to a [recent report by Seachange Capital Partners](#), the median social services nonprofit has a margin of 1.0%, receives 3.6% of its revenue from philanthropy (including investment income), has total financial assets (including endowments and other assets that are subject to legal restrictions) equal to 1.9 months of expenses, and operating reserves of less than one month of expenses. Less than 20% of large nonprofits have 6 months or more of operating reserves, a widely accepted standard for “financial strength” for nonprofits. Social services organizations are the most fragile, with fewer than 10% reaching this standard.

The statistics above should not be viewed as an indictment of the efficiencies or management policies of nonprofits. It is important to note that the vast majority of social service nonprofit funding comes from government grants contracts, recognizing the key role such organizations play in serving the most vulnerable. Numerous studies confirm that government funding seldom covers the full cost of providing contracted work, which inhibits nonprofits from accumulating reserves through surpluses. In many instances, government grant/contract work creates cash-flow challenges since it is paid after the work has been completed and can be subject to significant delays in payment.

Recommendation: Recognizing the unique nature of nonprofit operations and their importance in continuing to provide vital services as partners on the front lines of the COVID-19 crisis, we urge the Federal Reserve to eliminate borrower requirements 7 and 8. If this is not possible, we alternatively ask that the requirements be lessened significantly to reflect the economic realities of nonprofit operations, for example by requiring only 30 days cash on hand, and bringing the loan origination ratio of 40-50% (down from 65% as proposed).

We are also concerned that certain eligible loan features are too onerous for nonprofit organizations and are less favorable than those offered in other government programs. Specifically, the interest rate of LIBOR plus 300 basis points is significantly higher than that offered for Paycheck Protection Program (“PPP”) Loans (1.0%) and that for Economic Injury Disaster Loans (2.75%). In addition, the imposition of loan origination and service fees adds to the cost under the Nonprofit Facility. Finally, the notion that nonprofits would be faced with a 70% balloon payment at the end of the fifth year of the loan would be disastrous for many nonprofits. Nonprofits with existing loans with balloon payments are usually provided an opportunity to renegotiate such loans at prevailing market rates.

Recommendation: We urge that the loan terms including interest rate and balloon payments be revisited and recommend the lowest permissible rate such as the 0.5% rate initially proposed for PPP loans. In addition, we urge some flexibility in the balloon payment requirement to afford the opportunity for renegotiation. If the 5-year amortization were extended to 7 years, this could lessen the balloon payment. We request that the borrower have access to engage with derivatives (change to a fixed rate) without the minimum swap requirements.

4. The Ratio of Adjusted 2019 Earnings before “EBIDA” Should Be Revised

In the “Draft for Public Consultation,” for both the Nonprofit Organization New Loan Facility and the Nonprofit Organization Expanded Loan Facility, one of the eligibility criteria for borrowers is that they must have “a ratio of adjusted 2019 earnings before interest, depreciation, and amortization (“EBIDA”) to unrestricted 2019 operating revenue, greater than or equal to 5%.” (#6) In the context of nonprofit operations, this threshold is too high and would make many, if not most, nonprofits ineligible based on these criteria alone, which seems written more in the context of for-profit businesses as opposed to nonprofit organizations.

It may certainly be prudent and necessary to have a positive ratio of adjusted earnings; however, nonprofits generally run on a small margin, both out of necessity and also so as to not leave excess surpluses that could be used for fulfilling their missions. Moreover, at times a nonprofit may have a planned and manageable deficit as part of a strategic plan—a negative ratio at one isolated point is not always an indication of instability.

Furthermore, the footnotes for criteria #6 clarify that “The Eligible Lender should calculate operating revenue as unrestricted operating revenue, excluding funds committed to be spent on capital...” Many nonprofits have “restricted revenue” through grants and contracts built into their operating budgets. Excluding this revenue would compound the problem of meeting the 5% ratio. Although it would be sensible to exclude contributions raised for a “capital campaign,” excluding other capital funds included in an annual budget for maintenance and planned upgrades would further decrease the required ratio.

Recommendation: The 5% requirement should be reduced to zero, if not eliminated. In addition, a statement of explanation of a deficit should be allowed so that a negative ratio does not mean automatic ineligibility for a nonprofit borrower. Finally, further clarification on the calculation methodology—in the context of nonprofit operating budgets—is needed in regard to both restricted funding from grants in annual operating budgets, as well as capital funds for improvements that are part of an annual operating budget. This clarification would allow noted revenues to remain in calculation to ease the restriction and not further restrict eligibility.

5. “Reasonable Efforts” Regarding Employee Retention Require Further Clarification

The description of “Retaining Employees” in the draft term sheet requires refinement if the Federal Reserve expects nonprofits to take advantage of this facility. We endorse the [analysis of the National Council of Nonprofits](#) on the issue of employee retention, and recommend the following:

Recommendation: “Reasonable efforts” should be interpreted in the totality of the circumstances, taking into consideration not only the general economic environment in the community or communities in which the borrower operates, but also factors such as workforce, fundraising ability, revenue-generating activities, and overall demand for the services and programs the organization provides. One option would be to add the qualifier “mission-based” before “reasonable efforts.”

Recommendation: The terms “maintain its payroll” and “retain its employees” are vague and need further refinement. We ask the Federal Reserve to make clear that nonprofits participating in the Main Street loan program *generally* should endeavor to pay staff at the same or increased income levels and should act in good faith to keep staffing levels (measured on the basis of full-time equivalents) at the same or increased levels, both for the duration of the loan. It is also important that the loan documents expressly state that the employee retention provision begins on the date that loan funding is received by the borrower rather than at an earlier date.

Recommendation: We ask that the Federal Reserve adopt safe harbors of other loan programs and state clearly that nonprofit borrowers will not be penalized under the employee retention provision for the decision of employees to decline offers of rehire, or for those who are fired for cause, voluntarily resign, or voluntarily request a reduced schedule during the time that the loan is outstanding.

Additional Recommendations and Requests for Clarification

The American Lung Association respectfully requests the Federal Reserve clarify the following issues in its final expansion notice.

- **Endowment:** What resources should be included in endowment calculations? Does it include restricted endowments? Does it extend to include cash on hand?
- **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 that are assumed to provide financial liquidity related to the impact of COVID-19

The American Lung Association appreciates the opportunity to submit comments on this important proposal and urge you to keep the people we serve at the forefront as you finalize these requirements.

Sincerely,



Harold P. Wimmer
National President and CEO

June 22, 2020

The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, D.C. 20551

Dear Chairman Powell:

My organization, the Community Development Bankers Association (CDBA), is the national trade association for banks that are Community Development Financial Institutions (CDFIs). We are the voice and champion of banks with a mission of serving distressed and underserved communities. Our membership is comprised of banks that are mission focused and designated by the U.S. Treasury Department as CDFIs. Our members serve distressed and disenfranchised rural communities and high poverty urban neighborhoods. In total, the US Treasury has certified 147 CDFI banks and 104 CDFI bank holding companies throughout the United States that serve distressed urban, rural, and Native American communities.

We respectfully submit comments and recommendations on the proposed expansion of liquidity facilities to nonprofit entities released by the Board of Governors on June 15, 2020. We sincerely appreciate and commend the agency's leadership in responding to the COVID-induced economic crisis faced by communities across our nation and beyond. We commend the agency for its willingness to step in to help financial institutions meet the credit needs of nonprofits during the crisis, as well as manage the resultant liquidity and credit risk that will undoubtedly emerge in the coming months.

We believe the proposed facilities are a good start, but refinement is needed. Above all, we believe these facilities must position the smaller nonprofits that comprise the great majority of the sector and are part of America's "Main Street," for long-term recovery.

Unfortunately, the current facility as proposed does not adequately consider the needs of the great majority of nonprofits. This is primarily because most nonprofits (at least 66% and perhaps as high as 90%) are too small to benefit from the program as currently proposed, or the criteria are too burdensome. Therefore, most will be excluded from the program based on some combination of the following:

- Not qualifying for or not needing the minimum loan size of \$250,000
- Not meeting the minimum 50 employee threshold
- Not having five years of operations
- Ineligibility due to the donation cap of 30% of revenue

This would be a terrible shame. The largest cause/issue area for nonprofits is overwhelmingly health and human services, a category that covers cause areas such as mental health, diseases and disorders, food and nutrition, housing and shelter, and services provided for humans (low-income families, youth, immigrants, and more).¹ These are precisely those organizations most likely to respond to the needs of the low- or moderate income communities served by CDFI banks, and they are also the organizations least likely to benefit from the liquidity facilities as they are currently designed.

The greatest challenge for nonprofits seeking to access this program will be size. As recently as 2017, Guidestar, a widely used information service specializing in U.S. nonprofit companies, reported that 66% of nonprofits had annual expenses of \$1 million or less. Even the next largest category, representing approximately 30%, encompasses organizations with up to \$5 million in expenses.² Therefore, **over 90% of nonprofits have \$5 million or less of expenses.** Since most nonprofits operate at some approximation of “break-even” – a \$250,000 loan representing a quarter or more of annual budget would be unjustifiable, and worse, useless.

Further, these organizations are extremely unlikely to approach the 50 employee minimum threshold. A common (although not-universal) rule of thumb for grant-making foundations to evaluate nonprofits is whether the nonprofit maintains a 20/80 ratio of operating expenses / program expenses. For a nonprofit with expenses of \$1 million, (representing the highest end of the most populated category), this would leave just \$200,000 for operations, including compensation. These numbers clearly demonstrate that the great majority of nonprofits are grassroots organizations relying on the inherent goodness of volunteers and employees who accept curtailed salaries to accomplish their mission. While we agree that a basic level of professionalization is required to establish a nonprofit as “bankable,” the economics of operating nonprofits exclude a minimum employee number greater than five, and possibly three.

Further, the requirement for a minimum of five years of operations is also unduly burdensome. Nonprofits must be nimble, and are required to respond to the quickly evolving needs of low- and moderate income communities. The five year requirement is an excessive burden that would exclude many groups that have been established to meet acute emerging needs while also demonstrating a baseline of otherwise sustainable operations. It is also a burden in comparison to **similarly sized small for-profit businesses, which are often able to access bank financing through SBA programs with as little as three, and sometimes two years of operations. Nonprofits should be accorded the same consideration as small business, especially in these circumstances.**

The proposed cap on the portion of revenues derived from donations also requires significant revision. Nonprofit revenue models vary significantly. Some sectors – such as human service nonprofits – may rely heavily on grants and donations. These organizations are critically important to meeting the needs of low-income and vulnerable populations and often experience increased service demand during economic downturns. Many of our members know how to prudently lend to nonprofits and do NOT use arbitrary caps on the source of revenue as is proposed in the Federal Reserve’s Main Street term sheet. To effectively underwrite a nonprofit, a lender needs to evaluate the CONSISTENCY of every revenue source – both earned revenue and grant revenue. The historic consistency of revenue sources is the best indicator of future revenue – versus whether or not the source is a donation or a grant. A 30% cap on

¹ “What Does the Nonprofit Sector Really Look Like?”, trust.guidestar.org/what-does-the-nonprofit-sector-really-look-like

² Ibid

donation revenue would be capricious and damage a great number of nonprofits that would otherwise be able to service an appropriately structured loan. Lenders should have the discretion to underwrite nonprofits' ability to repay based on historic revenues without being hampered by an arbitrary cap on revenue type.

We also strongly urge the Federal Reserve to set a fixed rate for the term of the loan at 3.5%, or, if pegging to LIBOR is essential, capping the LIBOR peg at 50 bps, plus 3% (at the time of writing 6 month LIBOR is 43 bps). During a time of economic instability, fixed rate financing is the most effective tool for nonprofits to manage uncertainty.

GENERAL RECOMMENDATIONS:

In summary, given the unique and acute needs of LMI communities, we strongly urge the Federal Reserve to set lower thresholds so that lenders, particularly CDFIs, may better serve the nonprofit sector:

- Set a minimum loan amount of \$25,000
- Set a minimum employee amount at five, with a clear distinction for full-time vs. part-time (e.g. two full-time, and three part-time), with exceptions for well-established organizations with as few as three employees
- Set the minimum years of operation at three
- Eliminate the 30% donations revenue cap and allow lenders to underwrite based on the historic sustainability of all sources of nonprofits revenue
- Fix the interest rate at 3.5% or cap it at a LIBOR pegged equivalent

We thank you for the opportunity to comment. We sincerely appreciate the agency's leadership in providing tools to the financial services sector to respond to the economic crisis and to stabilize our local communities.

If you have any questions or comments about this letter, please contact me directly on my cell at (202) 207-8728, or jacokesj@pcgloanfund.org. If I am temporarily unavailable, you may also contact Brian Blake at (646) 283-7929 or blakeb@pcgloanfund.org.

Sincerely,



Jeannine Jacokes
Chief Executive Officer

Chris Netram

Vice President,
Tax and Domestic Economic Policy

June 22, 2020

The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Chairman Powell,

Manufacturers of all sizes are facing significant business disruptions due to the COVID-19 crisis. As such, the National Association of Manufacturers appreciates the Federal Reserve's efforts to stabilize the economy via a wide range of lending facilities designed to provide needed liquidity to businesses.

In particular, small and medium-sized manufacturers have eagerly awaited the launch of the Main Street Lending Program, and many are planning to participate in the program through their local lenders. The NAM is encouraged that the Federal Reserve continues to evaluate the eligibility criteria for the Main Street facilities, including via your recent announcement that you may expand the program to include nonprofit organizations. The NAM supports the move to allow nonprofits to receive Main Street loans, and we urge you to continue examining ways to improve the Main Street Lending Program.

I. Eligibility for 501(c)(6) Organizations

In addition to the more than 14,000 manufacturing businesses that are members of the NAM, we also represent more than 350 manufacturing industry associations in all 50 states. For the most part, these associations are organized under Section 501(c)(6) of the Internal Revenue Code. Like the small manufacturers they represent, these small organizations are facing enormous economic uncertainty due to the ongoing COVID-19 crisis.

The Federal Reserve's recent announcement that it is considering implementing a Nonprofit Organization New Loan Facility and a Nonprofit Organization Expanded Loan Facility under the Main Street Lending Program would limit the new facilities to entities organized under Section 501(c)(3) and 501(c)(19) of the Internal Revenue Code. While we support extending eligibility to (c)(3) and (c)(19) organizations, we strongly believe that 501(c)(6) groups should be eligible for Main Street loans as well.

Small manufacturing industry associations across the country are vital resources for their local communities through their workforce development, technical training, and standards setting programs. Moreover, in many instances these associations also provide health or retirement benefits to the employees of the companies they represent. As the manufacturing industry leads the way in America's economic recovery, these organizations will play an important role in supporting businesses and workers—provided, of course, that they have survived the economic downturn themselves. Allowing 501(c)(6) associations to access liquidity under the Main Street Lending Program would enable them to maintain their employees and continue to serve as a resource for the manufacturing economy during these uncertain times.

As the Federal Reserve considers whether to implement nonprofit facilities under the Main Street Lending Program, the NAM strongly encourages you to extend eligibility to entities organized under Section 501(c)(6) of the Internal Revenue Code.

II. Minimum Borrower Size

The proposed nonprofit lending facilities would be limited to organizations with more than 50 employees. Excluding nonprofits with 50 or fewer employees from the Main Street program would significantly undercut the impact of the proposed expansion given that these smaller organizations are the ones most in need of liquidity to weather the ongoing crisis. Furthermore, such a limitation would exclude the vast majority of nonprofits in the United States.

A recent study published by the National Council of Nonprofits found that 92% of 501(c)(3) organizations operate on a budget of less than \$1 million per year. While not a direct proxy for employee headcount, an organization with less than \$1 million in annual expenditures is extremely unlikely to support a staff of more than 50 people. As such, the Federal Reserve's proposed eligibility criteria would likely exclude more than 90% of the entities that the new facilities would be designed to help.

The proposed terms of the nonprofit facilities include provisions related to an organization's operating performance, liquidity, and ability to repay debt—which should suffice to determine an organization's creditworthiness without needing to limit participation based on employee headcount. The NAM strongly encourages you to lower or eliminate the 50-employee minimum for nonprofit borrowers in the Main Street Lending Program.

III. Eligibility for Asset-Based Borrowers

As the Federal Reserve continues to consider ways to expand and improve the Main Street Lending Program beyond the proposed nonprofit facilities, the NAM would encourage you to extend eligibility for the New Loan, Priority Loan, and Expanded Loan facilities to asset-based businesses.

Many businesses that would otherwise qualify for the Main Street Lending Program will find their participation limited by the maximum loan calculations for the program's facilities, which rely on a borrower's 2019 earnings before interest, taxes, depreciation, and amortization. Some companies, including small, pre-revenue, and start-up businesses, may not have sufficient earnings from 2019 to qualify for a meaningful loan amount (or perhaps for any loan at all) if the calculation must be based on EBITDA. These businesses may have other metrics that would better illustrate their credit risk and appropriate loan size, including assets, tangible net worth, or payroll. Indeed, the proposed move to allow nonprofit organizations to participate in the Main Street program illustrates that potential borrowers can be evaluated on a basis other than EBITDA.

The Federal Reserve should allow for flexibility for asset-based businesses and other companies for whom EBITDA is not a representative metric. Thankfully, the FAQ document recently published on the Main Street program notes that the Federal Reserve and the Treasury Department are "evaluating the feasibility of adjusting the loan eligibility metrics of the Program for such borrowers." The NAM strongly encourages you to continue that evaluation and ultimately to extend Main Street eligibility to these small businesses by permitting them to use alternative metrics to determine their maximum loan amount.

* * * * *

The NAM has welcomed the Federal Reserve's aggressive actions to provide for new and expanded liquidity facilities for businesses impacted by COVID-19, and we appreciate your ongoing dedication to ensuring that these facilities work as well as possible for the manufacturing industry.

On behalf of the NAM and the men and women who make things in America, thank you for your attention to these concerns.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Netram". The signature is fluid and cursive, with a prominent loop at the end.

Chris Netram
Vice President, Tax and Domestic Economic Policy



UNIVERSITY *of* WASHINGTON

Ana Mari Cauce
Professor of Psychology
PRESIDENT

June 22, 2020

The Honorable Steven Mnuchin
Secretary
U.S. Department of Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Secretary Mnuchin and Chairman Powell,

I submit the following comments regarding the creation of the Nonprofit Organization New Loan Facility and the Nonprofit Organization Expanded Loan Facility. I appreciate the changes that the Federal Reserve already has made to the Main Street Lending program (MSLP) and the announced creation of the two new lending facilities for non-profits. At the same time, I am concerned that those facilities, even with the addition of the proposed facilities aimed at nonprofit organizations, will leave out a critical sector of society that is facing unique challenges: **this nation's public colleges and universities, few of which may have 501(c)(3) status.**

Unfortunately, the participation criteria for these facilities make significant portions of the public higher education sector ineligible.

For our nation's public colleges and universities, access to affordable capital is a necessary lifeline as they navigate the economic fallout from the COVID-19 crisis. We strongly urge you to expand the proposed non-profit facility to include all public institutions of higher education, regardless of the number of employees they employ, the size of their endowment, or their tax status.

As a result of the COVID-19 pandemic, the public higher education sector is facing financial challenges not faced by any other sector:

- For public institutions, state support, which forms the backbone of their finances, will undoubtedly decrease significantly for years to come. Many states are already forecasting significant budget shortages, and higher education typically bears a significant

proportion of cuts in any state budget constriction. Nationally, public institutions of higher education will ultimately see cuts in the billions.

- The state cuts will compound already a dire financial situation. By the start of the new academic year, institutions will already have lost billions in revenue from this current year due to refunds provided to students just for room and board.
- Revenues provided by auxiliary services have been decimated and will not recover soon. These include, but are not limited to: parking services, bookstore agreements, summer and sports camp fees, student health services, and revenues generated by intercollegiate athletics.
- The costs of transitioning to a virtual delivery system will cost millions initially but will take years to fully tally up.
- Just as important, with so much uncertainty, countless numbers of students will choose different higher education options than the ones they originally planned, including many taking gap years or foregoing higher education altogether. Tuition revenues will be severely impacted going forward.
- The cleaning of campuses and facilities for the eventual return of students, staff, and faculty—especially those at public research universities—will require unprecedented, on-going, and constantly updated efforts.
- For those with hospitals and medical centers, institutions have had to bear the brunt of providing COVID-related services without the commensurate level of compensation. Worse still, their revenues have cratered because of the loss of elective procedures and regular medical visits and will not recover any time soon.
- All of these developments are occurring simultaneously while many of the large public universities look to continue to serve as one of the largest, if not the largest, employers in a given community or region.

To address this unique set of circumstances, I ask for the creation of a long-term, low-cost loan program for large public and private non-profit universities that would allow them to refinance their existing debt to free up much-needed capital to address these and other pressing needs.

This loan program would not allow institutions to escape their existing loan or debt obligations; this would simply be a mechanism to refinance such obligations and significantly restructure their budgets and obligations on an enduring timeframe with a significantly impactful scale. I urge the Fed to open a program that would offer funding with the following criteria:

- Given the host of financial challenges loans should be offered at zero interest or no more than LIBOR plus 100 BPS.
- All public higher education institutions should be eligible and deemed credit worthy as an instrumentality or political subdivision of the state regardless of employee numbers or annual revenue.

- Any eligible institutions should have credit rating as investment-grade or above. However, for institutions without public credit ratings or that are in financial trouble and have been downgraded due to the pandemic effects, there should be a case-by-case exception since they are the schools that most significantly need the help.
- Institutions with hospitals and hospital systems should be allowed to be separately considered for eligibility purposes under the program.
- Institutions should be able to originate new loans to cover costs such as: a covered loss or expense; wages, taxes, and other costs incurred for paid sick, medical, or family leave; costs related to the continuation of employee health care benefits; employee salaries; utilities; and to defease or refinance any outstanding institutional debt [for debt service savings, which can then be applied to address financial impacts of COVID-19].
- Given the financial cycle of colleges and universities, loans should have longer deferments and repayment terms than what is currently included in the MSLP. Any enrollment declines at the start of fall 2020 will affect institutions for at least an additional four years as that smaller class advances through their degree programs. In addition, public institutions will have a decrease in state funding dollars, and many institutions have not recovered from state cutting cuts that occurred in the 2008 recession. A longer repayment period (at least 20 years or the statutory authority of the institutions to hold debt) as well as a longer deferment period (at least 2 years or longer) will help to ensure colleges and universities are on better financial standing to make payments on these loans.

While I am encouraged by the steps that the Department of Treasury and the Federal Reserve have taken to create these lending facilities which will help our districts and communities, I ask that you take the steps necessarily to ensure that this critical sector of our society is eligible to participate in the facility program. **I ask that you expand the facility program to make all public institutions of higher education for the new nonprofit organization loan facility at expanded terms.**

Sincerely,

A handwritten signature in black ink that reads "Ana Mari Cauce". The signature is written in a cursive, flowing style.

President
University of Washington

U.S. TRAVEL ASSOCIATION®

June 22, 2020

The Honorable Jerome Powell
Chairman of the Board of Governors
The Federal Reserve System
Washington, DC 20551

The Honorable Steven Mnuchin
Secretary
U.S. Department of Treasury
Washington, DC 20220

RE: Main Street Lending Program – NONLF and NOELF

Dear Chairman Powell and Secretary Mnuchin,

Thank you for considering expanding the Main Street Lending Program to provide relief to credit for nonprofit organizations. However, as the leading voice for the travel community, we are extremely concerned that under the current proposal, only 501(c)(3) and 501(c)(19) organizations will be able to access such relief, leaving out most Destination Marketing Organizations (DMOs), which are often classified as 501(c)(6) or 501(c)(4) organizations.

As you know, 501(c)(3) and 501(c)(19) organizations have been able to access to the Paycheck Protection Program (PPP), while 501(c)(6) and 501(c)(4) are ineligible for PPP and have been unable to access adequate relief under the Economic Injury Disaster Loan (EIDL) program—forcing many to severely downsize their staff or shut down completely. The CARES Act was meant to be a lifeline to employers of all shapes and sizes, yet for many nonprofits, including DMOs, CARES Act relief has not been available to them.

The travel industry workforce has been disproportionately harmed by the economic slowdown caused by COVID-19—losing more than 8 million jobs, which accounts for more than half (51%) of the travel industry’s workforce. Currently, the unemployment rate in the travel industry is more than twice the national unemployment rate during the worst point of the Great Depression.

DMOs play a critical role in the travel industry, supporting local travel markets through tourism management and convention and meeting sales—connecting travelers with the travel businesses that would otherwise be ignored by mainstream media outlets and consumer channels. We ask that you include the following changes to the Main Street Lending Program to ensure DMOs, as a key component of the travel economy supply chain, can remain afloat during this difficult time:

- Allow 501(c)(6) and 501(c)(4) organizations to access the Main Street Lending Program.
- Increase the donation cap to 50% if the donations are automatic contributions based on a formula.
- Allow the maturity term to extend to 10 years upon request by the borrower.
- Reduce the minimum years of operations requirement to 2 years.
- For the new loan program, allow the maximum loan size to be the lesser of \$50 million or half of the borrower’s annual revenue.
- Lower the interest rate to 2% + LIBOR.
- Reduce the minimum loan size to \$100,000.
- Allow nonprofits with as low as 20 employees to qualify for the loans.

With these changes, significant progress can be made to save DMOs and lay the groundwork for economic recovery. It's clear, with the travel industry accounting for a full third of all jobs lost since March, there can be no economic recovery without a strong travel recovery—and DMOs will play a critical role in that effort.

Thank you for your time and attention to this important matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tori', with a long, sweeping horizontal line extending to the right.

Tori Emerson Barnes
Executive Vice President
Public Affairs and Policy

June 22, 2020

The Honorable Steven Mnuchin
Secretary of the Treasury
Main Treasury
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

The Honorable Jerome Powell
Chair of the Board of Governors
The Federal Reserve
20th St. and Constitution Avenue, N.W.
Washington, DC 20551

RE: Comments on Nonprofit Organization New Loan Facility Term Sheet and Nonprofit Organization Expanded Loan Facility Term Sheet

Dear Secretary Mnuchin and Chairman Powell:

On behalf of our nearly 5,000 member hospitals, health systems and other health care organizations, our clinician partners — including more than 270,000 affiliated physicians, 2 million nurses and other caregivers — and the 43,000 health care leaders who belong to our professional membership groups, the American Hospital Association (AHA) appreciates the opportunity to comment on the proposed Nonprofit Organization New Loan Facility Term Sheet and proposed Nonprofit Organization Expanded Loan Facility Term Sheet (together, the “Term Sheets”) posted for comment by the Federal Reserve on June 15. We appreciate the efforts of the Department of the Treasury and the Federal Reserve to create and outline new credit facilities to assist numerous business sectors, now including the nonprofit sector, in surviving the health care and financial crises instigated by the COVID-19 pandemic.

Our comments are focused on increasing the possibility that hospitals around the country can make use of this potentially vital loan facility and on easing the daunting conditions imposed on hospitals in the midst of a public health crisis with devastating financial effects.

As noted in AHA’s letters on [April 3](#) and [April 12](#), access by health care organizations to the low-cost loans described under Section 4003(b)(4) of the Coronavirus Aid, Relief, and Economic Security (CARES) Act is an essential component of federal support for hospitals, especially nonprofit hospitals, which provide a substantial measure of health care in this country. Many hospitals are reeling financially from lost revenues and increased expenses incurred from being on the front line of fighting the pandemic. The Federal Reserve facilities outlined in the Term Sheets have the



potential to satisfy loan assistance needs for health care organizations ineligible for Paycheck Protection Program (PPP) loans or for which PPP loan maximums are insufficient. We appreciate that the Federal Reserve and Treasury are committed to a separate variant of the Main Street Lending Program for nonprofit organizations and your previous statements in that regard. In order to ensure the utility of the loan assistance outlined in the Term Sheets, we submit for your consideration the following comments so that this critically-necessary loan facility will be available to as many hospitals in need of such assistance as possible.

1. Eligibility of Public Hospitals

Public hospitals operated by states, counties or cities are involved in the battle against COVID-19, and are essential to the viability of the economies of their geographic locations, as are for-profit and nonprofit hospitals. Due to the size and other requirements of the Municipal Liquidity Facility described in the applicable Term Sheet posted by the Federal Reserve on April 9 and amended on June 3, the Fed's municipal liquidity facility is not directly available to public hospitals, and indirect availability, much less timely indirect availability, also is doubtful given the complexities of intermediated financings. These separate enterprises of state, county or local government should not be precluded from assistance under any of the Fed facilities developed for this crisis. The proposed Term Sheets restrict eligibility to 501(c)(3) and 501(c)(19) organizations, but footnote two states that other forms of organizations may be considered for inclusion as a nonprofit organization under the facilities described in the Term Sheets at the discretion of the Federal Reserve. The AHA urges Treasury and the Federal Reserve to exercise such discretion and specify that public hospitals described in section 501(c)(3) are considered to be exempt from taxation under section 501(a) regardless of whether they have now or have ever had an Internal Revenue Service (IRS) determination letter and are eligible under these loan facilities if the remaining eligibility criteria are satisfied.¹

2. Specific Eligibility Criteria

- **Requirement of borrower existence since Jan. 1, 2015.** The Term Sheets condition borrower eligibility on the borrower's existence prior to Jan. 1, 2015,

¹ On May 3, the Treasury Department issued Question and Answer 42 (Q/A 42) providing further guidance on when a public hospital will be considered a section 501(c)(3) nonprofit organization for purposes of the Paycheck Protection Program. Q/A 42 says in part, "The Administrator will treat a nonprofit hospital exempt from taxation under section 115 of the Internal Revenue Code as meeting the definition of 'nonprofit organization' under section 1102 of the CARES Act if the hospital reasonably determines, in a written record maintained by the hospital, that it is an organization described in section 501(c)(3) of the Internal Revenue Code and is therefore within a category of organization that is exempt from taxation under section 501(a)."

and continuous operation since that date. This apparent seasoning requirement could cause the numerous health care organizations and other nonprofits formed on or after Jan. 1, 2015, to be ineligible for this critical federal loan assistance. Nonprofit health care is a sector in which realignment has been prolific over the past five years and has often resulted in the creation of new subsidiaries, affiliates and stand-alone entities to house the continued operation of acquired enterprises that likely had a long prior operating history. Moreover, this requirement that the borrower be in existence prior to Jan. 1, 2015, stands in marked contrast to the analogous requirement under the Main Street Lending Program for for-profit businesses, which are required to be in existence prior to March 13, 2020, thereby rendering ineligible only borrowers formed with knowledge of the pandemic. Given this background, the requirement that nonprofit borrowers be in existence for approximately five and a half years appears to serve no salutary purpose other than to restrict access to the Federal Reserve facilities by nonprofits. The requirement should be eliminated or the date should be changed to March 13, 2020, consistent with the treatment of other similar entities.

- **Impact of affiliations on eligibility.** The eligibility criteria specify that an eligible borrower must have no more than 15,000 employees or 2019 annual revenues no greater than \$5 billion. In addition, an eligible borrower must have an endowment of less than \$3 billion. The Term Sheets are silent on the applicability of affiliation principles in calculating employees, revenues and endowment. We reiterate, for the reasons discussed in AHA's April 3 letter, that a nonprofit applicant should be permitted to establish eligibility for the facilities described in the Term Sheets by reference to the number of employees of that entity, the revenues of that organization and the endowment of that organization, without regard to any affiliated entities.
- **Financial tests.** In contrast to the Main Street Lending Program facilities for for-profit businesses, which include no financial tests for borrower eligibility, the eligibility criteria under the Term Sheets require that nonprofit borrowers satisfy four separate financial tests: (i) 2019 revenues from donations must be less than 30% of total 2019 revenues; (ii) the ratio of adjusted 2019 earnings before interest, depreciation, and amortization (EBIDA) to unrestricted 2019 operating revenue must be greater than or equal to 5%; (iii) the ratio (expressed as a number of days) of liquid assets at the time of loan origination to average daily expenses over the previous year must be equal to or greater than 90 days; and (iv) at the time of loan origination, the ratio of unrestricted cash and investments to existing outstanding and undrawn available debt, plus the amount of any loan under the facility described in the Term Sheet, plus the amount of any Centers for Medicare & Medicaid Services (CMS) Accelerated and Advance Payments must be greater than 65%.

The AHA understands that the Main Street Lending Program facilities for for-profit businesses limited loan size to four times earnings before interest, taxes, depreciation, and amortization (EBITDA) or six times EBITDA, and that one of the primary reasons the Federal Reserve and Treasury decided to develop separate facilities for nonprofit organizations versus making nonprofit organizations eligible under the Main Street Lending Program facilities for for-profit businesses was concern that such EBITDA-based loan sizing limits might preclude nonprofits from obtaining any loans or adequately sized loans. Accordingly, the Term Sheets remove the EBITDA-based tests for loan sizing purposes and replace them with a loan limit of the lesser of average 2019 quarterly revenue or \$35 million. However, the multiple eligibility tests set forth in the Term Sheets are both quantitatively and qualitatively onerous and may disqualify many nonprofits, including nonprofit hospitals, even though they are sufficiently creditworthy to warrant the federal government's extension of credit in these difficult times.

For example, it must be emphasized that these are nonprofit organizations, and they operate at a low "profit" margin. A requirement of EBITDA to 2019 operating revenues of at least 5% effectively requires a 5% profit margin and would disqualify many if not most nonprofit hospitals. As another example, the 90 days liquidity test, as well as the uncommon (for nonprofit hospitals) liquid assets to debt test, are both based on the borrower's liquidity at the time of loan origination, i.e., in the midst of the pandemic that has given rise to the need to borrow, when liquidity has fallen to crippling low levels for many hospitals.

It is unclear why the Main Street Lending Program disregards a for-profit borrower's mid-pandemic financial status but conditions nonprofit borrowers' access to this important federal financial assistance on a demonstration of mid-pandemic liquidity. (The liquidity tests under the proposed Term Sheets are made even more onerous by including undrawn availability under lines of credit and CMS Accelerated and Advance Payments as debt for purposes of the liquid assets to debt test, thereby penalizing potential borrowers seeking these five-year loans for any unused working capital lines and for obtaining temporary and short-term working capital through the CMS program.) Conditioning eligibility on satisfaction of mid-pandemic liquidity tests will make the Main Street Lending Program inaccessible to many nonprofit borrowers and disfavors nonprofits for this critical federal assistance.

We request that the financial eligibility requirements be revised as follows: (i) nonprofit borrowers that can obtain the loans they seek by satisfying the four or six times EBITDA loan sizing limit should not be required to satisfy any of the financial eligibility tests (we would also suggest that the four or six times loan sizing limits, if applied, should be higher for non-profit borrowers in recognition that, in contrast to EBITDA, none of a non-profit borrower's EBITDA is used to pay taxes and therefore EBITDA can sustain more debt than the identical EBITDA amount); (ii) the 5% profitability test should be eliminated or substantially reduced; and (iii) any liquidity tests should be based on pre-

pandemic data and should not include, as debt, undrawn availability on lines of credit or CMS Accelerated and Advance Payments. The standard measure of financial health for non-profit hospitals is the debt service coverage ratio, and we would recommend that an average annual historic debt service coverage ratio of not more than 1.10 (excluding the proposed debt) and not less than 1.00 (including the new debt as though amortized over a 15-year period beginning on the first day of the historic period) be substituted for the other eligibility requirements, with the historic period being the three most recent fiscal years ending prior to March, 2020 and the coverage ratio being measured under a methodology consistent with the borrower's most recent debt agreement containing a coverage test. If a liquidity test is imposed in addition to a coverage test, it should be a traditional days cash on hand test calculated using liquid assets as of the most recent fiscal year ending prior to March, 2020 and average daily expenses over such most recent fiscal year. The liquid assets to debt test should not be applied to nonprofit hospitals.

3. Loan Collateral

Many, if not most, nonprofit hospitals have outstanding bond debt or bank debt with bond indentures or loan agreements that restrict the incurrence of additional secured debt; unsecured debt is often subject to fewer constraints under applicable debt and lien incurrence covenants. The Term Sheets provide that an Eligible Loan is "a secured or unsecured" term loan, thereby leaving the decision on whether to require loan collateral to the particular lending institution that will retain a 5% interest in the loan. The Term Sheets also state that "Eligible Lenders are expected to conduct an assessment of each potential borrower's financial condition at the time of the potential borrower's application." Since the Federal Reserve, appropriately, is not requiring that the loans under these facilities be collateralized (unless the loan is an expansion of a pre-existing collateralized loan), it should eliminate the lending institution's option to require collateral if pre-existing debt instruments preclude such collateralization and should modify the Term Sheets to clarify, except where expressly required for an expanded loan, that nothing in the Term Sheets is intended to create any presumption that any loans should be made on a secured basis, and that lenders will incur no liability under the program for exercising their discretion to make eligible loans on an unsecured basis.

4. Interest Rate

The Term Sheets specify an adjustable interest rate on loans of LIBOR (1 or 3 month) plus 300 basis points. Section 4003(c)(3)(D)(i) of the CARES Act, which expressly mentions Federal Reserve direct loan facilities to nonprofit organizations, provides that the Treasury Secretary should endeavor that such direct loans be subject to an annualized interest rate that is not higher than 2% per annum. As reflected in provisions of the Internal Revenue Code that permit 501(c)(3)s to borrow at tax-exempt rates, the federal government has long acknowledged the importance of permitting such nonprofit

organizations to access capital at lower rates than those generally available to for-profit businesses. Particularly if the eligibility guidelines for nonprofit organizations remain more stringent than those for for-profit businesses under the Main Street Lending Program, which they should not (see Section 2.b. above), the 2% per annum interest rate cap targeted by Congress in the CARES Act should be implemented for loans to nonprofit organizations.

5. Prepayment Restrictions

The proposed Term Sheets provide that borrowers must commit to 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. The Term Sheets should be clarified, as has been done to a certain extent in the covenant documentation for the for-profit Main Street Lending Programs (the “For-Profit Covenants”), to permit prepayment of debt in connection with a refinancing. There is no reason to preclude nonprofit organizations from replacing, via prepayment, existing debt with other debt that has more favorable terms. The For-Profit Covenants permit refinancing of debt that matures within 90 days of the issuance of the refinancing debt, but that does not address the more common situation in which the refinanced debt is prepaid within 90 days of the issuance of the refinancing debt. And the 90-day limitation is prejudicial to nonprofit hospitals, as well as other borrowers of tax-exempt debt, as such debt is frequently refunded, with taxable debt or, if permitted by the Internal Revenue Code, with tax-exempt debt, more than 90 days prior to the date of prepayment or maturity. Similarly, nonprofit organizations should be permitted to pay down CMS Accelerated and Advance Payments, as well as working capital facilities, when money becomes available for such payments, instead of on the maturity date of the working capital facility or other mandatory repayment date. Such working capital facilities are intended as short-term financing until the borrower has sufficient funds to repay, and borrowers should not be forced to continue incurring unnecessary interest expense by delaying repayment until it is mandatory.

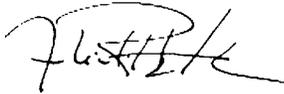
6. Compensation Restrictions

The Term Sheets apply the compensation restrictions in Section 4004 of the CARES Act to the loans described in the Term Sheets. For the reasons stated in our April 3 letter, AHA urges that the Secretary of the Treasury waive such requirements, as the CARES Act authorizes, in the case of “employees” providing medical services. As previously noted, given the national undersupply of medical professionals, hospitals and health systems receiving this type of federal loan should not be pitted against those that do not receive such loans and are able to compensate physicians and other medical personnel at market rates. At a minimum, guidance should clarify that borrowers may honor employment contracts executed prior to March 1, 2020, just as Section 4003 excludes from its restrictions compensation determined pursuant to a collective bargaining agreement entered into prior to March 1, 2020.

The Honorable Steve Mnuchin
The Honorable Jerome Powell
June 22, 2020
Page 7 of 7

Once again, we appreciate your leadership on these and so many other issues relating to this health, financial and societal crisis, and we look forward to continuing to work with you during this critical time to protect the health of our nation.

Sincerely,

A handwritten signature in black ink, appearing to read "Melinda Hatton". The signature is fluid and cursive, with a large initial "M" and "H".

Melinda Reid Hatton
General Counsel



June 22, 2020

Mr. Jerome H. Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution NW
Washington, D.C. 20551

RE: Main Street Lending Program – NONLF and NOELF

Dear Chairman Powell:

United Philanthropy Forum, along with the undersigned philanthropy-serving organizations, respectfully submits the following comments to the Federal Reserve System in response to “a proposal to expand its Main Street Lending Program to provide access to credit for nonprofit organizations,” as published in the Federal Reserve press release on June 15, 2020. We ask the Board of Governors of the Federal Reserve System to consider including a provision in your proposal that makes loans forgivable for nonprofits.

United Philanthropy Forum (The Forum) is the largest and most diverse network in American philanthropy, holding a unique position in the social sector to help increase philanthropy’s impact in communities across the country. We are a membership organization of 86 regional and national philanthropy-serving organizations, representing more than 7,000 foundations and other funders that work to make philanthropy better. The Forum envisions a courageous philanthropic sector that catalyzes a just and equitable society where all can participate and prosper.

As an organization representing the philanthropic sector, our members understand the important role charitable nonprofits play in today’s society. During this global pandemic, charitable nonprofits have spearheaded efforts to help families in communities across the country, often on the frontlines in meeting basic needs like food, shelter and health care. As we head into the fifth month of this pandemic—with no end in sight—many nonprofits’ resources have been stretched thin or exhausted. According to a [recent survey](#) done by Independent Sector, 83% of mid-sized nonprofit organizations have experienced a reduction in revenue due to COVID-19, with 71% of those organizations having to scale back their services as a result.

In the aforementioned survey, it is important to note that mid-sized nonprofit organizations are defined as organizations with between 500-5000 employees. With nonprofits of that size being severely injured by this pandemic, smaller nonprofits are barely hanging on. The term sheet for the proposed nonprofit loan facility imposes a size minimum that is not imposed in the Main Street [New](#), [Priority](#), or [Expanded](#) Loan Facilities for for-profit businesses. There is no explanation why the Federal Reserve is proposing that nonprofits with fewer than 50 employees should not be eligible for Main Street loans for which their small business counterparts of equal size could secure lending support.

Moreover, these nonprofits are often led by and serve communities of color, communities hardest hit by the COVID-19 pandemic.



The Forum agrees with your statement in the press release, that “nonprofits provide vital services across the country.” As such, it is important that nonprofits have access to relief that keeps those vital services going at a time when they are needed more than ever. Earlier this year, the Forum [signed on to a letter](#) after the passage of the CARES Act, asking Congress to implement a loan program for nonprofits that includes a provision for loan forgiveness.

Likewise, we are encouraged the Federal Reserve System has proposed to expand its Main Street Lending Program to provide access to credit for nonprofit organizations. However, charitable nonprofits and the communities they serve won’t fully be able to benefit from the program without a loan forgiveness provision and if the program excludes nonprofits that often serve communities of color.

The Forum and the undersigned organizations encourages the Federal Reserve System to include a loan forgiveness provision and not to exclude nonprofits with less than 50 employees in the Main Street Lending Program to provide access to credit for nonprofit organizations. Similarly, we encourage Congress to include these changes, in the next round of COVID-19 relief legislation.

If you have any questions and/or concerns, please feel to contact Forum Director of Public Policy, Matthew L. Evans at matthew@unitedphilforum.org.

Sincerely,

Dave Biemesderfer

President and CEO

[United Philanthropy Forum](#)

On behalf of Forum members, including the following organizations:

[Council of Michigan Foundations](#)

Grand Haven, MI

[Council of New Jersey Grantmakers](#)

Trenton, New Jersey

[Florida Philanthropic Network](#)

Tampa, Florida

[Forefront \(Illinois\)](#)

Chicago, Illinois

[Grantmakers in the Arts](#)

Bronx, New York



[Iowa Council of Foundations](#)

Des Moines, Iowa

[Maine Philanthropy Center](#)

Portland, Maine

[Minnesota Council on Foundations](#)

Minneapolis, Minnesota

[Orange County Grantmakers](#)

Newport Beach, CA

[Philanthropy California](#)

An alliance of [Northern California Grantmakers](#), [Southern California Grantmakers](#), and [San Diego Grantmakers](#)

[Philanthropy Ohio](#)

Columbus, Ohio

[Philanthropy Southwest](#)

Dallas, Texas

June 22, 2020

The Honorable Jerome Powell
Chair of the Board of Governors
The Federal Reserve
20th Street and Constitution Avenue, NW
Washington, DC 20551

Submitted via email to regs.comments@federalreserve.gov

Re: Proposal to extend the Main Street Lending Program to nonprofit organizations

Dear Chairman Powell,

On behalf of Providence St. Joseph Health, thank you for the opportunity to provide feedback to the Federal Reserve regarding the proposed extension of the Main Street Lending Program (MSLP) to nonprofit organizations. Although your request for feedback indicates that the MSLP will be focused on assisting small and medium-sized nonprofits, we urge you to consider further broadening the scope of the MSLP to nonprofit health care entities of all sizes, by modifying the affiliation and number of employee requirements. As with all U.S. businesses, our industry has experienced the unprecedented effects of unemployment, loss of insurance coverage, and economic disruption caused by the pandemic. However, as some of the state economies start to reopen, the health care industry continues to experience ongoing financial drain unique to being on the frontline of caring for those most negatively impacted by pandemic. As a result, broader assistance to nonprofit health care entities of all sizes is needed in order to support both the recovery of the economy and continued access to health care across the United States.

Who we are

At Providence St. Joseph Health we are committed to providing for the needs of the communities we serve, with a special focus on those who are poor and vulnerable. As a nonprofit and charitable organization, we serve as a safety net provider to the most vulnerable populations we serve. We are dedicated to high-quality, compassionate health care for everyone - regardless of coverage or ability to pay. Together, we share a singular commitment to improve the health of our communities through digital innovation, population health and clinical quality strategies, mental health, specialty institutes, research and education.

Providence St. Joseph Health is a major contributor to the economies in the seven states we serve. Our diverse family of organizations employ 119,000 people who serve in 51 hospitals, 1,085 clinics, a health plan, senior services and housing, and many other health and educational services across seven western states. To ensure the urban and rural communities we serve have access to a continuum of care, we

offer skilled nursing facilities, home health, laboratories, pharmacies, all-inclusive programs for the elderly, telehealth, rural hospitals and health clinics, and numerous other options for care. Each year we work to provide care and services where they are needed most, including investments in community benefit that in 2018 totaled \$1.6 billion.

Why MSLP eligibility for larger nonprofit health care entities is needed

We thank the Federal Reserve for enabling nonprofit organizations, including nonprofit hospitals and nursing facilities, to take advantage of the MSLP. However, we strongly urge the Federal Reserve to broadly expand the program to nonprofit health care entities of all sizes. The expense of treating COVID-19 patients coupled with the lost income from thousands of cancelled surgeries and other non-emergent procedures caused by public health declarations threatens the viability of nonprofit health systems across the nation. The availability of credit has improved alongside recent market strength, however the risk of resurgent COVID cases could challenge market access for nonprofits organizations.

The steps nonprofit hospital systems must take to protect our patients, caregivers, and communities on a daily basis from COVID-19 come with ongoing unbudgeted and expected costs. Nonprofit hospitals, long-term care facilities, and frontline caregivers are taking care of some of the most acutely ill COVID-19 positive patients who experience extended and costly lengths of stays in ICUs and other facilities, and we continue to see rising numbers of positive cases and hospitalizations in many of our states. We all hope to avoid a second surge in the Fall, but the lack of a vaccine renders the future state highly uncertain.

Under current conditions, health care providers' daily need for testing supplies and personal protective equipment (PPE), per CDC guidelines, ranging from medical grade masks, gowns, gloves, swabs, reagents, and tests demonstrate the unique financial drains our industry faces. Infection control protections can require patient transfers, staff redeployment, and the identification of alternative care sites with very little prior notice. Many nonprofit system are also partnering with our states and public health jurisdictions to build, staff, and supply alternative care sites not just for current needs, but also to prepare for a possible second surge in the Fall. These include alternative locations with beds and oxygen supply, former hotels to provide housing for the homeless, and drive-through testing sites. Many nonprofit systems are also repurposing existing facilities, providing expanded telehealth services, and supporting other providers in our communities who run low of PPE supplies, testing supplies, and even treatments such as Remdesivir.

At the same time, all health care systems are attempting the resumption of services for those patients without COVID-19 who are in desperate need of ongoing care, many of whom have delayed obtaining care for chronic or serious medical conditions throughout the initial phase of the pandemic. Resumption of care in a safe environment for our patients and caregivers comes with new costs not just related to testing and PPE but also for staffing, particularly where suspected exposure requires self-quarantining for multiple weeks and/or limits our ability to use staff across multiple facilities. There are also new technology costs related to expanded use of telehealth, infection controls, and training. The financial and operational needs of all of our healthcare systems are significant, while our revenues remain well below budget. As a result, new forms of liquidity are critical to the ability of even larger nonprofit health care systems to survive this public health crisis and continue their central role in supporting the health and wellbeing of our nation. Nonprofit hospitals and health systems are absolutely critical to the long-

term viability of the health care industry and the U.S. economy as a whole. Nonprofit hospitals account for over 50 percent of all hospitals across the United States, and many of those operate as part of a large nonprofit system. This is largely because our industry is one with very low margins that requires significant economies of scale to respond to the labor, capital, and technology costs needed to operate hospitals and other institutional providers in both urban and rural areas. In the states of Oregon and New York, nonprofit hospitals represent in excess of 75 percent of hospitals in the state. If larger nonprofit systems are cut out of federal lending programs during this time of crisis, that will undercut the overall long term stability of the health care industry across the United States, with significant repercussions to successfully re-starting the overall economy.

Additionally, nonprofit health systems are also major employers throughout the country, in areas where we saw COVID-19 hot spots early on, as well as where we see outbreaks today. For example, in the states of Alaska, Montana, Oregon and Washington, we—in conjunction with other nonprofit health systems—are major drivers of these state economies and are often the top sources of employment in those communities we serve.

The economic trends put in place by the pandemic are unlikely to resolve immediately. As unemployment increases as the result of the pandemic, we expect that reliance on public programs, like Medicaid, as well as reliance on charity care, to increase over the next several months or even years, while commercial insurance coverage will decrease. Nonprofit health systems are uniquely positioned to support the growing Medicaid and uninsured populations, since we are the traditional safety net in the communities we serve. However, continuing to serve in that role requires liquidity sufficient to maintain operations as we see our payer mix and associated revenues continue to decline now and in the near-term.

As noted above, nonprofit health systems have undergone a significant amount of consolidation over the past several decades, but because size and scale are so important in this essential industry, size should not be considered an impediment to vital federal support during this time. Receiving support will enable us to continue serving vulnerable populations and operating in rural areas. Small, rural providers are those at the greatest and most immediate risk of closing down during this public health emergency.

Feedback on impact of affiliations on eligibility

The eligibility criteria of the MSLP for nonprofits specify that an eligible borrower must have no more than 15,000 employees or 2019 annual revenues of no greater than \$5 billion. With respect to determining number of employees, endowment, and total revenue, we urge that the Federal Reserve not adopt the same affiliation rules applicable to Payment Protection Program loan borrowers under 13 C.F.R. 121.301(f). Instead, given the unique nature of nonprofit health care entities, the Federal Reserve should allow nonprofit applicants (as identified by unique EIN) to establish eligibility for the facilities described in the Term Sheets based solely on the number of employees, endowment, and total revenue attributable to the applying EIN. **We urge the Federal Reserve to not include the employees, endowment, or revenue of an applicant's corporate affiliates in determining eligibility.**

Many of our affiliated corporate entities operate with substantial operational and financial independence from one another, and they serve a particular geographic region with unique health needs. The need to operate independently is reinforced during the pandemic by the fact that all our states and counties are in various stages of reopening, have varied rates of unemployment and

economic disruption, and are all experiencing different curve trends in terms of daily COVID-19 infection rates and hospitalizations. That the hospital or hospital region may have affiliates in other states should have little bearing on its unique need for loan assistance.

Feedback on eligibility requirements – number of employees

As stated above, the current eligibility criteria includes that an eligible borrower must have no more than 15,000 employees. **We urge you to consider expanding this lending program to health care nonprofits of all sizes and not consider number of employees as part of the eligibility criteria.** Larger nonprofit health care systems are a critical component to the long-term recovery of the U.S. economy, a critical safety net for the growing population of uninsured, and a huge source of employment for essential workers, so we should not be excluded from this liquidity assistance. Given that health care is such a large percentage of the gross domestic product, all health care nonprofits that were in sound financial condition before the pandemic should be the primary focus of the MSLP for nonprofits. In fact, there may be substantially less investment risk in lending to a larger nonprofit, which generally will have additional resources to draw from when it is time to pay back the loan.

Thank you for your leadership during this unique time when our nation is facing enormous health, economic, and societal challenges. The policy measures the Federal Reserve is taking to support the flow of credit to U.S. households and businesses is essential to protecting the U.S. economy and our health care system from lasting damage. Thank you for the opportunity to provide input and we look forward to continuing to work with you on these issues. For more information, please contact Sarabeth Zemel, manager, federal regulatory affairs and engagement, at (425) 525-3228 or via email at Sarabeth.Zemel@providence.org.

Sincerely,



Rod Hochman, MD
President and CEO
Providence St. Joseph Health

The Honorable Steven Mnuchin
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

The Honorable Jerome Powell
Chairman, Board of Governors of the Federal
Reserve System
20th Street & Constitution Ave., NW
Washington, DC 20551

June 22, 2020

Re: Main Street Lending Program Nonprofit Organization Loan Facilities

Dear Secretary Mnuchin and Chairman Powell:

On behalf of Girl Scouts of the USA (GSUSA), 111 councils and 2.5 million members nationwide, thank you for your continued leadership addressing the economic fallout caused by the coronavirus pandemic. I am pleased to provide comments regarding the recently announced Main Street Lending Program (“MSLP”) Nonprofit Organization New Loan Facility (NONLF) and Nonprofit Organization Expanded Loan Facility (NOELF). Below, I identify several areas of concern and provide recommendations to make the programs truly applicable and accessible to nonprofit organizations including GSUSA and Girl Scout councils.

Founded 108 years ago, Girl Scouts is the preeminent leadership development organization for girls. With programs from coast to coast and across the globe, Girl Scouts offers every girl a chance to practice a lifetime of leadership, adventure, and success. Our Girl Scout Leadership Experience is a one-of-a-kind leadership development program for girls, with proven results. It is based on time-tested methods and research-backed programming that help girls take the lead—in their own lives and in the world.

Early in the pandemic, Girl Scouts quickly activated to provide desperately needed educational, interactive and social programs, appropriately tailored for different age groups in K-12, that are available to all girls – not just Girl Scouts – across the United States and the world. At the state and local level, for the 111 Girl Scout councils across the country, the coronavirus has derailed troop meetings, council events, fundraising, and plans for summer camp. Councils have been quick to launch virtual activities for girls and their families, but the measures necessary to contain COVID-19 have disrupted their primary source of revenue – Girl Scout Cookie sales. In the wake of this upheaval, the Paycheck Protection Program (PPP) provided essential financial support to cover payroll costs and other limited expenses for about 8 weeks, for which we thank Congress and the Small Business Administration. However, allowable expenses and the window of time permitted to achieve PPP loan forgiveness are limited. Without access to greater capital to invest in the evolving and expanding program demands, Girl Scout councils and GSUSA, along with many other charitable nonprofits, will be in dire financial straits.

Along with the rest of the world, GSUSA and Girl Scout councils are facing a starkly different reality and longer timeline for impact and recovery from the coronavirus than what Congress anticipated when PPP and the Coronavirus Aid, Relief, and Economic Security (CARES) Act were negotiated. Unemployment across the country is staggering. The nonprofit community is not immune from this crisis; Johns Hopkins University estimates that 1.6 million nonprofit jobs have been lost in the last three months, which translates to 13 percent of jobs in the nation’s third largest industry.

Without appropriate federal assistance, many organizations on which Americans rely are not likely to survive, creating further pain for the public and strains on the economy due to unmet needs.

We acknowledge that the Federal Reserve has little experience working with charitable organizations. As currently written, the Nonprofit Organization Lending Facilities are suitable for transactional nonprofits such as hospitals and higher education than at nonprofits with greater reliance on donations from the public to support their missions. Many of the financial requirements included in this proposal will put the loan program beyond the reach of most charitable organizations.

We offer the following recommendations to reflect the unique nature and legal realities of charitable organizations.

I. Limiting Eligibility to Nonprofits with Less than 30% of Revenue from Donations Disqualifies Many in Charitable Sector, Contradicts Existing Law

The Federal Reserve's criteria limiting eligible organizations to those with less than 30% overall revenues from donations would disqualify many charities and threaten the eligibility of some Girl Scout councils. Nonprofit organizations like Girl Scout councils fundraise from individuals, foundations, and corporate partners. During a year when cookie sales were disrupted and some sponsors reduced or rescinded support because of severe financial strain, councils may rely more heavily on individual contributions.

This criterion also contradicts existing standards that nonprofit organizations are held to by Congress, Treasury, and the IRS. To retain tax-exempt status under Section 501(c)(3) of the Internal Revenue Code, charitable nonprofits must meet a "public support" test showing they receive at least a third of their revenues via contributions from the general public, contributions or grants from other public charities, or from governmental agencies. If a charitable nonprofit fails to do so, then it carries the added burden of providing additional facts and circumstances to prove that it is a publicly supported organization. Effectively, nonprofits are required to have contributions of more than 33.3 percent, but the current Federal Reserve proposes to limit loans to those that receive less than 30 percent of their revenues from donations.

GSUSA and Girl Scout councils are proud of the donations we receive, rooted in our 108-year history of delivering the best girls leadership development program in the world. To disqualify charitable organizations securing more than 30% of revenue from contributions is contrary to existing federal law and contradicts our country's legacy of encouraging of charitable giving.

Recommendation: Eliminate the requirement that no more than 30% of an organization's 2019 revenues come from donations. Instead, make 501c(3) organizations that otherwise meet the employee size eligible.

II. Current Loan Terms Do Not Reflect the Financial Reality of Nonprofit Organizations

As drafted, the Nonprofit Loan Facilities impose certain liquidity, asset, and reserve requirements that are not required in MSL for for-profit businesses. Nonprofits typically provide services with low-profit margins. Indeed, social service organizations report an average aggregate margin of 1.5%. Less than 20% of large nonprofits have 6 months or more of operating reserves, a widely

accepted standard for “financial strength” for nonprofits. Social services organizations are the most fragile, with fewer than 10% reaching this standard.

Recommendation: Recognizing the unique nature of nonprofit operations, we urge the Federal Reserve to eliminate borrower requirements 7 and 8. If this is not possible, we alternatively ask that the requirements be lessened significantly to reflect the economic realities of nonprofit operations and the current crisis. This could include reducing the requirement to only 30 days cash on hand and/or reducing the loan origination ratio from the proposed 65%.

III. The Cost of Borrowing is Prohibitive for Charitable Organizations

The cost of borrowing under the Nonprofit Organization Loan Facilities is prohibitive to charitable organizations already operating on narrow margins, as previously discussed. Specifically, the interest rate of LIBOR plus 300 basis points is significantly higher than that offered for PPP Loans (1.0%) and Economic Injury Disaster Loans (2.75%). In addition, the loan origination and service fees are excessively high, adding to the cost under the Nonprofit Facility. Combined, these parameters would drive up the effective interest rate and deter nonprofit borrowers.

Recommendation: Set the lowest permissible interest rate for Nonprofit Organization Loan Facilities, such as the 0.5% rate initially proposed for PPP loans. And, we strongly request a significant reduction of origination fees.

IV. Lengthen and Provide Flexibility in Repayment Terms

For the foreseeable future, charitable organizations will experience exponential growth in demand for their services while resources – whether charitable, foundation or corporate donations, or government grants and contracts – are not expected to recover, much less rise to meet the growing challenges. We encourage the Federal Reserve to lengthen the repayment schedule and provide opportunity for renegotiation. Nonprofits with existing loans with balloon payments are generally provided an opportunity to renegotiate such loans at prevailing market rates.

Recommendation: Lengthen and add flexibility to the current repayment schedule. Specifically, extend the 5-year amortization to 7 years and afford the opportunity for renegotiation to avoid a balloon payment of more than 30%.

V. The Ratio of Adjusted 2019 Earnings before “EBIDA” Should Be Revised

In both the Nonprofit Organization New Loan Facility and Expanded Loan Facility, borrower eligibility criteria includes “a ratio of adjusted 2019 earnings before interest, depreciation, and amortization (“EBIDA”) to unrestricted 2019 operating revenue, greater than or equal to 5%.” For nonprofit operations, this threshold is too high and would make many, if not most, nonprofits ineligible based on these criteria alone. The current requirements seem more appropriate for for-profit businesses as opposed to nonprofits.

It may be prudent and necessary to have a positive ratio of adjusted earnings; however, nonprofits generally run on a small margin, both out of necessity and to not leave excess surpluses that could be used for to further missions. Moreover, at times a nonprofit may have a strategically planned and manageable deficit—a negative ratio at one isolated point is not always an indication of instability.

Furthermore, the footnotes for the EBIDA requirement clarify that “The Eligible Lender should calculate operating revenue as unrestricted operating revenue, excluding funds committed to be spent on capital...” Many nonprofits have “restricted revenue” through grants and contracts built into their operating budgets. Excluding this revenue would compound the problem of meeting the 5% ratio. Although it would be sensible to exclude contributions raised for a “capital campaign,” excluding other capital funds included in an annual budget for maintenance and planned upgrades would further decrease the required ratio.

Recommendation: Eliminate the 5% requirement or reduce it significantly. A statement of explanation of a deficit should be allowed so that a negative ratio does not mean automatic ineligibility for a nonprofit borrower. And, further clarification on the calculation methodology -- in the context of nonprofit operating budgets -- is needed for both restricted funding from grants in annual operating budgets and capital funds for improvements that are part of an annual operating budget. This clarification would allow noted revenues to remain in calculation to ease the restriction and not further restrict eligibility.

VI. “Reasonable Efforts” Regarding Employee Retention Require Further Clarification

The description of “Retaining Employees” requires refinement if the Federal Reserve expects nonprofits to take advantage of this facility. We endorse the [analysis of the National Council of Nonprofits](#) on the issue of employee retention, and recommend the following:

Recommendation: Interpret “reasonable efforts” in the totality of the circumstances, taking into consideration not only the general economic environment in the communities in which the borrower operates, but also workforce, fundraising ability, revenue-generating activities, and overall demand for the services and programs. One option would be to add the qualifier “mission-based” before “reasonable efforts.”

Recommendation: Clarify the terms “maintain its payroll” and “retain its employees.” Specify that nonprofits *generally* should endeavor to pay staff at the same or increased income levels and should act in good faith to keep staff level at the same or increased levels for the duration of the loan. The loan documents should expressly state that the employee retention provision begins on the date that loan is received by the borrower rather than at an earlier date.

Recommendation: Adopt the safe harbors of other loan programs and state clearly that nonprofit borrowers will not be penalized under the employee retention provision for the decision of employees to decline offers of rehire, or for those who are fired for cause, voluntarily resign, or voluntarily request a reduced schedule during the time that the loan is outstanding.

VII. Limitation of 50-Employee Minimum Should Be Removed

The term sheet for the proposed nonprofit loan facility imposes a size minimum that is not imposed in the Main Street [New](#), [Priority](#), or [Expanded](#) Loan Facilities for for-profit businesses. There is no explanation why the Federal Reserve is proposing that nonprofits with fewer than 50 employees should not be eligible for Main Street loans for which their small business counterparts of equal size could secure lending support.

The Girl Scout Movement is defined first and foremost by girls. We are also grateful for the thousands of dedicated volunteers who contribute time, energy, and other resources to prepare girls of courage, confidence, and character who make the world a better place. In some communities, and especially under the current economic conditions, nonprofit organizations including Girl Scout council may be operating with fewer than 50 employees, and this should not bar them from accessing needed capital in MSLP Nonprofit Organization Loan Facilities if they meet the other criteria required.

Recommendation: Remove the 50-employee floor.

VIII. Additional Recommendations and Requests for Clarification

In addition to our above recommendations, GSUSA requests that Federal Reserve also address:

- **Nonprofits with greater than 500 Employees:** GSUSA stands in support of its nonprofit colleagues with more than 500 employees in calling for a forgivable loan vehicle for organizations that were not eligible for PPP loans.
- **Endowment:** Clarify what resources should be included in endowment calculations, whether to include restricted endowments and/or cash on hand.
- **Collateral:** Allow flexibility on collateral. If necessary, the loan should be able to be approved with no more than 50% Loan to Value (LTV).
- **Other Debts:** Remove the requirement 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.” At the least, exclude lines of credit and other debt that are assumed to provide financial liquidity related to the impact of COVID-19.

Conclusion

Thank you for considering these comments and recommendations. We stand ready to work with you, Congress, and all committed to serving the public good to help our communities and country get through this crisis and promote a vibrant and equitable economic recovery.

Sincerely,

Sue Santa



Sue Santa
Vice President
Public Policy and Advocacy Office
Girl Scouts of the USA
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June 22, 2020

The Honorable Steven Mnuchin
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

The Honorable Jerome Powell
Chairman
Board of Governors of the Federal
Reserve System
20th Street & Constitution Ave., NW
Washington, DC 20551

Re: Federal Reserve Board request for public feedback proposal to expand its Main Street Lending Program to provide access to credit for nonprofit organizations

Dear Secretary Mnuchin and Chairman Powell:

The U.S. Chamber of Commerce (“the Chamber”) appreciates your continued leadership in addressing the economic fallout caused by the coronavirus pandemic. The Chamber supports the Main Street Lending Program (MSLP) and is pleased to see it will be expanded to certain 501(c) nonprofit organizations through the MSLP Nonprofit Organization Expanded Loan Facility and the MSLP Nonprofit Organization New Loan Facility (jointly, the “nonprofit organization MSLP facilities”).

The Chamber agrees with the sentiment expressed by Chairman Powell when announcing the nonprofit organization MSLP facilities:

"Nonprofit organizations are critical parts of our economy, employing millions of people, providing essential services to communities, and supporting innovation and the development of a highly skilled workforce . . . Nonprofits

provide vital services across the country and we are working to help them through this difficult time."¹

This sentiment has been broadly recognized by Congress as well as by stakeholders who have been interested in expanding the Small Business Administration's (SBA) Paycheck Protection Program (PPP) to include all nonprofit organizations. The PPP was the first major credit program authorized under the CARES Act to provide assistance to main street, thus was the initial focus of stakeholders in need of financial support. Now that the Main Street Lending Program is operational, and the minimum loan size has been decreased from \$1 million to \$250,000, it is viewed as a new lifeline for many organizations ineligible for the PPP.

The Chamber strongly recommends expanding the nonprofit organization MSLP facilities to include all 501(c) organizations, including 501(c)(6)s and expanding eligibility to smaller nonprofits by lowering the threshold for the minimum number of employees to 10. These changes will assist the Treasury Department ("Treasury") and Federal Reserve Board ("Federal Reserve") comply with Congressional intent and provide much needed financial assistance to organizations like state and local chambers of commerce that are on the forefront of economic recovery on main street.

U.S. Chamber of Commerce Record

The Chamber was joined by hundreds of associations in a letter to Congress on March 26, 2020, at the onset of the economic crisis, requesting they include all nonprofit organizations within emergency assistance legislation considered by Congress to combat the coronavirus pandemic, noting that thousands of nonprofit organizations are left out of the relief bills and will be hard hit by the coronavirus pandemic.² The Chamber was later joined by several thousand nonprofit organizations in a second letter on May 7, 2020, reinforcing the pressing need for the inclusion of nonprofits in emergency assistance legislation.

Nonprofit organizations, including chambers of commerce and trade associations, are important resources for their communities. They provide workforce

¹ Federal Reserve Board Press Release, "Federal Reserve Board announces it will be seeking public feedback on proposal to expand its Main Street Lending Program to provide access to credit for nonprofit organizations," (June 15, 2020), available at <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200615b.htm>

² Letter to U.S. Congress on nonprofit access to emergency assistance (March 26, 2020), available at https://www.uschamber.com/sites/default/files/200326_coalition_nonprofitorganizations_congress.pdf

development, education, civic events, and community support. Many of these organizations have begun to suffer major financial losses in order to comply with CDC guidelines regarding gatherings and events. Ultimately, many will have to close their doors, leaving their communities without their support, and their employees without jobs.

Congressional Intent for 501(c)(6) Access to Credit

Congress intentionally provided significant flexibility to the Treasury and Federal Reserve in the CARES Act for implementing the Main Street Lending Program and other facilities under 13(3) of the Federal Reserve Act. Title IV of the CARES Act includes some restrictions about the use of funds (including, for example, executive compensation limits and prohibitions on dividends), but provides significant flexibility for the types of companies that will be eligible. Title IV states nonprofit organizations (to the extent practicable) should be eligible but is silent on the type of nonprofits. It is unclear how the Federal Reserve reached the conclusion that some nonprofits should be eligible, but others – such as 501(c)(6) organizations – should not. It is possible this determination was reached by the Federal Reserve given the PPP excludes 501(c)(6) organizations (to which we object), but this undermines the intention of the MSLP complementing the PPP, not replicating restrictions.³

The PPP is not accessible by 501(c)(6) organizations at this time, but Congress has expressed its desire to resolve what many members have deemed an oversight. In a letter on April 10, 2020, before the MSLP initial term sheet was published, sixty-three Members wrote:

“Chambers of commerce are non-profit, tax-exempt organizations that bring together business leaders in our communities, helping them to negotiate shared challenges and promote local economic development. At this exceptionally difficult time for our Main Street economy, local chambers are providing critical guidance and resources to help small businesses weather the current

³ As noted in testimony to the Senate Banking Committee on June 2, 2020, “The latest FAQ’s for the MSLP (May 27, 2020) cite ineligible businesses as those that include those ‘listed in 13 CFR 120.110(b)-(j), (m)-(s), as modified and clarified by STA regulations for purposes of the PPP...,’ which replicates certain eligibility restrictions found in SBA regulations for the SBA’s 7(a) program modified for the PPP, available at http://www.centerforcapitalmarkets.com/wp-content/uploads/2020/06/200601_Testimony_CARESActTitleIVImplementation_SenateBanking.pdf?#

economic downturn, including urgently-needed assistance in obtaining loans and grant funding from the federal government.”⁴

The Local Chamber, Tourism, and 501(c)(6) Protection Act (H.R. 6697), sponsored by representatives Pappas (D-NH), Fitzpatrick (R-PA), Cisneros (D-CA) and Steube (R-FL) would expand the PPP to include 501(c)(6) organizations with 300 or fewer employees.⁵ Most recently, “The Heroes Act” (H.R. 6800), which passed the House of Representatives on May 15, 2020, would include all 501(c) employers as eligible borrowers in the PPP.⁶

Finally, the Federal Reserve should consider whether excluding 501(c)(6) organizations is consistent with 13(3) of the Federal Reserve Act. The statute requires “broad-based eligibility” for credit programs administered by the Federal Reserve under its 13(3) authority. Excluding 501(c)(6) organizations, but including all other 501(c) organizations, would appear to, at minimum, violate the spirit of Section 13(3) of the Federal Reserve Act.”⁷

Decrease Minimum Number of Employees

Finally, the Chamber recommends decreasing the eligibility threshold for the minimum number of employees in the organization from 50 to 10 or simply eliminate it. It is unclear why there would be any eligibility restrictions based on the minimum number of employees (such as underwriting purposes, for example) other than to intentionally limit the number of possible borrowers. The current threshold would exclude most state chambers of commerce and the vast majority of local chambers who are on the forefront of supporting small businesses on main street.

⁴ Letter to Leadership of U.S. House of Representatives regarding 501(c)(6) access to emergency assistance programs (April 10, 2020), available at

https://pappas.house.gov/sites/pappas.house.gov/files/Pappas_Fitzpatrick_Chambers_501c6_Signed.pdf

⁵ Representative Chris Pappas (D-NH) Press Release, “Pappas Introduces Bipartisan Legislation to Protect Local Chambers and Other Non-Profits” (May 6, 2020), available at <https://pappas.house.gov/media/press-releases/pappas-introduces-bipartisan-legislation-protect-local-chambers-and-other-non>

⁶ See HEROES Act (H.R. 6800) Sec. 90001(d) Modification to Eligible Entities.

Conclusion

Thank you for considering our views and your ongoing work to provide access to credit via the Main Street Lending Program. Please do not hesitate to reach out with any questions.

Very Respectfully,

A handwritten signature in black ink, appearing to be 'TK' followed by a long horizontal flourish.

Tom Quadman

June 22, 2020

The Honorable Steven Mnuchin
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, D.C. 20220

The Honorable Jerome H. Powell
Chair
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue NW
Washington, D.C. 20551

RE: Main Street Lending Program – NONLF and NOELF

Secretary Mnuchin and Chair Powell:

Thank you for the opportunity to comment on your proposal to expand the Main Street Lending Program to provide access to credit for nonprofit organizations. As an organization with more than 500 employees in the United States, we are a critical component in the professional excellence of the more than 80,000 U.S.-based investment analysts, advisers, portfolio managers, and other investment professionals affiliated with our 67 CFA local societies in the United States. Like other nonprofit organizations nationwide, we play a critical role in the local economies in which we and our members operate. Collectively, organizations like ours employ millions of people who support innovation and the development of a highly skilled workforce.

As we understand the NONLF and NOELF term sheets, the current definition of a nonprofit organization does not explicitly include organizations like CFA Institute, which is a Sec. 501(c)6 organization that is not primarily engaged in lobbying or political activity. Rather, the term sheets note, such organizations “may be considered for inclusion as a Nonprofit Organization under the Facility at the discretion of the Federal Reserve.” **I am writing to request that the Federal Reserve recognize CFA Institute as an eligible borrower under the Main Street Lending Program.**

CFA Institute started nearly 60 years ago and today stands as the largest association of investment professionals in the world. At the core of our mission, we serve finance professionals seeking investment management-related education, knowledge, professional development, connection, and inspiration. We strive to lead the investment profession's thinking in the areas of ethics, capital markets integrity, and excellence of practice. As the creator of the Global Investment Performance Standards (GIPS), we also take pride in being a steward and champion of high ethical standards of professional conduct within the investment management community.

Like other nonprofit organizations, we have experienced a significant blow to our finances due to the ongoing effects and uncertainty arising from the COVID-19 pandemic. In March, CFA Institute was forced to cancel all three levels of our June exams which were scheduled to take place at 343 test centers in 192 cities and 94 countries, due both to government policies and our concern for the health of the more than 250,000 young finance professionals scheduled to sit for those exams. This exam program accounted for more than 85% of our total revenues in the fiscal

year ended 31 August 2019. While the pandemic has had a significantly negative effect on our finances, CFA Institute has continued to employ all of our 500-plus U.S. employees, including maintenance of their health and wellness benefits and contributing to their retirement funds.

The unexpected financial hardship has severely limited our ability to function as an organization. Beyond the cancellation of our primary revenue-producing exam, the crisis has forced us to cancel dozens of meetings and events, many dedicated to providing continuing professional education to our members. Though we are planning to administer our December exams as scheduled, we are nevertheless aware that another viral wave could have a devastating effect on our organization, members, and aspiring charterholders.

While some nonprofit organizations have had the opportunity to obtain financial relief under the Payment Protection Program, 501(c)6 organizations like CFA Institute have been deemed ineligible to apply and therefore shut out from the process. Therefore, we ask that you consider our request to extend the eligibility requirements of the Main Street Lending Program to CFA Institute and other 501(c)6 organizations like us who are not primarily engaged in lobbying or political activity.

Thank you for your consideration and continued support of our country during this challenging time. If you have questions regarding this request for critically needed support for CFA Institute, please contact James C. Allen, CFA, Head Capital Markets Policy in the Americas (james.allen@cfainstitute.org or 434-227-1338).

Sincerely,

A handwritten signature in black ink, appearing to be 'M. Franklin', written over a horizontal line.

Margaret Franklin, CFA
Chief Executive Officer
CFA Institute

CC: The Honorable Mark Warner, Senator, United States Senate
The Honorable Tim Kaine, Senator, United States Senate



Jerome H. Powell
Chair, Board of Governors
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

June 22, 2020
Re: Main Street Lending Program – NONLF and NOELF

Dear Chairman Powell:

I am writing to you on behalf of Robin Hood, New York City’s largest organization focused on lifting families out of poverty, to share comments on the terms of the Federal Reserve System Main Street Lending Program’s Non-profit Organization New Loan Facility (NONLF) and Non-profit Organization Expanded Loan Facility (NOELF). While we appreciate the Federal Reserve’s creation of these loan facilities as a recognition of the vital nature of the non-profit sector for the emergency response, recovery, and economic stability of the country, we are deeply concerned that the proposed eligibility requirements for non-profit borrowers will disqualify a large proportion of social service organizations from the NONLF and NOELF and those that do qualify will be forced to accept less favorable loan terms than currently offered through other government programs.

Robin Hood funds more than 200 organizations across New York City that operate food pantries, homeless shelters, settlement houses, medical clinics, and other vital services for low-income New Yorkers who are being devastated by the public health and economic consequences of the COVID-19 outbreak. These are organizations that could greatly benefit from the NONLF and NOELF. However, the NONLF and NOELF borrower requirements and loan terms, as currently structured, favor hospitals and institutions of higher education with fee-for-service models over social service non-profit organizations that rely predominantly on donations and government contracts to provide services free of charge.

Drawing on more than 30 years of non-profit grantmaking experience, Robin Hood requests that the Federal Reserve address the concerns and proposed changes outlined below.

1) Transform Loan Program into Grants and Forgivable Loans

Non-profit boards are historically averse to taking on loans to cover day-to-day operating expenses. Yet, non-profits are experiencing the perfect storm of increased demand for their services with reduced donations. Some 50 percent of non-profits surveyed¹ by the Non-Profit Finance Fund reported reductions in private fundraising since the onset of the COVID-19 pandemic. Furthermore, states and municipalities are experiencing significant budgetary shortfalls leading to the reduction of government revenue streams and delays in the award or payment of contracts to non-profit social service and other organizations. Under these longer-term structural and acute conditions, grants and forgivable loans would provide the most effective injection of financial stability into the non-profit sector. We ask that the Federal Reserve review its legal authority to provide grants and/or forgivable loans and, if confirmed, that the Federal Reserve publish the analysis for the public and Congress to review. If legislative clarification is needed, we ask Congress to ensure that charitable non-profits of all sizes have access to loan forgiveness, not just those eligible for Paycheck Protection Program (PPP) loans via the CARES Act.

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Recommendation: The Federal Reserve, either on its own or working with Congress, must recognize the extent to which the public and the economy rely on the vital services non-profits provide to communities by creating a forgivable loan program.

2) Eliminate the Proposal to Limit Loans to Mid-Size Non-profits with Less than 30 Percent of Revenue from Donations

The NONLF and NOELF requirements that organizations must have revenues from donations that are less than 30 percent of 2019 revenues conflict with federal law. In order to retain tax-exempt status under Section 501(c)(3) of the Internal Revenue Code, charitable non-profits must meet a “public support” test showing they receive at least a third of their revenues via contributions from the general public, contributions or grants from other public charities, or from governmental agencies. If a charitable, non-profit fails to do so, then it carries the added burden of providing additional facts and circumstances to prove that it is a publicly supported organization.

The federal government – Congress, Treasury, and the Internal Revenue Service (IRS) – currently dictates that non-profits must have contributions of more than 33.3 percent, while the Federal Reserve proposes to limit loans to those that receive less than 30 percent of their revenues from donations. As a result, the draft term sheets for the two non-profit loan programs favor large institutions that generate fee-for-service revenues. These provisions threaten to eliminate a high proportion of social service organizations from eligibility for the loan facilities.

Recommendation: Eliminate the requirement that no more than 30 percent of an organization’s 2019 revenues come from donations.

3) Remove Organizational Size Restrictions and Eligibility Tests that May Exclude Social Service Groups and Exacerbate Racial Disparities in Access to Capital for Organizations Led by Persons of Color

The term sheet for the NONLF imposes a size minimum that is not imposed in the Main Street New, Priority, or Expanded Loan Facilities for for-profit businesses. The Federal Reserve is proposing that non-profits with fewer than 50 employees should be ineligible for Main Street loans while small businesses of equal size could secure lending support.

The National Council of Nonprofits, a network with more than 25,000 non-profit organizations, has noted that 97 percent of non-profits have budgets of less than \$5 million annually, 92 percent operate with less than \$1 million a year, and 88 percent spend less than \$500,000 annually for their work. Arbitrarily excluding these vital organizations from important loan programs would cut out the vast majority of non-profits and harm the people these organizations serve.

The size requirement also may exacerbate existing racial disparities in access to capital for organizations led by persons of color. A recent reportⁱⁱ by A Philanthropic Partnership for Black Communities (ABFE) found that 60 percent of the Black-led Organizations (BLOs) surveyed had budgets of \$500,000 or less. Most had small staffs; about 82 percent had teams of 10 or fewer.

In addition, the draft non-profit loan facility term sheets impose certain liquidity, asset, and reserve requirements that are not required in Main Street New Loan Facilities available to for-profit businesses. The loan facility’s

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liquidity test requiring a minimum of 90 days of expenses on hand would have a disparate impact on social service organizations and BLOs.

Non-profit organizations typically provide services with low-profit margins. Indeed, social service organizations report an average aggregate margin of 1.5 percent. According to a recent reportⁱⁱⁱ by Seachange Capital Partners, the median social services non-profit has a margin of 1.0 percent, receives 3.6 percent of its revenue from philanthropy (including investment income), has total financial assets (including endowments and other assets that are subject to legal restrictions) equal to 1.9 months of expenses, and operating reserves of less than one month of expenses. Less than 20 percent of large non-profits have six months or more in operating reserves, a widely accepted standard for “financial strength” for non-profits. Social services organizations are the most fragile, with fewer than 10 percent reaching this standard. The aforementioned ABFE report also found that only 23 percent of BLOs had operating reserves of three months or more.

The liquidity requirement could lead to a high proportion of social service organizations being ineligible for the non-profit loan facilities. An analysis^{iv} of the loan terms for the NONLF and NOELF by Seachange found that the liquidity test alone would disqualify 74 percent of the 1,542 social service organizations studied. The Seachange analysis found these potentially high rates of loan eligibility disqualification among social service organizations with expenses over \$30 million in their most recent Form 990 filed with IRS. Furthermore, according to the Seachange analysis, the earnings before interest, depreciation, and amortization (EBIDA) test alone would also eliminate 58 percent of the social service organizations from consideration.

In short, the NONLF and NOELF liquidity test loan terms would potentially exclude the vast majority of mid-size social service organizations on the front lines of the COVID-19 pandemic response.

Recommendation: The non-profit organization loan programs must be revised to remove the 50-employee floor.

Recommendation: The five percent EBIDA requirement should be reduced to zero, if not eliminated. In addition, a statement of explanation of a deficit should be allowed so that a negative ratio does not mean automatic ineligibility for a non-profit borrower. Finally, further clarification on the calculation methodology – in the context of non-profit operating budgets – is needed in regard to both restricted funding from grants in annual operating budgets, as well as capital funds for improvements that are part of an annual operating budget. This clarification would allow noted revenues to remain in calculation to ease the restriction and not further restrict eligibility.

Recommendation: We urge the Federal Reserve to eliminate the liquidity and unrestricted cash borrower requirements; loan terms 7 and 8, respectively. If this is not possible, we alternatively ask that the requirements be lessened significantly to reflect the economic realities of non-profit operations, for example by requiring only 30 days cash on hand, and bringing the loan origination ratio of 40-50 percent (down from 65 percent, as proposed).

4) Amend Loan Terms and Repayment Schedule to Support Non-Profit Stability

The NONLF and NOELF loan features may be too onerous for non-profit organizations and are less favorable than those offered in other government programs. Specifically, the interest rate of LIBOR plus 300 basis points is significantly higher than that offered for Paycheck Protection Program (PPP) Loans (1.0 percent) and that for Economic Injury Disaster Loans (2.75 percent). In addition, the imposition of loan origination and service fees adds to the cost under these non-profit loan facilities. Finally, the 70 percent balloon payment at the end of the five-year

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loan term could increase financial instability for these organizations. Non-profits with existing loans with balloon payments are usually provided an opportunity to renegotiate such loans at prevailing market rates.

Recommendation: We urge that the loan terms including interest rate and balloon payments be revisited and recommend the lowest permissible rate such as the 0.5 percent rate initially proposed for PPP loans. In addition, we urge some flexibility in the balloon payment requirement to afford the opportunity for renegotiation and to stretch amortization period to a minimum of seven years. Such a change would decrease the balloon payment at the end of the loan period.

Robin Hood greatly appreciates the efforts of the Federal Reserve to seek public comment on these critical matters. Thank you in advance for consideration of these recommendations for modification to the NONLF and NOELF programs. We remain available to discuss any of these issues in greater detail.

Sincerely,

A handwritten signature in black ink, appearing to read "Wes Moore", with a horizontal line underneath.

Wes Moore
CEO

ⁱ“COVID019 Survey Results,” Non-Profit Finance Fund <https://nff.org/covid-19-survey-results#Revenue>

ⁱⁱ“The Case for Funding Black-Led Social Change Redlining by Another Name: What the Data Says to Move from Rhetoric to Action,” A Philanthropic Partnership for Black Communities (ABFE)

https://philanthropynetwork.org/sites/default/files/resources/BSCFN_BLSO_Report_Dec2019.pdf

ⁱⁱⁱ Seachange Capital Partners <https://www.issueclub.org/resources/36677/36677.pdf>

^{iv} Seachange Capital Partners <http://seachangecap.org/wp-content/uploads/2020/06/MainStreet2.0-Proposal-Summary-of-Tests.pdf>



June 22, 2020

Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20051

SUBJECT: Proposal to expand Main Street Lending Facility to provide access to credit for nonprofit organizations

Chairman Powell,

The Local Initiatives Support Corporation (LISC) is pleased to offer comments in response to the Federal Reserve’s proposal to expand its Main Street Lending Facility to provide access to credit to nonprofit organizations. We applaud the Federal Reserve’s efforts to provide support for nonprofit organizations. Not only do nonprofits represent a large segment of the U.S. economy -- the 1.57 million nonprofits throughout the U.S. employ 10% of the country’s workforce¹ -- but they are the organizations that are serving the most vulnerable communities and populations in the wake of COVID-19. The strength of the nonprofit sector will dictate the pace of our nation’s recovery. Support for their operations is critical.

BACKGROUND ON LISC

LISC is a nonprofit housing and community development organization and certified Community Development Financial Institution (CDFI) with offices in 35 cities throughout the country, and a rural network encompassing 90 partners serving 44 different states. LISC’s work supports a wide range of activities, including affordable housing, economic development, building family wealth and incomes, education, community safety, and community health. In 2019 alone, LISC raised and deployed approximately \$1.5 billion of capital into distressed urban and rural communities, including: grants and technical assistance to support non-profits; loans and investments to non-profit owners and operators of affordable housing; and loans and investments to support non-profit community facilities such as charter schools, health care centers, childcare centers, workforce facilities, and community centers.

¹ <https://independentsector.org/about/the-charitable-sector/>

COMMENTS

The comments that follow respond to, and are structured in general accordance with, the “Nonprofit Organization New Loan Facility” term sheet. We offer these comments from the perspective of a large nonprofit that relies upon bank financing to support our operations, as well as from the perspective of a lender whose primary customers are nonprofit organizations.

Eligible Lenders

The loan facility should be made available to certified CDFI loan funds. The term sheet limits participation in the loan facility to insured depository institutions. As the Fed recently did with its PPP loan facility, this facility should be made available to certified CDFI loan funds. There are over 1,100 certified CDFIs throughout the country, including close to 600 nonprofit loan funds – most of which experience incidences of loan losses and delinquencies comparable to or better than banks. These entities can serve markets and offer products that are often too risky for traditional banks. CDFIs also have significant experience financing nonprofit borrowers, particularly the smaller nonprofits working in distressed neighborhoods and which often have the most difficulty attracting bank capital. The Federal Reserve should be looking for more ways to partner with CDFIs to serve the underserved markets, rather than potentially displacing them from the markets they know and understand the most.

Eligible Borrowers

The borrowers should not be limited to 501(c)(3)s and 501(c)(19)s. Many mission-driven nonprofits are established as 501(c)(4)s or 501(c)(6)s, for example. The term sheet indicates that the Federal Reserve may allow other nonprofits to participate, but it’s not clear what standards would be applied here. The assumption should be that all 501(c)s are eligible except those that the Federal Reserve excludes, and such exclusions should be clearly articulated.

Nonprofits with fewer than 50 employees should be permitted to receive loans. It is not clear why it is necessary for the Federal Reserve to require a minimum employment level, but in any instance, 50 employees seems excessive. According to the Independent Sector, there are 1,570,000 501(c)s that collectively employ 11.4 million workers – meaning that the average nonprofit employs just over 7 workers. Limiting participation to nonprofits that employ at least 50 workers will exclude the vast majority of nonprofits.

Revenues from donations. The requirement that no more than 30% of a nonprofit’s revenues may come from donations strikes us as arbitrary and unnecessary, and may disqualify many nonprofits that otherwise would be very good candidates for loans from this facility, in accordance with the other stated underwriting criterion. Furthermore, to the extent the Federal Reserve keeps such a requirement in place, it may need to further define “donations” to ensure that pass-through grants are not counted among donations. The Federal Reserve should also consider looking at a three year average rather than a single year (2019), as currently proposed.

EBIDA (Earnings before interest, depreciation and amortization) is not a metric typically used to underwrite nonprofits. It is not clear why this is a consideration here, when there are other metrics that measure financial strength (e.g., total debt to net assets; total liabilities to net assets) that are more typically used to underwrite nonprofits, are more easily understood by lenders and non-profit borrowers, and are much more straightforward to calculate than EBIDA.

Loan Terms

These loan terms are not very favorable for CDFI borrowers. CDFIs rely on bank capital to support their lending operations. Banks are currently providing five year, interest only loans to CDFIs at a rate of 3%, which is not that dissimilar to the loan terms of this facility. If the intent of this loan facility is to encourage more favorable lending to nonprofits, and the Federal Reserve does not allow CDFIs to participate as lenders in this facility, then it should consider creating a lower rate product (e.g., 1 percent or less) for borrowers that are nonprofit CDFIs; perhaps with a requirement that these CDFIs on-lend to other non-profits that cannot otherwise access the loan facility (e.g., because they have fewer than 50 employees).

The minimum loan size of \$250,000 should be lowered if the Federal Reserve determines to allow non-profits with fewer than 50 employees to access this facility.

Use of Proceeds should be defined to clarify if there are any restrictions on financing. It is not clear if the funds should be used for working capital or can be used for project finance.

Required Borrower Certifications and Covenants

Prepayment of other debt. It would appear as though one condition of accepting a loan from this facility is that the borrower has to agree not to prepay any of its other debts as long as the facility's loan is outstanding. It is not clear why the Federal Reserve would need to limit this activity, since presumably a borrower choosing to repay debt early has determined that this will improve cash flow and allow the nonprofit to provide more services.

Retaining Employees

Reasonable efforts. The Federal Reserve will likely need to provide additional guidance with respect to what is needed to demonstrate that a borrower has made "reasonable efforts" to maintain its payroll and retain its employees throughout the life of the loan; as well as the consequences should it fail to do so.

Fees

The borrower will likely pay a relatively large origination fee. It is notable that the lender fee to the SPV of 100 basis points may (and therefore likely will) be passed along to the borrower. This is on top of a 100 basis point origination fee the borrower is already paying. We would recommend that the Federal Reserve reduce the lender fee to the SPV by at least 50 basis points.

Facility Termination

The termination date needs to be extended. The facility is currently set to expire on September 30th, 2020. This does not strike us as a reasonable amount of time to line up non-profit borrowers and close transactions, particularly to the extent the Federal Reserve requires additional time to review comments and made amendments to the term sheet. Furthermore, we may be looking at a fairly long economic recovery period. We would therefore recommend that the Federal Reserve keep this facility open until at least December 31, 2020.

Thank you for consideration of our comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Matt Josephs", with a long horizontal flourish extending to the right.

Matt Josephs
Senior Vice President for Policy