

HASCAP Readiness for Hotels: Q&A

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Q: What exactly can the funds be used for? What can't HASCAP funds be for?

A:

- HASCAP is intended to be used exclusively to fund the operational cash flow needs of the business and ensure a degree of continuity of operations. Proceeds are to be an advance of a new term loan that is incremental to the lender's current exposure with the business and not to replace or refinance any of the business's existing credits.
- Normally scheduled monthly (i.e. excluding balloon) and not yet due principal and interest, equipment or supplier financing payments, are permitted.
- The loan proceeds cannot be used for dividends or distributions, management fees, bonuses or similar instruments, except for a maximum of \$200,000 of distributions that are paid in lieu of a salary to the shareholders (and as per historical practices).
- Your financial institution will provide further details.

Q: What is the required revenue reduction to qualify for HASCAP?

A:

- These loans are for businesses that have seen their revenues decrease by 50% or more as a result of COVID-19 for at least 3 months, within the 8-month period prior to the date of your HASCAP Guarantee applications.

Q: How do I calculate the monthly drop in revenue?

A:

- The applicant must provide Canada Revenue Agency attestation forms for CEWS or CERS, plus proof of payment (for each of the three months and each month reflecting a minimum 50% revenue drop) equal to the subsidy amount on the attestation form.
- Only if the business does not qualify for CEWS or CERS, can the business provide financial statements that reflect at least three months (which do not need to be consecutive) of monthly year over year revenue decrease of a minimum of 50% per month within the 8-month period prior to the date of the HASCAP Guarantee application.

Q: What defines an affiliated group of companies?

A:

- An affiliated group is two or more corporations that are related through common ownership and/or control either via an individual or corporation. Control is generally defined as; 50% ownership either directly or indirectly or control of the board of directors.

Q: What is the maximum loan amount?

A:

- The guarantee covers loans in amounts ranging from \$25,000 to \$1 million to ensure a degree of continuity for your business through the pandemic.

Q: What is the interest rate and repayment terms?

A:

- The loan carries a 4% interest rate and a repayment term of up to 10 years.

Q: Where do I apply? What is the first step?

A:

- The first step is for the business to go to their primary financial institution. The lender should be your primary lender.
- Business owners can only apply to one financial institution, their primary lender, where the primary lender is the account or cash management financial institution of the applicant, which holds a first ranking general security interest (or hypothec in Quebec) on the personal or movable property of the applicant.
- If their primary lender is not participating in the program, only then may they apply via another financial institution.

Q: Is there a confirmation number that needs to be obtained?

A:

- Yes. The borrower will be asked to fill out an intake form as part of the financial institution's process.

Q: How is a primary lender defined?

A:

- Under HASCAP, a primary lender is the account or cash management financial institution of the applicant, which holds a first ranking general security interest (or hypothec in Quebec) on the personal or movable property of the applicant.

Q: Are the banks and credit unions aware of HASCAP?

A:

- BDC has been working closely with the financial institutions to ensure that they are ready and able to serve businesses.
- The program became available to business owners at some participating financial institutions as of February 1, 2021 and a list is published in the FAQ section on BDC.ca/hascap. Other participating financial institutions will deploy the program progressively over the days that follow.

Q: BDC is my primary lender, Is BDC lending directly?

A:

- If BDC is the company's primary lender, they should contact their account or cash management financial institution for additional information on the Program.

Q: Is there an administration fee?

A:

- No.

Q: Is there an application fee?

A:

- No

Q: Is any portion forgivable?

A:

- No.

Q: How long will the application approval process take?

A:

- A key feature of the program is predictable decisioning based on standardized eligibility and adjudication criteria. Therefore, the approval process is expected to be streamlined. Loans must meet the lender's standard lender processes, including but not limited to all anti money laundering and know your customer requirements, as required by FINTRAC, regulatory requirements, and the lender's policies and processes.

Q: What documents do you need to apply?

A:

- The applicant must provide Canada Revenue Agency attestation forms for CEWS or CERS, plus proof of payment equal to the subsidy amount on the attestation form.
- Other documents may be required based on the lender's standard lender processes.

Q: Is there a penalty for early payback?

A:

- No transaction fees or prepayment penalties are to be charged (but break costs and security registration fees are permitted)

Q: How is the loan amount determined? What are the adjudication criteria?

A:

- During the application process, the company requests a loan amount.
- Adjudication criteria including but are not limited to; Segment 1: Eligible loans between
 - \$25,000 - \$100,000: Borrower (collectively with the other Obligors, if required) meets the Probability of Default Requirement.
 - Segment 2: Eligible loans between \$100,001 - \$250,000: Borrower (collectively with the other Obligors, if required); (a) meets the Probability of Default Requirement and (b) generated a minimum of \$500,000 in gross revenues for the 12-month period ending as at the date of the most recent annual financial statements of the relevant Obligors prior to March 1, 2020.
- For Segment 1 and 2 the loan amount is based on the customer request (subject to all Program criteria).
- Segment 3: Eligible loans between \$250,001 - \$1,000,000: Borrower (collectively with the other Obligors, if required) meets the minimum Debt Service Coverage Ratio Requirement of 1.10x as at the date of the most recent financial statements of the company prior to March 1, 2020 (including the proposed HASCAP loan and any other debt added since the date of the financial statements) and has a minimum S&P CCC+ rating prior to March 1, 2020.
- For Segment 3 the loan amount is subject to meeting the minimum Debt Service Coverage Ratio Requirement (subject to all Program criteria).

Q: If I've received BCAP, RRRF or other government programs, am I still eligible for HASCAP?

A:

- Benefiting from one Government program does not disqualify a business from HASCAP.

Q: If we have had a change of ownership throughout the eligibility period, are we still eligible?

A:

- Yes. Ownership time period is not an eligibility criterion.

Q: If one legal entity holds several hotels or operates several hotels, will the \$1M limit be further extended?

A:

- HASCAP is structured to provide a maximum of \$1 million per legal entity. Maximum combined exposure of related legal entities is \$6.25 million.
- If a legal entity owns multiple business sites [which generally is defined as sites that are substantially similar in nature and related to the main core business (such as multiple hotels in one legal entity)] the legal entity can borrow the equivalent of \$1 million per site subject to;
- a maximum amount of \$6,250,000, (ii) meeting the Debt Service Coverage Ratio Requirement at the legal entity level and (iii) all other terms and conditions of the Program.

Q: Does debt service coverage apply to individual entity, or as a group?

A:

- HASCAP is structured to provide a maximum of \$1 million per legal entity. If the amount requested is between \$250,001 - \$1,000,000, the Borrower (collectively with the other Obligors, if required) must meet the minimum Debt Service Coverage Ratio Requirement of 1.10x as at the date of the most recent financial statements of the company prior to March 1, 2020 (including the proposed HASCAP loan and any debt added since the date of the financial statements).

Q: If you have a number of joint venture partners on a hotel, can you elect to have one person to apply on behalf of that hotel?

A:

- The operating entity (or individual) that manages the hotel and its banking relationship and deals with the primary lender should contact the hotel's primary lender.

Q: Will this loan be registered on title?

A:

- No. HASCAP does not register a mortgage on title but will take a GSA (movable property, receivable, equipment).
- Regardless of the existing security or providing a lender, the program does not take personal guarantees.

Q: What if you don't have any S&P ratings?

A:

- Your financial institution is able to use an equivalent.

Q: Can you please explain what you mean by Net Loss Guarantee?

A:

- The Net loss guarantee is 100% guarantee provided by BDC to the financial institution on loan balance after realization of proceeds from all of the primary lender's security and the HASCAP loan security.

Q: If your financial statement for the period prior to March 1, 2020 includes one -time or non- recurring expenses, can these be excluded in calculating a debt coverage ratio of 1.1?

A:

- The Debt Service Coverage Ratio is a standardized calculation and EBITDA may be adjusted, as in the determination of the primary lender, to account for extraordinary items presented in the financial statements.