

Board Action: Debt Service Ratio Calculation Qualification Moratorium

Background:

Approximately 5 months ago, we made several legislative changes to the CLIMBER loan fund. This was to incorporate programmatic feedback from lenders as well as the business consultant on improving the accessibility for businesses to receive CLIMBER loans. Specifically, the original legislation for the CLIMBER loan fund had a qualification date of February 29, 2020. This accommodated businesses that were struggling because of the pandemic to receive working capital funds to continue to operate their businesses at a low cost.

During this process it had been recognized that the original qualification date of February 29, 2020 was no longer as applicable to the qualification process for a couple significant reasons. First, the program has been in operation for more than a year but has moved more than two years beyond that date making this date irrelevant in the debt service coverage calculations. Legislatively, we had removed the need for a business to have multiple consecutive years of positive cashflow and this date became an impediment to the qualification process. Additionally, the date added a layer of complexity for lenders to proceed with the qualification of applications for the CLIMBER loan fund and added additional steps for the lenders to review. Also, it was the intent from the submission of the new legislation that all references to this date were to be eliminated.

In order to remove the last reference to this date on the debt service calculation, the staff will submit to the Statutory Revision Committee our intension to strike this date from the legislation. The staff recommends that the Oversight board establishes a moratorium for the disqualification of a business based upon the debt service ratio calculation prior to February 29, 2020. Since the process from application to approval has shown to take several months, this allows lenders to start a business application pre-qualification process till the committee hears and passes our submission. Since this date is specifically called out in the original legislation it has to remain part of the approval process for loans to the business. Once this action gets approved by the committee, then the lenders can use current financials in determining the qualification of the loans which they currently require.

Board Action:

With approval of this request, the Oversight Board authorizes that a temporary moratorium from the 1:1 debt service coverage ratio prior to February 29, 2020 is in place. This allows business to proceed with the application and pre-qualification process with a CLIMBER lender till such time that the Statutory Revisions Committee makes a determination on the request to remove the referenced date from the debt service ratio calculation. If this action does not pass, then the business would have to meet the qualification process set forth in statute to receive CLIMBER funds.

Rationale:

This will allow businesses to get a head start and move through a majority of the application and potential approval process in order to shorten the time it takes to receive funds.