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To: House Committee on Commerce and Senate Committee on Economic Development
House and Senate Committees on Appropriations
Date: 1 June 2020
RE: Proposed Vermont Economic Injury Disaster Loan program

The recently issued U.S. Treasury Coronavirus Relief Fund FAQ[1] has implications for the Governor's proposed Economic Injury Disaster Loan (EIDL) program. As proposed, the Vermont EIDL program to be administered by the Vermont Economic Development Authority (VEDA) establishes a perpetual revolving loan fund. However, the FAQ indicates that all loan repayments subsequent to December 30, 2020 must be returned to the U.S. Treasury. *This negates a key aspect of the proposed program – the establishment of a revolving loan fund managed by VEDA.* Since the program as designed does not require repayment during the first 12 months of the loan term, it's likely all repayment will be subsequent to December 30, 2020 and will be have to be returned to the U.S. Treasury.

In addition, we have some other observations regarding the proposed structure of the Vermont EIDL program for the Legislature's consideration:

- *The program proposes to establish a loan loss reserve which may be unnecessary*. It is prudent lending practice to establish loan loss reserves, but in this case it's not clear there is a risk to be mitigated. The funds are not from VEDA's capital so if a borrower fails to repay the loan, it does not negatively impact VEDA. Second, based on the guidance issued thus far, it appears the consequence for non-repayment is that there will be no funds to return to the U.S. Treasury.
- *There will be costs to administer the program, but it's not clear why VEDA is both allocated $1.8 million for administrative costs and may charge borrowers interest on the loans*. The loans are zero percent interest for the first twelve months, two percent interest for months thirteen to twenty-four, and variable interest after twenty-four months.
- *The proposed loan structure could be higher cost than borrowers anticipate.* The loans are for 10-year terms with up to 20-year amortization. This suggests that after 10 years either a balloon payment is due, or the borrower may extend the loan for an additional period. This likely means that VEDA would re-write the loan, charge a processing fee, and impose new interest rate requirements.

I hope these observations are helpful to your review of the proposed uses of the Coronavirus Relief Fund.

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1 "Coronavirus Relief Fund Frequently Asked Questions Updated May 28, 2020," U.S. Treasury https://home.treasury.gov/system/files/136/Coronavirus-Relief-Fund-Frequently-Asked-Questions.pdf