



Sustaining Alaska's Future Economy Guaranty Program ("AK SAFE")

OPERATING PROCEDURES

In response to the COVID-19 economic emergency, AIDEA has implemented a new loan guaranty program to provide Alaska based companies with access to additional capital in order to keep Alaskans employed and put those businesses in a position to recover.

This program works in collaboration with Alaska's banks and financial institutions, AIDEA will provide a loan guarantee up to \$1,000,000 per Borrower to Alaska's banks and financial institutions for an increased advance rate on the Borrower's established credit facilities. The objective is to enable Alaska's banks and financial institutions to immediately provide additional capital to Alaska's businesses through their existing relationships as they continue to manage terms with those Borrowers.

This program is Alaska specific and is supplemental to federal loan programs available directly or through Alaska's banks and financial institutions under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).

1. Authorization

On March 13, 2020, President Trump declared the ongoing Coronavirus Disease 2019 (COVID-19) pandemic of sufficient severity and magnitude to warrant an emergency declaration for all states, territories, and the District of Columbia. On March 20, 2020, Governor Dunleavy unveiled the Alaska COVID-19 Economic Stabilization Plan, a statewide approach to provide Alaskans with urgent relief and protect the state's economy from the impact of the Coronavirus Disease 2019 (COVID-19). Alaska is confronting an economic crisis as a result of the COVID-19 pandemic that threatens Alaska businesses and those working in Alaska businesses.

On March 31, 2020, by an emergency session of AIDEA's Board, approval was provided by public resolution number G20-10 for AIDEA to create the Sustaining Alaska's Future Economy Guaranty Program ("AK SAFE"), which shall be a business loan guaranty program under AS 44.88.500 – 44.88.599. Consistent with emergency regulation 3 AAC 99.925, as adopted on this date, the Executive Director is authorized to waive or modify any requirements set out in the Authority's regulations for the Business and Export Program in implementing the AK SAFE Program and making loan guarantees under it.

2. Effective Date

The intent of AIDEA Resolution G20-10 is that AIDEA provide relief to Alaska's businesses expeditiously. Therefore the procedures defined herein are effective immediately, consistent with emergency regulation 3 AAC 99.925 and AIDEA Resolution G20-10.

AIDEA is authorized to issue guarantees under the program from the date of approval (March 31, 2020) until the earlier of (i) December 31, 2020, (ii) the end of the Governor's declared COVID-19 State of Emergency for the State of Alaska, or (iii) the Program Cap is reached.

Guarantees will be issued on a "first-come, first-served" basis, provided that AIDEA shall make the guarantees of the AK SAFE Program available to banks and financial institutions that provide business loans anywhere in Alaska so that the AK SAFE Program shall be equitably available to benefit all regions of the State.

3. Program Cap

By AIDEA Resolution G20-10, The Authority shall immediately make up to \$50 million available for loan guarantees under the AK SAFE Program. If the statutory limitation of AS 44.88.540(1) on guarantees under the Business and Export Program is hereafter increased, the Authority shall increase the amount available under the AK SAFE Program to the maximum amount permitted by law, but not in excess of \$1 billion.

4. Eligibility

All Alaska based businesses (hereafter referred to as "Borrower") impacted by the COVID-19 economic emergency with:

- a. an established and effective collateralized loan agreement;
- b. which is with an eligible lender;

are eligible under the program. An Alaska based business is defined to be a business enterprise operating in the State of Alaska whose majority interest is held by state residents. An eligible lender under the program is defined to be all state chartered or federally chartered financial institutions doing business in the State of Alaska (hereafter referred to as "Lender").

In accordance with AS 44.88.900, a "business enterprise" means a single proprietorship, cooperative, corporation, firm, partnership, or other association of persons organized in any manner, for any credit worthy business purpose. This includes any business concern and tax-exempt non-profit organizations with a business license in the State of Alaska.

In the case that Borrower and Lender have multiple collateralized loan agreements, Borrower and Lender shall define the best applicable agreement under the program to maximize the amount of guaranty available to Borrower in accordance with the program terms and conditions.

The SAFE Guaranty Program is a stand-alone program with Borrower, Lender and AIDEA. It is not available to supplement a Borrower's loan agreement in which AIDEA is already providing funding under any other AIDEA program, including but not limited to the Loan Participation Program, Rural Development Initiative Fund Loan Program, and the Small Business Economic Development Program.

5. Maximum Amount of Guaranty

The amount of AIDEA's guaranty under the program is capped at \$1,000,000.00 per Borrower (AS 44.88.545), inclusive of principal and any agreed coverage for interest. The intent of the program is to

maximize the amount of capital available to Borrowers. This is best implemented through a principal only guarantee. AIDEA requests that Lenders take this into consideration in working with their Borrowers under this program.

Under AS 44.88.535, AIDEA may guarantee the payment of interest on the guaranteed portion of a loan:

- a. in the manner established by the authority by regulation; and
- b. for a period of time not to exceed 90 days.

6. What is being guaranteed by AIDEA?

The program works with Lenders under an existing secured loan agreement in which the Lender has previously extended credit (the “Pre-existing Loan”).

AIDEA is providing a guarantee to Lenders in order to advance additional funds under that same loan agreement to make available an additional or second advance (the “Guaranteed Tranche”) through a second promissory note under the secured loan agreement with Borrower.

In order to make this second advance, AIDEA will provide to Lender a 100% guaranty on the amount of the Guaranteed Tranche up to a maximum \$1,000,000.00 per Borrower. Any draw on AIDEA’s guaranty is required to be secured by a second lien position in the Lender’s collateral package under the loan agreement with Lender.

This is a guaranty by AIDEA for a lump sum, one time advance for the COVID-19 economic emergency under the Lender’s loan agreement and is not to be structured by Lender as a guaranty of a revolving amount or line of credit available for re-advances to Borrower.

7. Limits to AIDEA’s Guaranty

Maximum Advance Rate

The maximum amount of AIDEA’s guarantee is subject to compliance with AS 44.88.535 which limits the authority’s guarantee to a maximum 80 percent of a loan – the Maximum Advance Rate. In the context of this program, the Lender’s Pre-Existing Loan and the Guaranteed Tranche in total is defined to be one loan (the “Overall Loan”) since these are both advances under the same loan agreement, with same Lender, and secured by the same collateral package.

As an example:

- a. Lender’s Pre-Existing Loan: \$500,000.00 (“Loan A”);
- b. The Guaranteed Tranche: \$1,000,000.00 (“Loan B”)
- c. Total outstanding principal balance to Borrower: \$1,500,000.00 (“Loan A + Loan B”)

Compliance with the Maximum Advance Rate is calculated as follows:

Loan B divided by Loan A + Loan B

$\$1,000,000 / \$1,500,000 = 66.7\%$

This is defined for purposes of the program to be the Advance Rate. In this example, the Advance Rate has been determined to be 66.7% and in compliance with AS 44.88.535, the Maximum Advance Rate under the AK SAFE Program. Lender will report the Advance Rate to AIDEA in the application.

Maximum Loan to Value

The function of the Guaranteed Tranche is to increase the advance rate on the Borrowers collateral securing the loan agreement. Lender is to provide AIDEA with a calculation of the loan to value (LTV) for the Pre-Existing Loan using the most currently available information for collateral values and the maximum advance rates, if any, determined in the loan agreement.

Lender will determine a new advance rate with AIDEA for the Overall Loan (the Pre-Existing Loan plus the Guaranteed Tranche), provided the ratio of the Overall Loan divided by the aggregate collateral value securing the loan agreement does not exceed 90%.

As an example:

- a. Lender's Pre-Existing Loan: \$2,500,000.00 ("Loan A");
- b. Total value of 1st lien collateral securing Loan A: \$5,000,000.00 ("Value");
- c. Guaranteed Tranche: \$1,000,000.00 ("Loan B")

Compliance with the Maximum Loan to Value is calculated as follows:

Loan A + Loan B ("Overall Loan") divided by Value

$$\text{\$3,500,000} / \text{\$5,000,000} = 70\%$$

This is defined for purposes of the program to be the Loan to Value. In this example, the Loan to Value has been determined to be 70.0% and therefore in compliance with the Maximum Loan to Value limit under the AK SAFE Program. Lender will report the Loan to Value, prior to and with the AIDEA guaranty amount, to AIDEA in the application.

8. Payment Terms of Loans Guaranteed by AIDEA

The terms of the Guaranteed Tranche are to be on terms no greater than provided on the Lender's Pre-Existing Loan, as amended or modified by Lender determination with Borrower for the COVID-19 economic emergency. The maturity date for the Guaranteed Tranche will be the same or earlier than the maturity date of Lender's Pre-Existing Loan.

Interest Rate

The interest rate may be a fixed or variable rate as determined by the Lender with Borrower.

As provided under AS 44.88.550, the maximum interest rate that may be charged by a financial institution on the Guaranteed Tranche under the program is two and three-quarters percentage points (275 basis points) above the prime rate, plus the applicable annual service fee charged by AIDEA, if paid from the interest rate charged to the Borrower.

For clarification purposes and as further provided by AS 44.88.550, if the interest rate on the Guaranteed Tranche under the program is variable, the maximum rate stated above may increase or decrease in accordance with the changes in the prime rate.

It is agreed under the AK SAFE program that the maximum interest rate allowed under this program will be subject to a floor equivalent to an all-in interest rate of 3.75 percent, as determined on an annual basis, plus the applicable annual service fee charged by AIDEA, if paid from the interest rate charged to the Borrower.

Principal Repayment

The principal amortization terms for Lender's Pre-Existing Loan and the Guaranteed Tranche will be the same. Lender shall ensure that the ratio of the outstanding principal balance on the Guaranteed Tranche to the outstanding principal balance of the Overall Loan will not increase over the term of the Guaranteed Tranche. In effect, Lender will ensure that the Pre-Existing Loan and the Guaranteed Tranche are amortized equally over the term or that pre-payments, if any, are at least applied equally to the Guaranteed Tranche.

Borrower is able to prepay principal amounts on the Guaranteed Tranche at any time, subject to the terms and the conditions for prepayments under the Loan Agreement with Lender. Principal amounts repaid by Borrower on the Guaranteed Tranche will reduce the amount of the AK SAFE Guaranty in an equal amount.

9. Maximum Maturity of Guarantees

AIDEA is authorized to issue guarantees under the program on loans by Lenders provided the underlying term of the loan does not exceed twenty (20) years.

AIDEA staff is authorized to approve guarantees for loans by Lenders with maturities not exceeding ten (10) years. Guarantees for maturities in excess of ten (10) years, will require the approval of AIDEA's board.

10. Permitted Uses of Funds

Funds advanced by Lender under the Guaranteed Tranche may be used for any working capital purposes required by the Borrower arising from the COVID-19 economic emergency.

Subject to certification by Lender, guarantees for loans may be issued under the program if the loans to Borrowers:

- a. Are for commercially reasonable purposes;
- b. Will help to stabilize the economic base of the area and create or maintain employment and/or allow the Borrower to create additional economic opportunity;
- c. Are additional funding to the Borrower and not being used to refinance existing debt of the Lender or Borrower;
- d. Are for the Borrower's principal business use or to preserve it's workforce and not used to fund a distribution to owner(s) or used similarly with the effect of distributing the funds outside of the Borrower's principal business use.

11. Application to AIDEA

The applicant under the AK SAFE Guaranty Program is the Lender. Borrowers are requested to complete the Borrower portion of the AIDEA AK SAFE Application Form (attached to these procedures as Schedule 1) and submit this form to Lender.

Borrower is requested to provide Lender the following documentation for AIDEA review:

- a. Schedule of Liabilities;
- b. Schedule of the Borrower's Current Monthly Cash Position and as forecasted over the next 18 months (including use of funds advanced under this program);

Lender is requested to complete the Lender portion of this form (attached to these procedures as Schedule 2) and to provide, at minimum, the following documentation for AIDEA review:

- a. A copy of Lender's loan approval with COVID-19 economic emergency modifications, including the new advance with guarantee under the program;
- b. A copy of the Borrower's most recent financial information as required under the loan agreement;
- c. A copy of the most recent analysis of collateral value securing the loan; and
- d. A copy of the loan agreement and security agreement.

AIDEA requests that Lender provide as much of the information listed in the form as is currently available to support the application.

12. Confidentiality and Sharing Information with AIDEA

Lender and Borrower information shared with AIDEA under this program will be treated as confidential so long as that information falls within one of the categories AIDEA can keep confidential under AS 44.88.215, which includes the following:

- a. income tax returns;
- b. financial statements, profit-and-loss statements, and cash flow projections, except the information required by the authority to calculate debt service coverage on the loan;
- c. financial business plans;
- d. credit reports from consumer reporting agencies and other credit information obtained from banks, creditors, or other credit reporting entities;
- e. trade secrets, including confidential proprietary information and confidential information about products, pricing, or manufacturing or business processes;
- f. appraisals, except the name of the appraiser, the date of the appraisal, and the fair market value determined for the property appraised;
- g. market surveys and marketing strategy information; or
- h. any information required to be kept confidential by a federal law or regulation or by state law.

AIDEA will treat this information as confidential without necessity of any further finding on AIDEA's behalf. Secure sites will be set up to enable Lender to relay this information to AIDEA.

13. Application and Program Fees

Application Fee

The \$200 application fee is waived under this program

Program Fees

Fees for guarantees issued under the program are payable by Borrower to AIDEA and limited to the following:

Guarantee Amount	Annual Service Fee	Guaranty Fee
\$150,000 or less	0.5%	\$1,000
\$150,001 to \$500,000	0.5%	\$2,500
Greater than \$500,000	0.5%	\$5,000

The annual service fee is waived by AIDEA and not payable by the Borrower for the first thirty-six (36) months from the guaranty issue date (the “Waiver Period”). Following the conclusion of the Waiver Period, AIDEA’s Annual Service Fee is payable by Borrower from the interest paid on the Guaranteed Tranche.

The Guaranty Fee is payable by Borrower and will be deducted from the proceeds of the Guaranteed Tranche once funds are disbursed by Lender.

14. Process and Documentation

Lenders please send the application forms and related documentation by email to AKSAFE@aidea.org. Any questions on the program should be directed to AIDEA at 907 771 3043.

AIDEA will review the information. Once approved, notification will be given by email with the program documentation including:

- a. the Guaranty Agreement (between AIDEA and Lender)
- b. the Guaranty Authorization (between AIDEA, Lender and Borrower)

We request that Lender and Borrower sign the applicable documentation and return by email to AKSAFE@aidea.org. The AK SAFE guaranty becomes effective once AIDEA signs the documentation and returns by email to Lender.

15. Loan Servicing and Administration

Lender shall service the Overall Loan, including collecting payments and fees due on the Guaranteed Tranche from Borrower. All expenses of making, servicing, and enforcing the Guaranteed Tranche shall be paid by Borrower or shall be recoverable from Borrower. Lender’s expenses in enforcing the Guaranteed Tranche that cannot be recovered from Borrower shall be borne by Lender, except that AIDEA shall reimburse Lender for AIDEA’s share of the expenses of any enforcement action regarding the Guaranteed Tranche that is undertaken with AIDEA’s prior approval. AIDEA’s share of such enforcement expenses shall be in the same proportion that the outstanding balance owed on the Guaranteed Tranche bears to the total outstanding indebtedness owed on the Overall Loan.