MEMO

To: Pastors, Principals, Business Managers

From:

Date: April 1, 2020

Re: Emergency Borrowing for Parishes and Schools

I am writing to provide guidance on options for emergency borrowing to support parish and school cash flow needs.

The Paycheck Protection Program (PPP) may be an option for us and we continue to evaluate that possibility and await regulatory guidance on the program. Our legal counsel is working with attorneys, legislators, the USCCB, and federal officials to determine the eligibility of our organizations for this program, and the long-term impact that participation in this program would have on parish and school operations and autonomy.

Parishes/Schools with existing bank debt:
If your parish or school has existing debt your best option will be to work with your current lender. You have all probably done this but if not, please do it now.

- You should ask your lender about the possibility of deferring payments on your existing debt. One pastor told me his bank willingly deferred payments for three months.
- Talk to your lender about the covenants of your existing loan. It is possible that reduced revenue at the parish will trigger issues with loan covenants. Your bank should be willing to provide you with a temporary waiver of those required covenants.
- Talk to your lender about the possibility of an operating line of credit. Your bank will likely be willing to offer you an operating line that is cross-collateralized with your current loan and will have covenants and other terms that either mirror or do not conflict with those of your existing loan. Conversely, entering into any other debt arrangement may trigger issues with covenants associated with your current loan.
- Ask your current lender if a PPP loan would trigger any issues with your current loan. Again, we do not know at this point if PPP loans will be a possibility, but it would be a good idea to ask this question now.
- New loans will require diocesan approval and document review.

All Parishes/Schools:
We have put together a dual-option program with [financial institutions] that will provide one portal to start the process both for the PPP loans and for a more traditional emergency operating line of credit

- The key difference between a PPP loan and a line of credit is that, if certain conditions are met, PPP loans may be forgivable. Again, however, we are continuing to work with the USCCB to determine the long-term costs of such a loan forgiveness program.

- [financial institution] has set up a diocesan portal that you can access immediately to express your interest in either of the options.
- You need not select an option at this time. The best option will be determined as your interaction with [financial institution] unfolds (assuming the PPP loan is determined to be a viable option).
- [financial institution] will serve as our administrator of the PPP loans. The terms of loans will be guided by law and the SBA.
- The [financial institution] emergency line of credit. For parish/school purposes this line of credit will be unsecured. As a block, these lines will be secured by assets of the Diocese.
- For both types, diocesan staff will be working closely with [financial institution] to administer the loans.
    - We will work with them to create boilerplate loan documentation for all our loans. This will facilitate document review on our end.
    - [financial institution] will perform the loan underwriting and submit information to diocesan staff for approval. The parish or school will not be required to request approval from the Diocese.
    - [financial institution] will coordinate directly with diocesan staff to obtain the required corporate resolution.
- Terms for the two types of loans will be similar (and are still being negotiated) but will be something like the following:
    - Maximum borrowing amount will be 2.5 times total monthly payroll and benefits costs.
    - Interest Rate = 3.5%
    - Initial 12-month period where borrower can draw from a revolving credit line as needed.
    - During this initial 12-month period, payments are interest-only, with first payment not due for 90 days.
    - At conclusion of initial 12-month period, the outstanding loan balance will be converted to a fully amortizing 24-month loan. This amortization will be based on a straight line, principle plus interest payment (NOT mortgage style).
- The Cash Flow Projection worksheet that we discussed in our webinar last week will be a critical part of the process for applying for these lines of credit. The cash flow projections will also be used to determine the amount needed by the parish/school and to assist with prioritization of all loan requests.
- Because these loans will be secured by diocesan assets, the total lending availability is limited and thus prioritization will be necessary. Parishes and schools that do not have an immediate need are asked not to apply.
- These loans should be considered as a part of the overall strategy for parishes and schools to address the financial stress associated with the Covid-19 crisis. They are a tool to be used in conjunction with the cost-saving measures we have discussed previously.
- We encourage parishes/schools that foresee a cash assistance need to visit the site listed above immediately in order to initiate the process of learning about and/or applying for either of these loan types. [financial institution] will then have your contact information and will work with you to complete the process.